



**To:** Al Gobeille, Chair, Green Mountain Care Board  
**From:** Rick Vincent, Chief Financial Officer, The University of Vermont Medical Center  
Cheyenne Holland, Chief Financial Officer, Central Vermont Medical Center  
**Date:** July 8, 2016  
**Subject:** Fiscal Year 2017 Budget

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## A. Executive Summary

The University of Vermont Health Network was formed in late 2011 with the objective of establishing a highly-integrated regional network of health care providers that improves quality, increases efficiencies and contains cost growth of health care delivery in the communities served by the network's members. The network currently includes five hospitals, two in Vermont (the University of Vermont Medical Center and Central Vermont Medical Center) and three in New York (Champlain Valley Physicians Hospital, Elizabethtown Community Hospital and Alice Hyde Medical Center), and their employed providers, and serves a broad geographic scope that stretches across Vermont and northern New York.

As a network, the UVM Health Network member hospitals have developed a consolidated budget for FY 2017. Because only the two Vermont hospital members of the network are subject to budget review by the Green Mountain Care Board (GMCB), we are presenting only that portion of the consolidated budget for FY 2017.

Overall, as shown in Attachment A, our budget proposes a collective increase in net patient revenues over our FY 2016 budget of 2.97%, within the 3% cap imposed by the GMCB. Our budget also includes an additional increase of 0.32% reflecting our collective investments in health care reform activities, which are focused on population health management. With those investments, our proposed budget represents an increase in net patient revenues of 3.3%. In addition to supporting our day-to-day operations, our proposed budget includes a margin target of 3.71% (4% for UVM Medical Center, 1.9% for CVMC). Those targets were developed to support the ongoing investments our institutions are making, both in health care reform efforts and in our people, our programs and our physical plants, as will be discussed in detail in the section on planned capital spending.

## B. Progress on Health Reform

### ***Update on health reform initiatives***

As part of our FY 2016 budget presentation, the UVM Health Network made a bold commitment: that 80% of our revenue would be linked to quality of care, not the amount of care provided, by 2018. That commitment, grounded in the progress we had made in creating partnerships to deliver the full spectrum of care, signaled our collective belief that moving away

from the prevailing fee-for-service system is foundational to achieving the Triple Aim: improving the health of the populations we serve, enhancing patients' experience and outcomes, and reducing the per capita cost of care.

Our commitment to value-based payments also reflects the federal government's shift to new payment systems, not only for hospitals but for physicians. In January 2015, the Centers for Medicare & Medicaid Services (CMS) announced that by 2018, its goal was to have 50% of all Medicare payments tied to quality or value, not to quantity of services provided. CMS has also proposed a payment methodology for physicians that beginning in 2019 will base changes in payments on its new "Merit-Based Incentive Payment System" (MIPS) unless they are participating in qualifying "alternative payment models" of care. Under MIPS, physicians face both increases and decreases in payments depending on how they are meeting the program's requirements. All of these activities by CMS are directed at incentivizing the shift to value-based care.

Our strategies for achieving our 80% goal are not new. In addition to developing a highly-integrated system of care through the UVM Health Network, through OneCare Vermont – our accountable care organization – we have been active participants in existing value-based payment programs, including the three shared savings programs (Medicare, Medicaid and commercial payers) that have been in existence for several years. OneCare has also been chosen by the Centers for Medicare & Medicaid Services as one of the first "Next Generation" ACOs, with that program slated to begin in 2017. In addition, leaders from the UVM Health Network have been at the table helping to develop the framework for a statewide ACO that would support an All-Payer Model to effectively transform the way health care is delivered and paid for in the state.

While we will include detailed updates on all of this work at our budget presentation in August, we are excited by the changes we are beginning to see as a result of these efforts.

- We have significantly improved our primary care access, driven largely by our patient-centered medical home initiatives. New patient visits have increased 62% since FY 2014, which means we are more actively managing our patient population.
- Before our patient-centered medical home initiative, patients of our primary care physicians had an Emergency Department utilization rate of 15.5 per 1,000 patients. That is now down to 14.0 per 1,000, reflecting enhanced access to primary care through initiatives like expanded weekend hours.
- The UVM Medical Center has increased its "spoke" capacity for the treatment of people with opioid addictions, with more than 40 primary care providers now participating.
- Lab and x-ray costs in the medical intensive care unit (MICU) and surgical intensive care unit (SICU) have decreased by \$20,000 per month as a result of one of our "Choosing Wisely" initiatives. That work is ongoing and expanding in scope, as reflected in a recent article in *The Journal of Healthcare Contracting* (Attachment D).
- A study of our homeless population showed that after having a place to stay, the cost for providing care to those patients decreased by over \$450,000 (comparing costs of care in the year preceding and the year following being housed). This is a direct result of the successful collaborations we have engaged in with the Champlain Housing Trust and other community providers in expanding housing for our most vulnerable patients.

