Making Financial Information Useful for Public Policy

Presentation to the Senate Committee on Health and Welfare

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My Background

- Professor of Health Policy and Management, Emerita at Harvard T.H. Chan School of Public Health; taught financial accounting, payment, strategy courses at graduate and executive levels
- MBA & DBA from Harvard Business School
- First job post-MBA: Massachusetts Rate Setting Commission (1976-1978)
- Currently on Board of UMass Memorial Health System; Chair of the Finance Committee
- Served as Commissioner on the Medicare Payment Advisory Commission for two terms; Massachusetts Office of the Attorney General Task Force on Community Benefit; Special Commission on the Health Care Payment System for Massachusetts Health and Human Services agency
- 40+ years of experience as consultant on health care financial and strategic issues, served on six other health care-related boards

Best Use for Financial Analysis in Hospital Rate-Control:

- Assessing the financial implications of rate decisions
- Understanding the financial impact of strategic choices made by health systems
- Identifying financially advantaged/wealthy vs. sustainable vs. distressed systems/hospitals

Audited Financial Statements NOT Useful for:

- Determining “efficiency” of a hospital or health system
- Describing the profitability of specific service lines/businesses e.g. surgery vs medicine
- Providing the one metric that measures financial health

Some Challenges to Making Audited Financial Data Useful for Public Policymakers

- Financial Literacy (of analysts and audience)
- Entities Involved (hospital vs system), number of entities
- Availability and Timeliness of Audited Financial Statement
- Focus of Analysis (Metrics, Groupings, Standards for Judgment)
- Standardized vs Custom Analysis

A few Financial Metrics Can Capture Basic Financial Picture of Health System

Financial Metric	Standardization
Total Margin	Include/ Exclude Unrealized Gains/Losses on financial assets
Operating Margin	Exclude investment returns of all types, as well as gains on sales of nonfinancial assets and other one-time, non-recurring transactions
Days Cash on Hand, All unrestricted Sources	Omit donor restricted and “trustee-held” (contractually or otherwise legally obligated financial assets, such as debt service and self-insurance reserves)
Cash and Investments in $, all unrestricted sources	See above
Long-term debt/total capitalization	Includes capital leases; may want to start including operating leases as well
Pension-adjusted LTD/Total Capitalization	See Above
Cash and Investments/LTD	See Above definitions for LTD and Cash and Investments
Debt Service Coverage	Excess Revenue plus Depreciation and Interest Expense / Principal payment plus interest expenses (current not max annual payment)
Average Age of Plant	Need to acknowledge when a significant portion of capital assets are leased/not owned by system
Capital Expenditure/Depreciation expense	Ideally cumulative over 5 – 7 years; CapEx derived from Statement of Cash Flows

Standards of Comparison

- “Peer Group” distribution (AMC, Community Hospital, etc.)
- Expert Judgment (e.g., advantaged, adequate, red flag, weak)
- Rating Agency Medians for Investment Grade Bond Rating
- State-wide average

One Health System with 3 Hospitals Accounts for Roughly 70% of Vermont Acute Hospital Activity

	% Beds	% GPSR	% Discharges	% Patient Days
UVMMC	48%	56%	47%	56%
Porter	3%	3%	4%	2%
Central Vt	19%	14%	17%	14%
Total UVMHM	69%	72%	68%	73%
Rutland Regional	15%	11%	13%	14%
Seven Others	16%	17%	19%	14%

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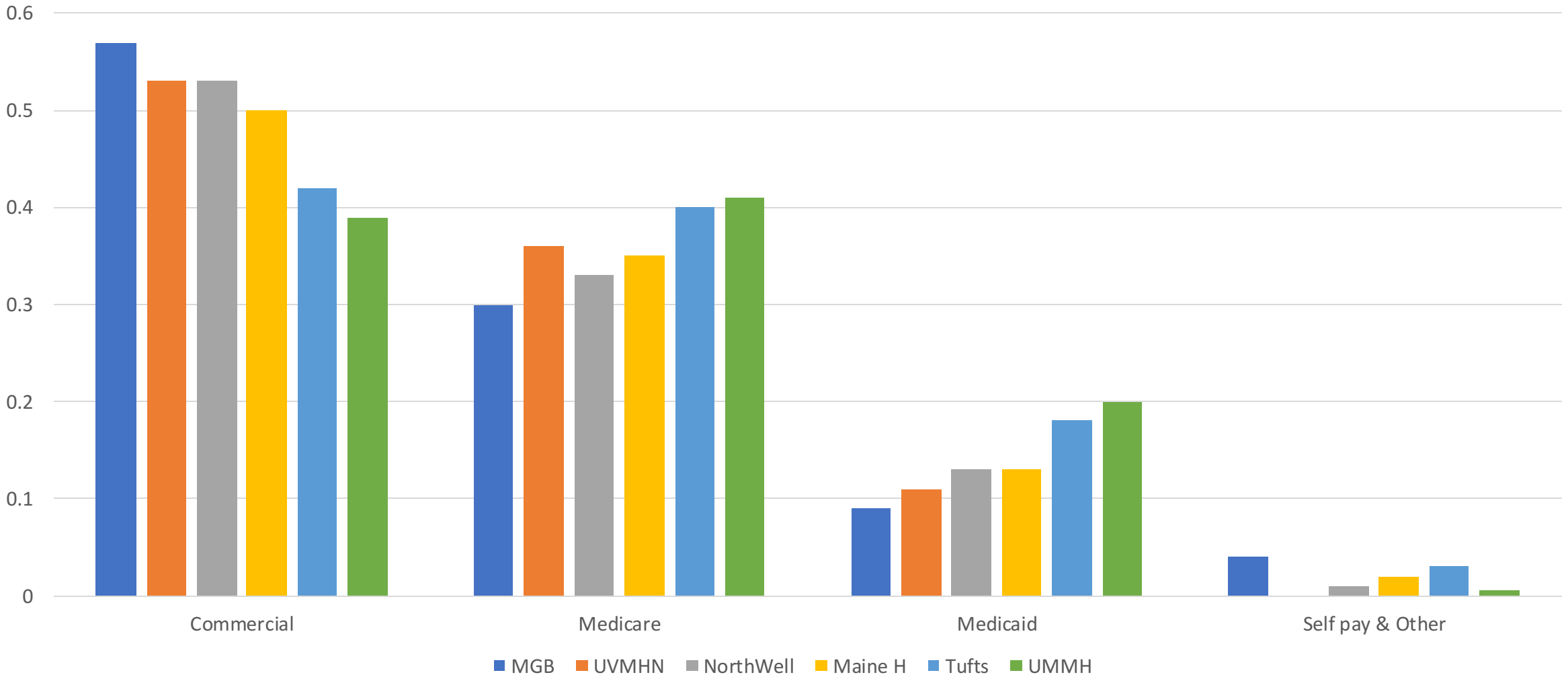
AHD, 2023

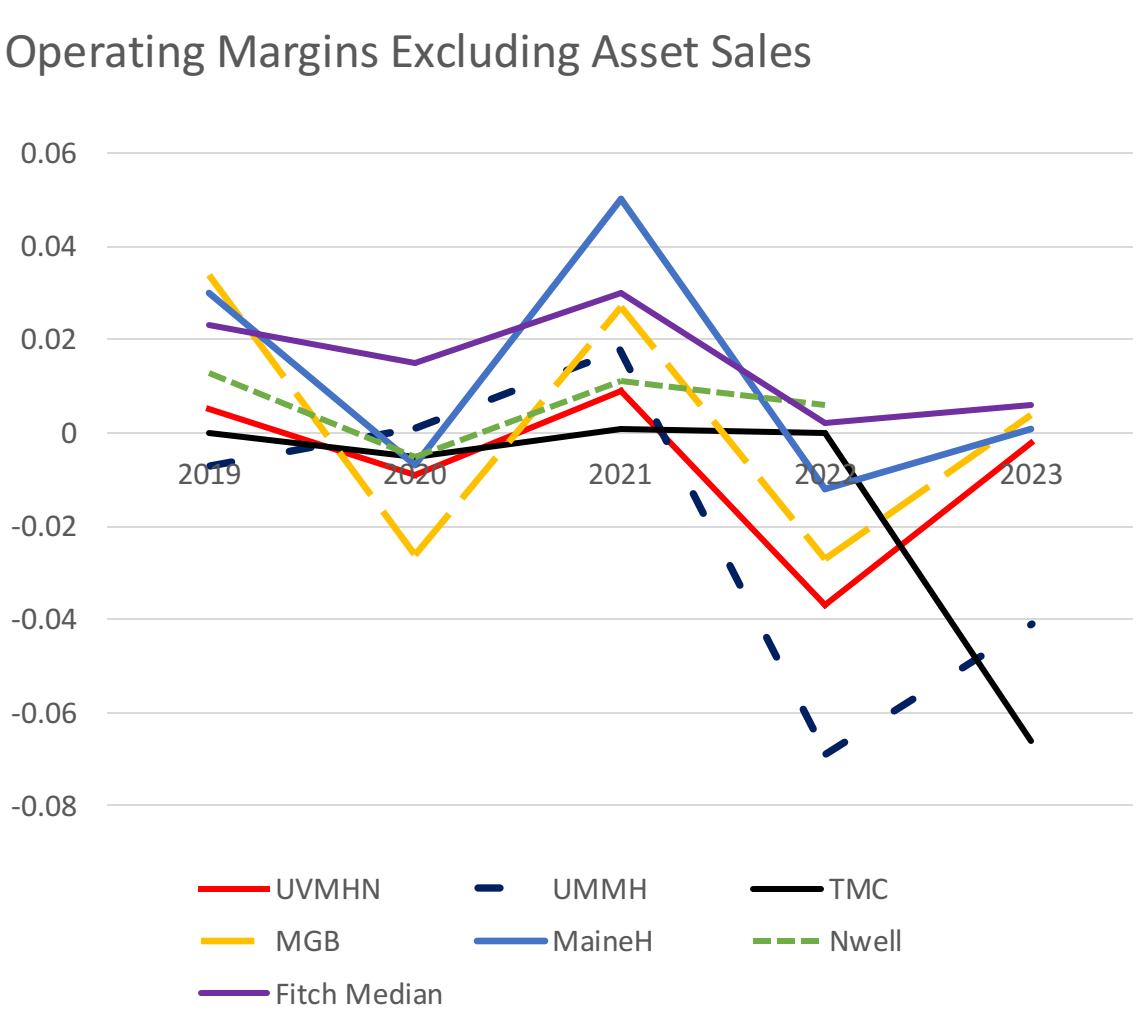
Peer Group of Academic Medical Center Systems with Multiple Community Hospitals (convenience sample)