- The new Genomics Medicine Program is introducing new tools that will enhance our ability to manage the health of a population, as described in the recent *Burlington Free Press* article (Attachment E). Including human genomes in the health care professional's toolbox will, for example, support more accurate diagnoses, more targeted interventions, and potentially the reduction of unnecessary testing.

At a high level, these changes seem to be having the desired impact: more patients are accessing health care, but at lower costs. From FY 2014 to FY 2016, for example, the number of patients that have been seen at least once during the year by one of our providers (*i.e.*, they had at least one charge in the system) has increased 2.3% per year. At the same time the number of patient contact days (the number of days a charge was generated for those patients) has decreased by 0.5% per year, resulting in a 5.6% decrease in contact days per patient since FY 2014.

We look forward to sharing more information about our progress on health reform initiatives in August.

#### ***Proposed health reform investments in FY 2017***

UVM Health Network's incremental investments in health reform, totaling \$4.3 million, are detailed in Attachment B. Those investments fall primarily into the "population health management," "system of care" or "shifting expenditures away from acute care" investment categories, and include:

- **Enhancements to the chronic disease model of care for treating opioid abuse by the Jeffords Institute for Quality & Operational Effectiveness and administrative leadership.** As part of a larger plan to help coordinate the transition of patients from the Howard Center – the designated agency in Chittenden County that serves as the regional "hub" for the state's medication-assisted treatment (MAT) program – the Jeffords Institute has partnered with the Howard Center to increase treatment capacity for opioid abuse services by 17.5% in the last eight months. The FY 2017 budget includes approximately \$1.1 million that will subsidize 7.8 full-time equivalent (FTE) positions, over and above positions paid for through funding from the state's Blueprint for Health, to continue to address the opioid abuse epidemic in Vermont. Those positions include a social worker for the local Community Health Team, a health wellness coach, a program coordinator for our Health Assistance Program, and several positions for the MAT program (a social worker, three licensed alcohol and drug counselors, and a registered nurse).
- **Investments in mental health care and palliative care.** CVMC continues to invest in increased staffing to support mental health services in its inpatient psychiatry unit, Emergency Department and outpatient family psychiatry practice. It has also expanded its palliative care services by adding a new physician and an additional spiritual care counselor.
- **Continued investments in our OneCare Vermont infrastructure.** As noted above, OneCare Vermont is preparing to move away from shared savings programs to two-sided Next Generation-type programs for all lines of business (*i.e.*, Medicaid, Medicare and commercial programs) starting in 2017. This evolution requires the acceptance of

significant clinical and financial accountability in order to operate under such programs and/or within an All-Payer Model framework. As such, OneCare plans on making additional investments of approximately \$1.25 million in its clinical, analytics and financial team as well as a developing best-in-class health informatics and analytics solutions in partnership with Health Catalyst, Blueprint Care Navigator and the Vermont Information Technology Leaders (VITL). These additional investments are key components to refining our population health and financial models intended to improve processes in clinical care, quality improvement and risk management. We will combine these efforts with provider reimbursement models that improve people’s experience (quality, access and reliability), improve their health, and control per capita costs by rewarding value over volume. Due to these increases in clinical, analytics and financial investments and decreases in funding sources from the State Innovation Model grant and other sources for OneCare in 2017, UVM Medical Center has budgeted an increase in its contribution to OneCare’s operations funding of approximately \$2.2 million.

- **Continued information technology investments that support systemness, population health management and improvement, and the appropriate use of resources.**  
Additional staff and physician resources were added to our PRISM team to continue to expand and enhance systems focused on improving the health of the patients we serve, such as MyHealth Online, chronic disease and wellness management tools, chronic opioid management tools, population registries and nursing care plans.

We remain confident that these and other investments we are making will continue to support our goal of achieving the Triple Aim through bringing together providers and community partners with shared purpose, motivations and aligned incentives. Our collaboration and integration activities must create value for the patients and communities we serve.

### C. Budget-to-Budget Changes

#### a. *Significant changes to FY 2016 budget and effects on FY 2017 proposed budget*

There were several significant changes to our FY 2016 budget that affect our FY 2017 proposed budget:

- **Rebasing of the net patient revenue (NPR) budget.** This is the biggest change in our FY 2017 budget. Using FY 2015 actual results as the starting point versus the FY 2016 budget, the grid below highlights how we arrived at our FY 2017 budget, and that with the \$12.4 million of rebasing that we have identified on Attachment A, we have stayed within the GMCB’s NPR growth guidelines.