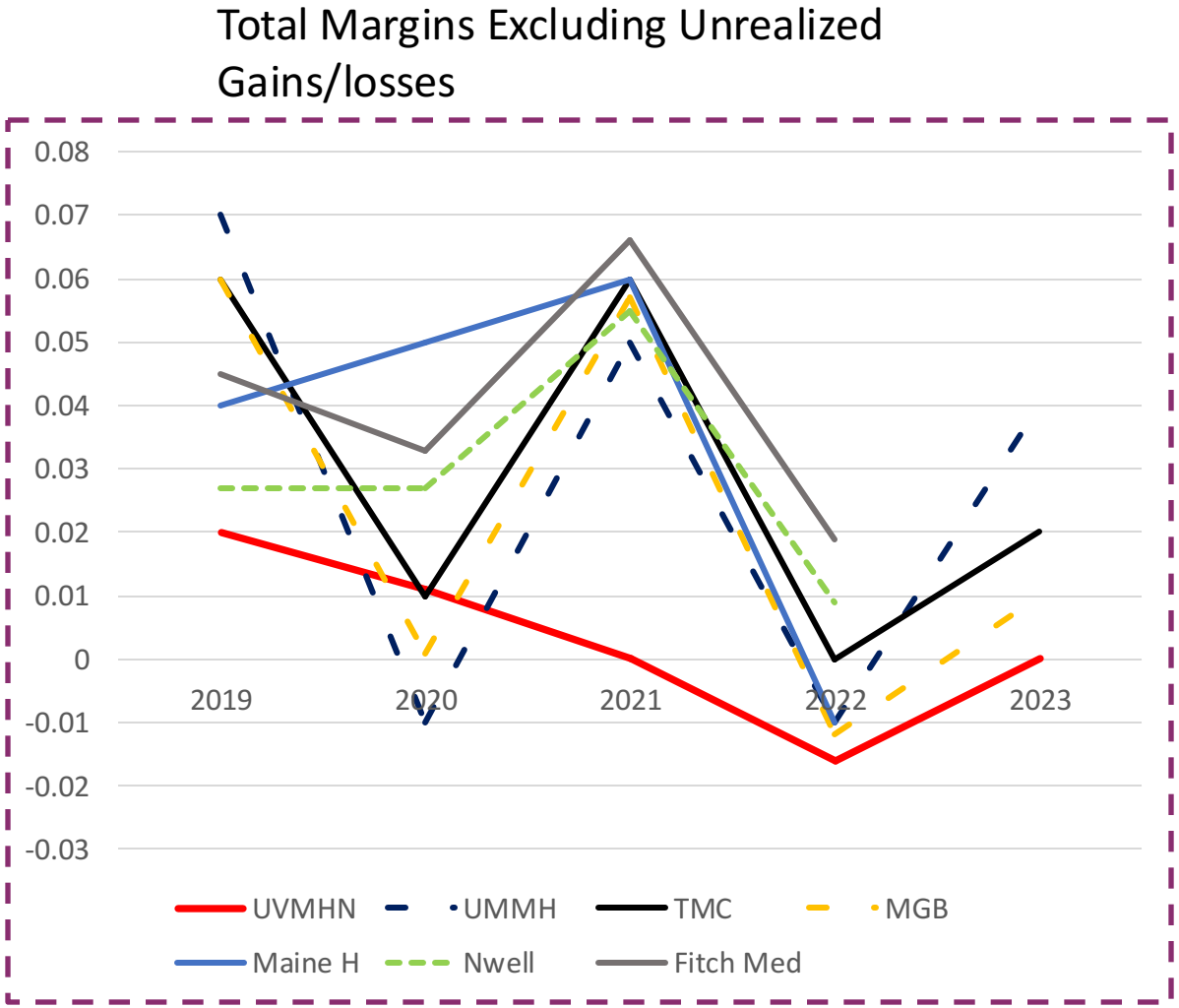
- Umass Health
- MGB
- Tufts Med
- Maine Health
- Northwell
- UVMHN