FY15 Actual NPR	1,219,432,174
Add: 3.6% Allowed FY16 Budgeted NPR Growth	43,899,558
Add: 3.4% Allowed FY17 Budgeted NPR Growth	42,953,279
Add: FY17 Off-Cycle Physician Integrations	11,572,932
FY17 Rebased NPR Budget	1,317,857,944
Subtract: 3% Decrease in Commercial Rate Inflation	(17,850,000)
Subtract: Change in Self-Funded Health Plan Accounting	(8,267,504)
Subtract: Other Misc Adjustments	(74,109)
FY17 Actual NPR Budget	1,291,666,331

- **Physician integrations.** Both UVM Medical Center and CVMC have integrated community physicians into our organizations this past year, which are adding revenue and expense to our FY 2017 budget. The revenue increase is highlighted on Attachment A and the expense in Operational Changes in Section C, below.
- **UVM Medical Center’s change in revenue recognition practice for self-funded health plans.** In line with how other Vermont hospitals with self-funded health plans, including CVMC, record this activity, UVM Medical Center has begun recording the services that it provides to its employees at the actual cost of those services, not at the contract rate it has with its plan administrator. This will eliminate unnecessary revenue and expense inflation in our budget. From a bottom-line perspective this nets to zero.
- **Lower bad debt and charity.** We started to see a decline in bad debt and charity rates in FY 2015 following the new Affordable Care Act rules, establishment of the health insurance exchange and the expansion of Medicaid. While we built a decline in these rates into our FY 2016 budget, the decline continued past January 2015, the basis for our FY 2016 budget. Bad debt and charity rates have now leveled off and our FY 2017 budget represents what we believe the trend will be going forward.
- **Shift in payer mix from commercial to Medicare and Medicaid.** A portion of the positive impacts of the lower bad debt and charity care has been offset by this trend, which is a movement of patients from higher-reimbursed commercial plans to lower-reimbursed Medicare and Medicaid coverage.
- **UVM Medical Center’s change in OneCare Vermont accounting (FTEs and income statement).** UVM Medical Center’s auditors have recommended that we change how we record our ownership interest in OneCare Vermont. Currently all of the expenses and FTEs associated with OneCare, a subsidiary of UVM Medical Center, are within UVM Medical Center’s budget. Those expenses, minus the contribution UVM Medical Center makes to OneCare, are then charged to OneCare. Going forward, all of the expenses and FTEs associated with OneCare will be moved to the OneCare subsidiary, and only the contribution to OneCare by the UVM Medical Center will be included in its budget.
- **Change in employment status of CVMC security staff.** CVMC has historically used contracted individuals as its security staff. Bringing security staff in-house allows for a small savings over the contracted pricing using the same staffing pattern. It also allows for improved management with better oversight for accreditation standards, improved hiring and scheduling practices, control over training standards and more flexible scheduling for the new secure Transitional Care Unit in the CVMC Emergency Department. In addition, the new security staff will be trained and uniformed in a collaboration model with UVM Medical Center.

**b. Cost-saving initiatives in FY 2017**

As the UVM Health Network continues to move towards population health management and assuming financial risk for the care we deliver, we do so in a rate environment in which revenues continue to be further and further constrained. It is imperative that we manage our costs if we are to make the investments necessary to support that transformation. In addition to our work on achieving operating efficiencies through our network strategy, UVM Health Network continues to reduce costs through specific initiatives as they are identified. Those include:

- Refinancing of debt, which decreased interest expense by \$3.1 million (\$2.7 million for UVM Medical Center and \$430,000 for CVMC).
- Implementation of new technology to improve productivity. Examples include a new Billing/Scheduling System Work Queue automation tool that will result in a savings of approximately \$355,000 and 7 full-time equivalent employees (FTEs), as well as a new clinical-to-billing system interface that will reduce FTEs by 8.5 and save approximately \$450,000.
- \$1.5 million in supply chain savings (Cardiology/OR supplies, information technology contracts).
- CVMC has budgeted \$2.0 million in savings related to continued cost-management efforts, including staffing management (better scheduling in order to reduce overtime costs), the growth and development of staff to reduce turnover and training costs, improving patient throughput to reduce length of stay, and improving inventory management to reduce excess carrying costs and waste.
- CVMC's energy efficiency efforts have yielded a decrease of \$130,000 in utility expenses. This is in addition to savings in electricity use since July 2010 of approximately \$220,000 annually and aggregate savings in fuel use of over \$1 million in the same timeframe.
- In FY 2015 the UVM Medical Center embarked on a \$50 million cost reduction / non-patient revenue initiative to address anticipated changes in revenue and expenses. On the revenue side we expect to see a continued decline in patient-adjusted revenues from a payer mix that is shifting from commercial insurance to public program coverage, along with continued downward pressure from health reform efforts. On the expense side, we must absorb \$16 million in new operating costs before the Miller Building (our new inpatient bed facility) comes online in 2019. At the same time, we anticipate the need for continued strategic investments to support our shift into population health management, which we intend to fund out of operating cash flows.

**c. Reasons for increase in net patient revenue: utilization, inflation and revenue assumptions by payer**

**Inflation assumptions:** UVM Medical Center’s and CVMC’s combined budgets include approximately \$36.1 million of directly-calculated price inflation, an inflation rate of 2.8%. The following table breaks out the inflation expense by major category.

<b>Inflation (in 000s)</b>		
Physician salaries	406	
Staff salaries	15,513	
Payroll tax and benefits	12,032	
Supplies (med/surg, pharmacy, nutrition, etc.)	1,495	
Pharmaceuticals	6,020	
Utilities/other	37	
Insurance	639	
	36,143	2.8%

**Utilization assumptions:** Overall, UVM Medical Center’s and CVMC’s combined FY 2017 volumes are expected to increase slightly, with individual areas showing both increases and decreases. Inpatient discharges are expected to see an increase of 4.7% while inpatient days are decreasing by -0.9% due to a continued focus on reducing length of stay. Emergency Department visits are also expected to increase by 2.4%. Areas where we expect to see a decline in budgeted volumes include radiation oncology (-3.3%) and lab services (-0.3%). These decreases are partially offset by increases in cath lab/EP procedures (4.6%), operating room procedures (3.0%), and radiology procedures (4.6%). The professional work Relative Value Units (RVUs) are expected to increase by 6.0%, largely due to the recent integration of two community-based orthopedic practices into the UVM Health Network, which were needed to maintain adequate access to musculoskeletal services in our service areas.

	<b>FY15 Actual</b>	<b>FY16 Budget</b>	<b>FY17 Budget</b>
<b>TOTAL UVM HEALTH NETWORK (UVMHC and CVMC)</b>			
<b><i>Inpatient</i></b>			
Discharges	25,433	24,822	25,983
Patient days	139,117	136,173	134,999
Average length of stay (patient days/discharges)	5.47	5.49	5.20
<b><i>Inpatient &amp; Outpatient</i></b>			
OR cases	19,769	20,110	20,806
Cath lab & EP procedures	6,014	5,710	5,972
ED visits	84,946	83,072	85,101
Radiology procedures	333,473	328,789	343,862
Radiation oncology	43,093	43,567	42,149
Lab tests	3,075,349	3,089,083	3,079,739
<b><i>Professional</i></b>			
Physician work RVUs	2,869,497	2,883,320	3,055,629

**Operational changes:** UVM Medical Center’s and CVMC’s combined budgets for FY 2017 include an overall budget-to-budget expense increase of \$64.0 million (5.0%), including \$36.1 million (2.8%) in the inflationary expenses discussed above. The remaining increase of \$27.9 million includes changes to our base for health care reform initiatives, physician integrations, program changes, community investments, and other operational changes (see table below).

<b>Operational Expense Changes:</b>	<b>UVMCMC</b>	<b>CVMC</b>	<b>UVMHN</b>
\$ in Millions			
<b>Base Changes from FY16 Budget</b>			
Health Reform Investments	\$3.7	\$0.6	\$4.3
Physician Integration/Primary Care investments	\$6.0	\$3.8	\$9.8
Community Investments	\$3.2	\$1.0	\$4.2
Outpatient/Specialty/Other Pharmacy Increases	\$2.0	\$1.6	\$3.6
IT (Infrastructure / Software Maint / Equip)	\$5.7	\$1.0	\$6.7
Interest	-\$4.9	-\$0.4	-\$5.3
Self Funded Health Plan Changes	-\$8.3	\$1.2	-\$7.1
Volume Based / Other Expenses	\$5.6	\$6.0	\$11.6
<b>Total Base Changes</b>	<b>\$13.1</b>	<b>\$14.8</b>	<b>\$27.9</b>
<b>Inflation changes from Base to FY17 Budget</b>			
<b>Inflationary Expense Increases</b>	<b>\$31.3</b>	<b>\$4.8</b>	<b>\$36.1</b>
<b>Total Expense Change</b>	<b>\$44.4</b>	<b>\$19.6</b>	<b>\$64.0</b>

For the FY 2017 budget, UVM Medical Center and CVMC are projecting a total of 7,250 FTEs (including residents and staff), which is an increase of 215 FTEs (or 3.1%) over our prior year submission. Volume increases, integration of two practices into the network, and community investments were some of the drivers of the increase that are outlined below.

<b>Type</b>	<b>FTE</b>	<b>% Increase</b>
Hospital Operational changes	75	1.1%
Nursing	53	0.8%
Medical Group Expansion of Primary Care and other Services	45	0.6%
Practice Integration	33	0.5%
IT Infrastructure	23	0.3%
Community (Mental Health, Substance Abuse, Etc)	15	0.2%
Accounting Changes (ACO & Security)	(30)	-0.4%
<b>Total</b>	<b>215</b>	<b>3.1%</b>

**Revenue assumptions:** A detailed breakdown of our assumptions is included in the rate request schedule (see Section D).

UVM Medical Center’s and CVMC’s combined budgets assume an increase in Medicare rates of 1.4% and an increase of 3.0% from commercial payers. The budget assumes no change in Medicaid rates.

It is important to note that payments from Medicaid continue their troubling downward trend. As of July 1, Medicaid reduced outpatient payments and eliminated provider-

based billing. Medicaid is also about to rebase its inpatient rates (which it must do every four years), a process that will incorporate the recent legislative mandate to “reallocate” \$4 million in payments from academic medical centers to primary care services. Our FY 2017 budget assumptions for Medicaid included reductions of about \$6.6 million to account for these changes in our revenues, the actual impact of which is unknown at this point in time.