Payer Mix as % of NPSR (2022)



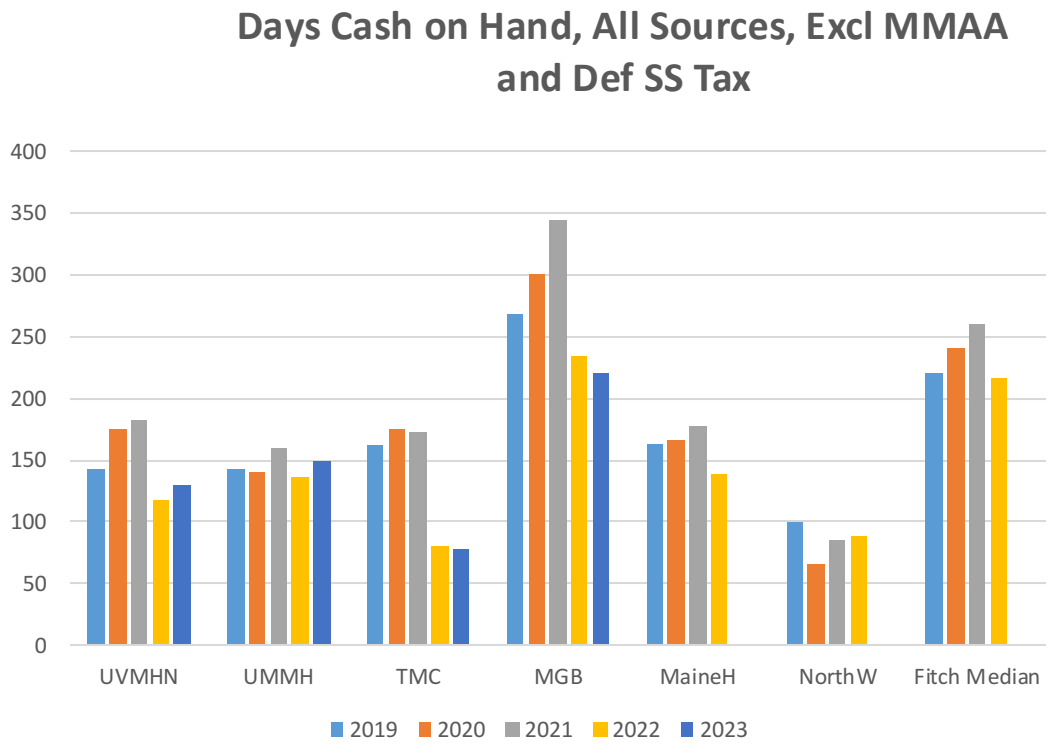
Profitability

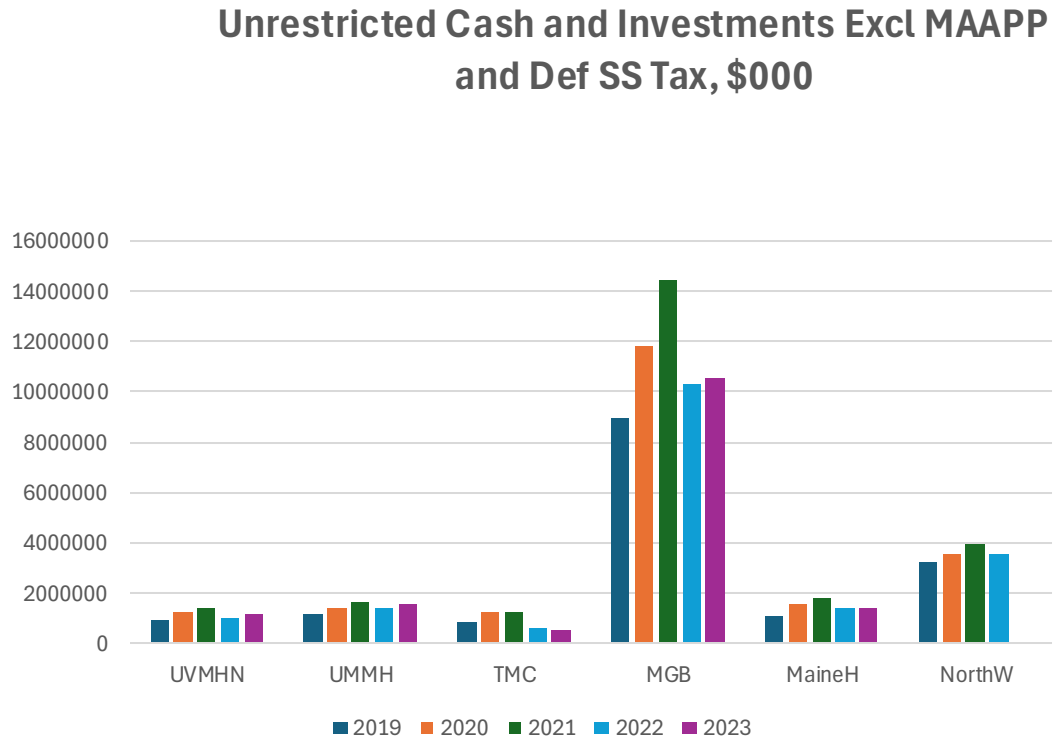




Removed Tufts (-17%) 2022; Maine Health 2023 9 mos

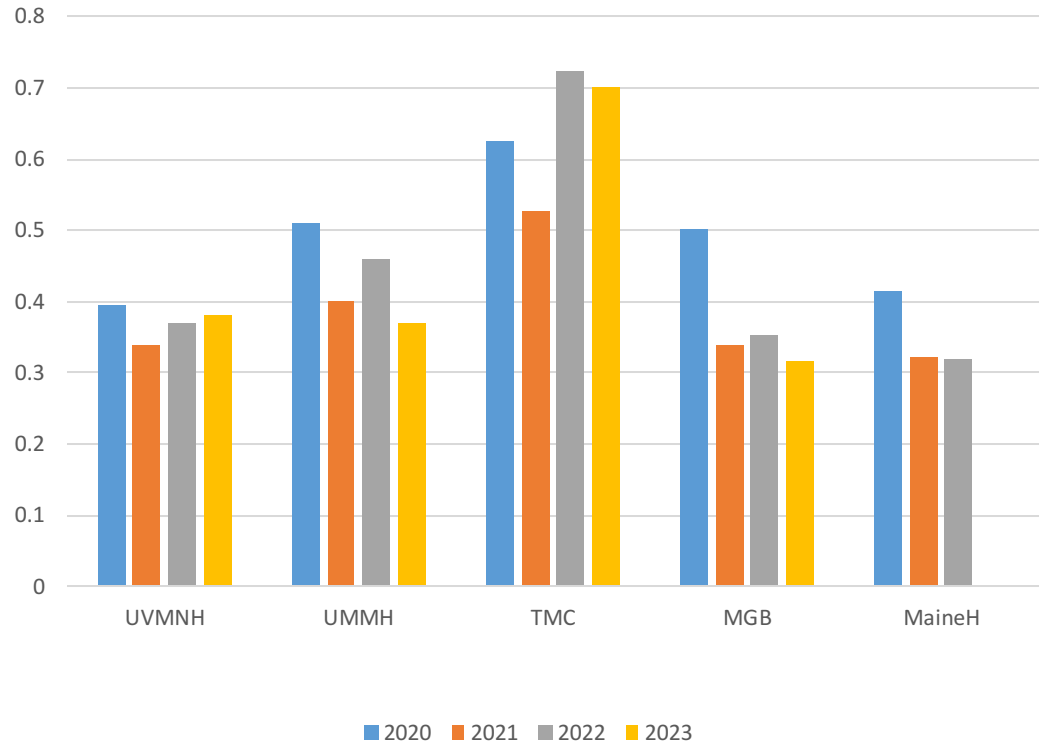
Liquidity


Days Cash on Hand, All Sources, Excl MMAA and Def SS Tax
400
350
300
250
200
150
100
50
0
UVMHN
UMMH
TMC
MGB
MaineH
NorthW
Fitch Median
2019
2020
2021
2022
2023