#### D. Rate Request

As shown in the schedule below, UVM Medical Center’s and CVMC’s list prices will go up an average of 0% in aggregate, with prices for some categories of services increasing and others decreasing. The price changes and changes to our negotiated contracts will yield a total net patient revenue increase of 1.4%.

As shown on the schedule below, UVM Medical Center’s list prices will not increase in total for the FY 2017 budget but continue to include some re-balancing between professional and hospital services (an increase of 5.3% in inpatient prices, an increase of 1.6% in outpatient prices, and a decrease in physician fees of -8.1% that effectively offset each other). These price changes have no aggregate impact on gross revenue. As the schedule details, the biggest impact in terms of actual revenues will be on UVM Medical Center’s commercial payers, which will see a net 3.0% increase, broken down as follows:

- Inflation: 3.7% (2.8% on a fiscal year basis)
- Cost-shift impact: 2.1%
- Provider tax increase: 0.2%
- FY 2015 rebasing rate reduction: -3.0%

CVMC’s budget includes a 0.2% overall price increase, with no change for inpatient, outpatient, and professional fees along with a 3.2% increase in skilled nursing facility prices. As with UVM Medical Center’s budget, the biggest impact is on CVMC’s commercial payers, with revenue increases from them budgeted at 3.0%, broken down as follows:

- Inflation: 3.4% (2.2% on a fiscal year basis)
- Cost-shift impact: 2.4%
- Provider tax increase: 0.2%
- FY 2015 rebasing rate reduction: -3.0%

The commercial rate increase of 3% for both the UVM Medical Center and CVMC represents the lowest increase in over five years:

	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>UVM Medical Center</b>	9.4%	6.7%	7.8%	6.0%	3.0%
<b>CVMC</b>	5.0%	6.9%	5.9%	4.7%	3.0%

This is coming down from a high of 9.4% in 2013 for the UVM Medical Center and 6.9% in 2014 for CVMC, and reflects our continued commitment to managing expenses while ensuring we meet our mission and at the same time making significant investments in reform efforts.

Category	Gross Revenue Overall Rate/ Price Increase	Net Revenue Increase Assumption				
		Total net patient revenue Increase	Commercial Payer Increase	Self Pay / Other Increase	Medicaid Increase	Medicare Increase
<b>UVMHN (UVMHC &amp; CVMC)</b>						
Hospital Inpatient	4.7%	2.4%	6.7%	0.1%	0.0%	1.8%
Hospital Outpatient	1.3%	2.8%	6.4%	-0.1%	0.0%	1.5%
Professional Services	-7.5%	-2.6%	-6.7%	0.3%	0.0%	0.0%
SNF	3.2%	0.7%	0.0%	3.8%	0.0%	0.0%
<b>Overall All Request</b>	<b>0.0%</b>	<b>1.4%</b>	<b>3.0%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>1.4%</b>
<b>UVMHC</b>						
Hospital Inpatient	5.3%	2.6%	7.1%	0.0%	0.0%	1.7%
Hospital Outpatient	1.6%	3.1%	7.1%	-0.2%	0.0%	1.6%
Professional Services	-8.1%	-2.7%	-7.7%	0.3%	0.0%	0.0%
SNF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Overall All Request</b>	<b>0.0%</b>	<b>1.6%</b>	<b>3.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>1.4%</b>
<b>CVMC</b>						
Hospital Inpatient	0.0%	1.7%	3.0%	0.4%	0.0%	2.0%
Hospital Outpatient	0.0%	0.7%	3.0%	0.2%	0.0%	1.3%
Professional Services	0.0%	-1.3%	3.0%	0.0%	0.0%	0.0%
SNF	3.2%	0.7%	0.0%	3.8%	0.0%	0.0%
<b>Overall All Request</b>	<b>0.2%</b>	<b>0.6%</b>	<b>3.0%</b>	<b>1.0%</b>	<b>0.0%</b>	<b>1.3%</b>
<b>NOTES:</b>						
Inpatient Rate increase based on date of renewal (Com - Jan, MCR-Oct, MCD -Jan)						
Outpatient Rate increase based on date of renewal (Com - Jan, MCR-Jan, MCD -Jan)						
Professional Rate increase based on date of renewal (Com - Jan, MCR-Jan, MCD -Jan)						

## E. FY 2015 Budget-to-Actual Results

As we have discussed with the Board starting in March, the UVM Health Network's NPR in FY 2015 exceeded approved revenues by 2.8%, or approximately \$29 million over the 0.5% variance allowed in the Board's hospital budget enforcement policy. That variance was the result of a number of factors, including seeing more patients than we had budgeted for and a much larger drop in bad debt and the use of free care than we had budgeted – a phenomenon experienced by virtually every other hospital, as more individuals enrolled in Medicaid than anyone had anticipated.