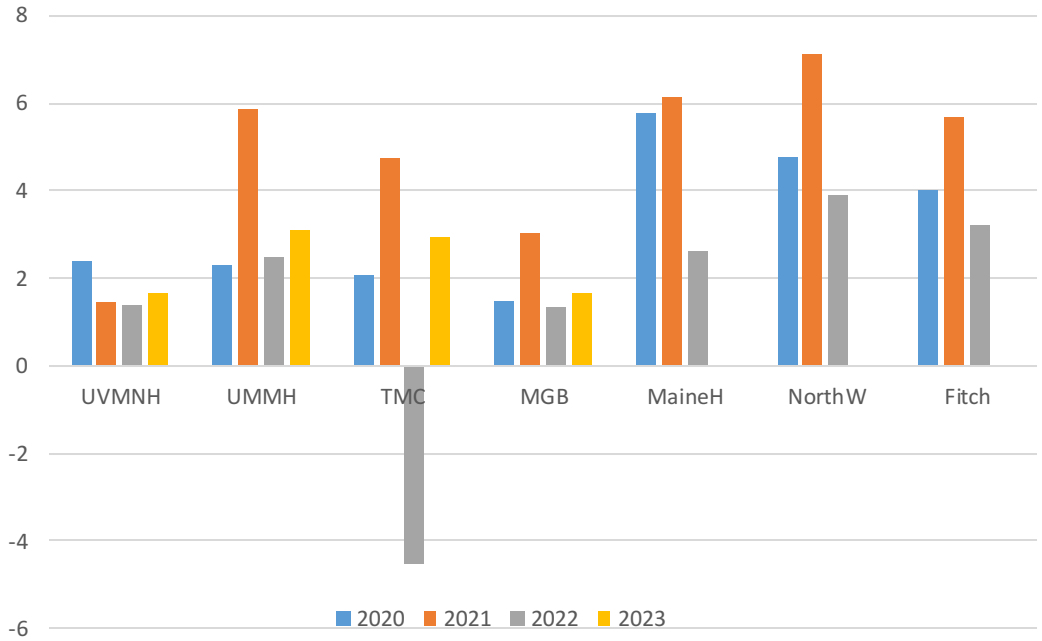

Unrestricted Cash and Investments Excl MAAPP and Def SS Tax, $000
16000000
14000000
12000000
10000000
8000000
6000000
4000000
2000000
0
UVMHN
UMMH
TMC
MGB
MaineH
NorthW
2019
2020
2021
2022
2023

Solvency

Pension, Lease_adj LTD/Total Capitalization

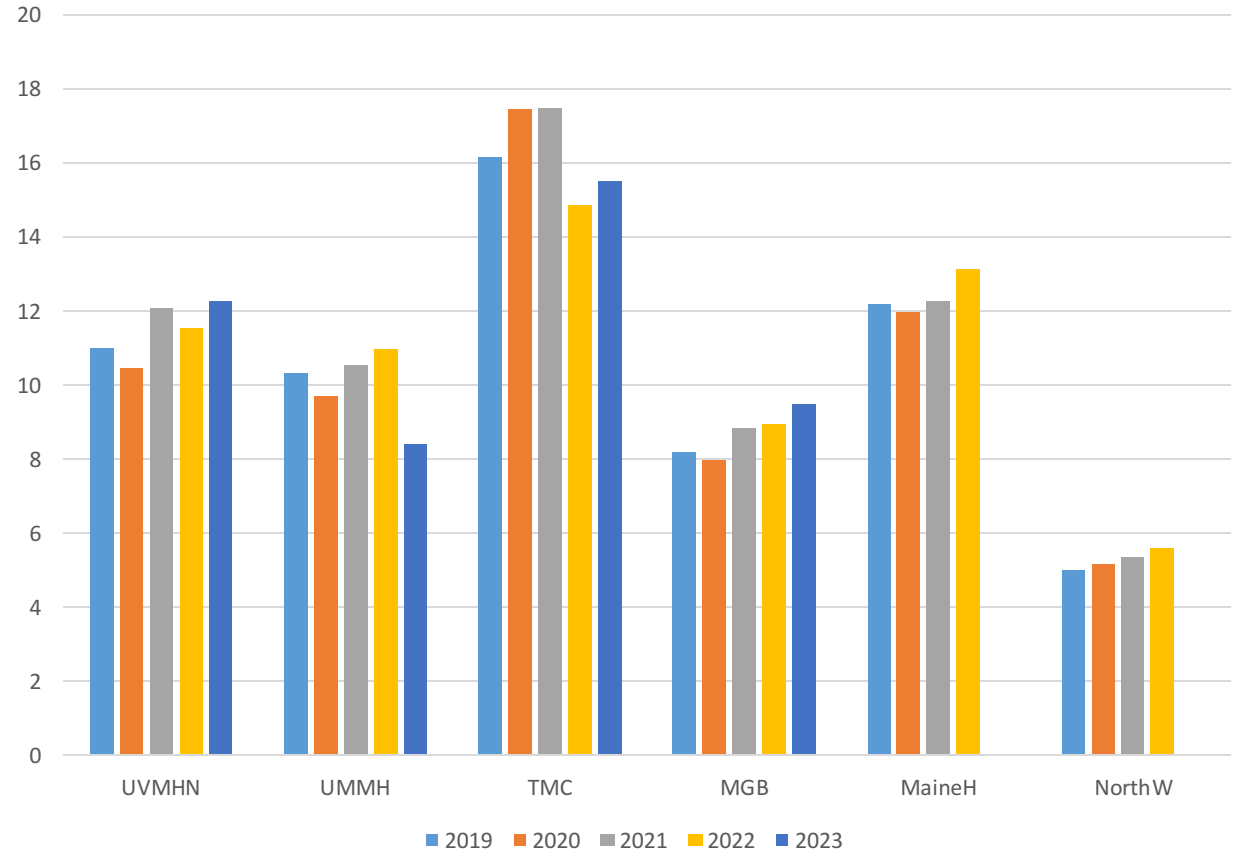


Debt Service Coverage

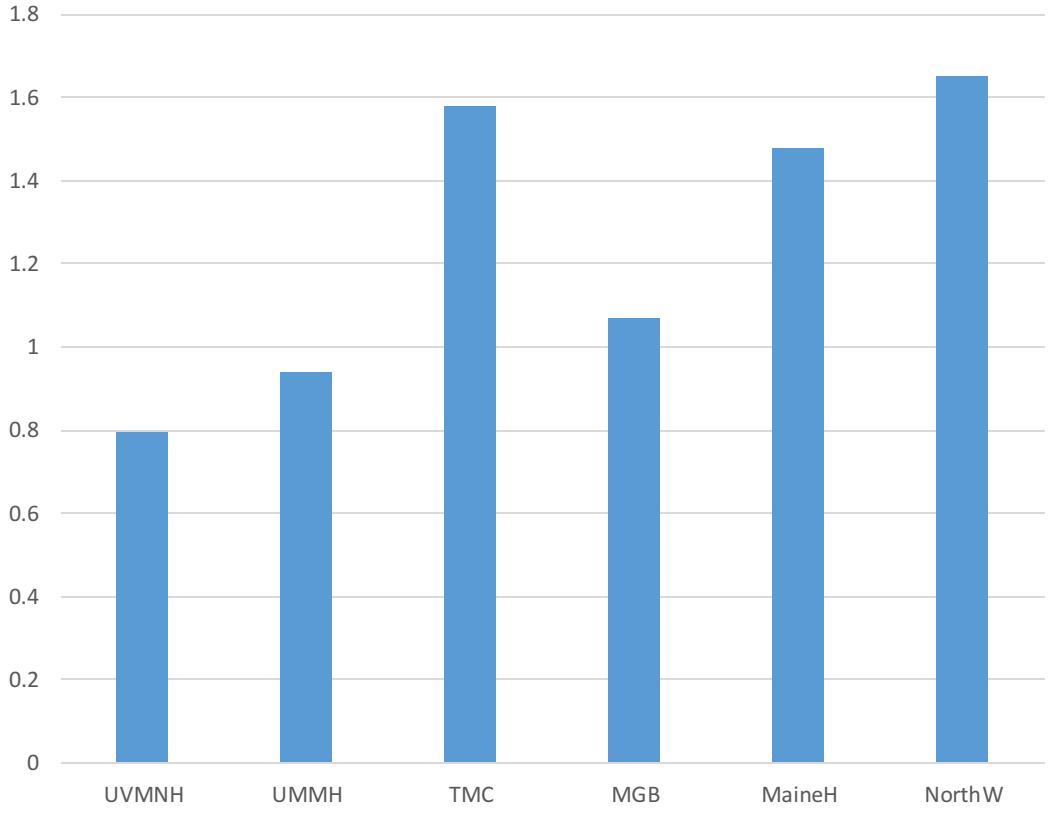


Adequacy of Capital Spending

Average Age of Plant



Cumulative Cap Ex/Depreciation 5 yrs



Maine H 2019-2022; NorthWell 2018-2022

UVMHN (System) vs UVMMC (regulated entity)