On March 24, on behalf of the UVM Health Network, John Brumsted, MD, outlined our response to the unbudgeted revenue, including affecting the commercial rates needed in FY 2017 as well as targeted investments in areas of need identified through our Community Health Needs Assessment process. On May 2, Mike Davis formally notified us of the Board's April 7 decision to approve our using \$12 million for community needs, with the remaining \$17 million being used to reduce commercial rates in this budget submission. In addition, he requested that we address the following items in our budget submission:

**(1) The overall budget implications of the \$12 million investment in community needs.**

There are numerous budget implications for the \$12 million in community needs spending coming out of the FY 2015 budget performance review process.

It is important to understand that the \$29 million in NPR that the UVM Health Network earned in FY 2015 came primarily from providing more health care services than we had budgeted. Those revenues, therefore, were offset by the expenses incurred in delivering those services.

CVMC and UVM Medical Center – as mission-driven, community-led nonprofits – have made investments in our communities for many years. Our proposal to do even more in connection with the FY 2015 performance review process reflects our deepening commitment to population health management, and to the community partners and services that are necessary to transform ourselves from acute-care facilities into members of a continuum of care who share accountability for the health of our communities.

The \$12 million we have focused on as part of the FY 2015 performance review process is not the sum total of all of our community investment spending this year or next. We continue to collaborate with or support other community providers in many ways above and beyond that amount. Examples include CVMC’s ongoing support for healthy food initiatives through the Vermont Youth Conservation Corps, and the UVM Medical Center’s Community Health Investment Committee’s annual grant-making process.

As referenced earlier, because these new community investments are part and parcel of our commitment to population health, we have included the \$12 million in our FY 2016 budget projections (from which the FY 2017 budget is developed), effectively rebasing the budget going forward.

**(2) The rate impact and overall budget implications of using approximately \$17 million in revenue to reduce commercial rates.**

The \$17 million represents the equivalent of a 3% reduction in commercial rates. Stated differently, without allocating \$17 million towards rate reductions, our overall increase needed from commercial payers would be 6%, not the 3% included in the budget:

**Commercial rate increase assumptions for FY 2017 budget**

Base FY 2017 commercial increase	<u>UVM</u>	<u>MC</u>
Inflation	3.7%	3.4%
Cost shift	2.1%	2.4%
Provider tax	0.2%	0.2%
<b>Base commercial increase</b>	<b>6.0%</b>	<b>6.0%</b>
<b>FY 2015 budget adjustment rate reduction</b>	<b>-3.0%</b>	<b>-3.0%</b>
<b>Net FY 2017 commercial rate increase</b>	<b>3.0%</b>	<b>3.0%</b>



12-month impact of rate reduction: \$17.85M

**(3) Examining the extent to which our FY 2016 NPR exceeds the approved amount, and explaining to what extent our approved rates might be too high, and our plans for coming into compliance with the Board’s budget guidance.**

With the FY 2015 rebasing and physician integrations incorporated into the FY 2016 budget, the actual net revenue experience for FY 2016 is trending within the approved amount.

<b>Category</b>	<b>FY16 May Annualized</b>	<b>FY16 Budget</b>	<b>Variance</b>	
UVM Medical Center	\$ 1,131.7	\$ 1,126.8	\$ 5.0	
CVMC	\$ 189.9	\$ 174.0	\$ 15.9	
Physician Integration		\$ 5.8	\$ (5.8)	
Rebasing of FY15		\$ 12.4	\$ (12.4)	
<b>Total</b>	<b>\$ 1,321.6</b>	<b>\$ 1,319.0</b>	<b>\$ 2.7</b>	<b>0.2%</b>

**(4) Items and assumptions that could materially change the budget, including:**

- a. **Bad debt and free care trends**
- b. **Revenue estimates and assumptions for each payer type**
- c. **Significant payer mix utilization shifts**
- d. **All prior year outstanding revenue settlements**
- e. **Expenditure projections**
- f. **Any other unusual events**

We have addressed many of these items elsewhere in this narrative (bad debt and free care trends, revenues and assumptions by payer, and expenditure projections). We do not anticipate any significant shifts in payer mix in FY 2017 or prior-year revenue settlements.

One potential item that could materially impact our budget or budget performance in FY 2017 is the “payer parity” provision that was enacted by the Vermont legislature in 2015. Major payers are required to provide the GMCB with their plans to adjust professional payments to reflect “fair and reasonable” reimbursement. The GMCB then has several months in which to review the proposed plans. It is unknown at this time what, if any, impact on our FY 2017 budget or revenue will result from this process.

## F. Capital Budget Investments

The UVM Health Network has a network-wide business planning process to ensure that major capital investments are planned on a system-wide basis that takes into account regional needs, not simply the needs of individual hospitals or service areas. The process includes representatives from the network members’ operations, planning and finance teams.