Comparison of UVMHN and UVMMC Financial Ratios		
	UVMHN	UVMMC
Operating Margin		
2024	0.027	0.028
2023	-0.002	0.031
2022	-0.037	-0.012
2021	0.009	0.023
Total Margin Incl Unreal Gain/Loss		
2024	0.072	0.075
2023	0.028	0.059
2022	-0.106	-0.081
2021	0.033	0.047
Days Cash on Hand		
2024	151	137
2023	129	115
2022	121	113
2021	199	200
Longterm Debt/Total Capitalization		
2024	0.295	0.236
2023	0.361	0.278
2022	0.349	0.308
2021	0.316	0.279

UVMHN Investments in NY Hospitals

Comparison of UVMHN Financial Metrics with and Without NY Hospitals, 2023

	UVMHN	UVMHN X NY hospitals
Total Margin	0.000	0.017
Operating Margin	-0.002	0.015
EBITDA Margin	0.042	0.058
Days Cash on Hand including Board-designated and undesignated investments	129	153
Longterm debt/total capitalization	0.36	0.34
Debt Service Coverage	1.64	3.71
Cash and Investments/LTD only	1.59	1.70

UVMHN Funds Flow (to)/from NY

- Net financial benefit** claimed by UVMMC from NY Residents

Coming to UVMMC Over the period 2015-2023 because they represent 15% of UVMMC Net Patient Revenue: $271.7M

- Amounts into NY Hospitals from UVMHN and UVMMC*

Over period 2015 – 2023:

- Affiliate agreement (10.6M)
- Health Reform Initiatives (3.6M)
- Capital Investment (7M)
- Outstanding Loans net of repay (68.9M)

Total amounts transfered ($90.1M)

*Omitted the 7M fund balance transfer to CVPH for joining UVMHN liability plan;

**NY patients contribute to UVMMC provider tax and related Fed Medicaid Match –

Questions Regarding the UVMHN-NY Financial Analysis

- Could Vermont patients make up for loss of NY patients if the NY patients stayed in NY?

- Assumes NY residents coming to UVMMC represent same overall payor and case mix as all UVMMC patients (same contribution margin)

- Assumes NY Residents would not come to UVMMC if UVMHN did not own 3 NY hospitals
  - Plattsburgh NY to Burlington VT: 32 Mi, 1 to 1 ½ hr drive
  - Plattsburgh Ny to Albany, NY: 161 Mi, 2 1/3 hr drive
  - Plattsburgh NY to Lebanon, NH: 123 Mi, 2 ½ hr drive

As UVM Health Network cuts services in Vermont, it expands in New York

Last month, the University of Vermont Health Network announced a slate of wide-ranging cuts to its Vermont facilities. Those cuts — which drew a swift and furious outcry — included closing an inpatient psychiatric unit at Central Vermont Medical Center, ending kidney transplants at the University of Vermont Medical Center, and shuttering a primary care clinic in Waitsfield.

“In New York, we’re doing our very best to expand services, to grow opportunities, to be able to have more opportunities to see patients over there,” Steven Leffler, president and chief operating officer of UVM Medical Center, said in an interview last month.

Peter D’Auria
Vermont Digger, Dec 22,2024

Takeaways

- UVMHN survived one of the worst 3-year periods of operating results in industry history with financial results similar to other major academic/community systems in Northeast (better than some, worse than others)
- UVMHN made strategic choices that reduced its profitability and liquidity (medical school net subsidies, financially supporting New York hospitals) (mostly financed by UVMMC)
- Regarding capital expenditures, UVMHN appears to be underinvesting in recent years (improved in 2024), but average age of plant is within Fitch median range

Final Thoughts on Financial Information and Public Policymaking

- Financial data itself is widely available: Audited financials, unaudited quarterly reports, annual budget reports to GMCB
- The challenge is developing the financial literacy to understand it
- Even bigger challenge: the political will to act on the findings