Consistent with our drive towards population health and the expectation that revenues will continue to decrease over time, any capital investments we make need to be tightly managed

and prioritized, just as we have focused on constraining and reducing our operating expenses. Over the past several years this process has led to an overall decrease in planned long-term capital spending for the UVM Health Network, from four-year capital spending of \$747.4 million (FY 2015 budget), to \$669.2 million (FY 2016 budget), to \$601.8 million (FY 2017 budget).

As importantly, even as the capital “envelope” is shrinking, we continue to prioritize which programs and projects are funded. (For example, at UVM Medical Center alone, capital spending included in the FY 2017 budget was almost 25% less than what was originally requested.) Those decisions involve a broad array of individuals in our organizations, and balance competing capital needs using our mission, vision and strategic plan as the ultimate lenses through which those needs are viewed. We believe our long-term capital plans are balanced between what we need to invest in day-to-day operations and the continuing investments necessary to support population health management.

For FY 2017, the capital spending plan in Attachment C includes \$165.1 million in capital spending, including \$80.5 million in combined routine capital spending for both CVMC and UVM Medical Center.

CVMC’s capital plan includes no projects for FY 2017 that will be subject to CON review.

UVM Medical Center’s plan for FY 2017 includes \$84.6 million for projects that have been or may be subject to CON review, as described below.

All of our capital investments have been budgeted for as part of the UVM Health Network’s financial framework, a multi-year financial model that incorporates future years’ projected operating results and planned capital investments, allows us to project the impact of key variables on financial, operational, debt, and balance sheet statistics, and tests the affordability and reasonableness of our investments. All expenses associated with any CONs are also accounted for within that framework.

### **Facilities-Related Projects**

- **Inpatient bed replacement project:** A CON was issued on July 1, 2015, approving UVM Medical Center’s application to replace aging inpatient units for a total estimated cost of \$187.3 million, subject to a number of conditions. On May 11, 2016, the GMCB determined that those conditions had been met, and the project is now underway. We anticipate spending \$26.6 million in the current fiscal year and another \$48.1 million on the project in FY 2017.
- **South Burlington property acquisition (\$25 million in FY 2017):** On June 2, 2014, UVM Medical Center filed an application to acquire land and buildings in South Burlington for a total cost of \$52.2 million. We anticipate amending that application to limit its scope to the purchase of two existing buildings currently leased by UVM Medical Center, reducing the proposed capital expenditure to \$25 million. The review of this CON has been temporarily suspended at UVM Medical Center’s request.
- **Network electronic health record replacement (\$1.6 million in FY 2017):** As we mentioned in our FY 2016 budget filing, the UVM Health Network is planning on moving

to an enterprise electronic health record using the same Epic product that was implemented by UVM Medical Center several years ago. We anticipate filing a CON application for that project later this summer.

- **Primary care facility investments (\$5 million in FY 2017):** This project will focus on two of the UVM Medical Center's eleven primary care practices, Colchester Family Medicine and Essex Adult Primary Care, which need to be expanded and either renovated or relocated.

#### **Equipment-Related Projects**

- **PET/CT (\$2.7 million in FY 2017):** Replacement of UVM Medical Center's existing PET/CT equipment, now fully depreciated. A CON application for this project was filed on May 4, 2016.
- **MRI (\$2.3 million in FY 2017):** New scanner to replace outdated equipment used by the orthopedic practice that was recently integrated into the UVM Medical Center.

#### **Other Anticipated Major Investments FY 2018 – FY 2020**

- Our current capital plans anticipate replacing two of our current outpatient renal dialysis sites – the ones in Rutland and in Berlin – in FY 2018-2019 at a cost of \$7.8 million per site.
- Our capital plans also anticipate replacing the Neonatal Intensive Care Unit at UVM Medical Center, with \$2 million allocated to the project in FY 2020. The full cost of the project is currently estimated at \$10 million.

## G. Technical Concerns

There are no technical concerns other than issues that have already been discussed in the "significant changes" section of the narrative (pages 4 – 6, above).

UVM Health Network Budget-to-Budget Changes

ATTACHMENT A

<b>GMCB Net Patient Revenue Cap</b>			
<b>NET REVENUE CHANGE from 2016 Budget to 2017 Budget</b>			
	<b>UVMHN</b>	<b>UVMMC</b>	<b>CVMC</b>
<b>FY2016 Budget - Net Patient Revenue</b>	<b>\$ 1,227,732,272</b>	<b>\$ 1,062,554,079</b>	<b>\$ 165,178,193</b>
Provider Tax	\$ 73,038,938	\$ 64,220,845	\$ 8,818,093
<b>FY 2016 Budget - Net Patient Revenue w/Provider Tax add back</b>	<b>\$ 1,300,771,210</b>	<b>\$ 1,126,774,924</b>	<b>\$ 173,996,286</b>
<b>Adjustment to FY 2016 Budget Net Patient Revenue Budget</b>			
Add Off-cycle Physician Integrations - submitted to GMCB & currently in operations	\$ 11,572,932	\$ 8,768,862	\$ 2,804,070
Rebasing of FY 2015 Actual to Budget Performance (GMCB needs to approve)	\$ 12,432,000	\$ 9,448,320	\$ 2,983,680
<b>FY2016 Budget Adjusted Net Revenue for Revenue Cap Calculations</b>	<b>\$ 1,324,776,142</b>	<b>\$ 1,144,992,106</b>	<b>\$ 179,784,036</b>
<b>FY2017 Budget - Net Patient Revenue</b>	<b>\$ 1,291,666,331</b>	<b>\$ 1,108,222,115</b>	<b>\$ 183,444,216</b>
Provider Tax	\$ 76,791,748	\$ 67,015,159	\$ 9,776,589
<b>FY 2017 Budget - Net Patient Revenue w/Provider Tax add back</b>	<b>\$ 1,368,458,079</b>	<b>\$ 1,175,237,274</b>	<b>\$ 193,220,805</b>
<b>Difference in NPR from FY2016 to FY2017 Budget</b>	<b>\$ 43,681,937</b>	<b>\$ 30,245,168</b>	<b>\$ 13,436,769</b>
<i>Percent Increase</i>	3.30%	2.64%	7.47%
<b>Additional Health Reform Investments in FY 2017 Budget</b>			
<b>UVMHN Total</b>	<b>\$ 4,287,167</b>	<b>\$ 3,712,582</b>	<b>\$ 574,585</b>
	0.32%	0.32%	0.32%
Collaborations to create a "system of care"	\$ 4,287,167	\$ 3,712,582	\$ 574,585
<b>Change in Net Patient Revenue Prior to Health Reform Investments</b>	<b>\$ 39,394,770</b>	<b>\$ 26,532,586</b>	<b>\$ 12,862,184</b>
	2.97%	2.32%	7.15%

	Additional Investment			<u>Investment Category</u>
	UVMHN	UVMHC	CVMC	
<b>FY 2017 Budget - Health Reform Investments</b>				
Institute of Quality & Operational Effectiveness and Leadership admin effort	1.1	1.1	0.0	A, B, C
Mental health increases (ED Boarders, IPP, OP Psych)	0.4	0.0	0.4	A
Palliative care investments	0.2	0.0	0.2	A, B, C
IT investments (EHR system optimization)	0.4	0.4	0.0	A, C, F
<b>Total New System Investments</b>	<b>2.1</b>	<b>1.5</b>	<b>0.6</b>	
OneCare Vermont	2.2	2.2	0.0	A, C, D
<b>Total Net New Funding Investments</b>	<b>4.3</b>	<b>3.7</b>	<b>0.6</b>	
GMCB investment categories:				
A) Collaborations to create a "system of care"				
B) Investments in shifting expenditures away from acute care				
C) Investments in population health improvement				
D) Participation in approved payment reform pilots				
E) Enhanced primary care and Blueprint initiatives				
F) Shared decision making and "Choosing Wisely" Programs				

UVM Health Network Resource Allocation Plan FY 2016 – 2020

ATTACHMENT C

UVMHC & CVMC Combined Capital - Resource Allocation Fiscal Years 2016 - 2020		FY 2016		FY 2017			FY 2018 Budget	FY 2019 Budget	FY 2020 Budget	Total FY'16 Proj - FY 2020
		Budget	Projected	Carry Over/Forward	New Funding	Total Available				
<b>Routine Capital Budget</b>										
	Equipment	28.5	18.9	1.9	24.7	26.6	17.7	18.2	18.2	99.6
	Facilities	23.3	28.5	8.3	19.7	28.0	12.4	11.9	11.9	92.7
	Strategic	0.2	6.1	1.5	6.2	7.7	5.4	4.3	4.9	28.3
	Information Services	12.3	9.6	1.3	17.0	18.2	7.0	7.0	7.0	48.8
<b>Total Routine Capital Budget</b>		<b>64.3</b>	<b>63.1</b>	<b>13.0</b>	<b>67.5</b>	<b>80.5</b>	<b>42.5</b>	<b>41.4</b>	<b>42.0</b>	<b>269.3</b>
<b>Potential CON Projects*</b>										
UVM-H	EPIC Network	0.0	0.0	0.0	1.6	1.6	43.1	30.8	27.7	103.2
UVMHC	Inpatient Bed Replacement	43.4	26.6	16.8	31.3	48.1	45.5	49.2	0.0	169.3
UVMHC	South Burlington Real Estate Purchase***	25.0	0.0	25.0	0.0	25.0	0.0	0.0	0.0	25.0
UVMHC	UVMHC Primary Care Investments	0.0	0.0	0.0	5.0	5.0	5.0	0.0	0.0	10.0
UVMHC	Neonatology Intensive Care Unit Replacement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0
UVMHC	Replace Rutland Renal Dialysis Site	0.0	0.0	0.0	0.0	0.0	3.0	4.8	0.0	7.8
UVMHC	Replace Berlin Renal Dialysis Site	0.0	0.0	0.0	0.0	0.0	3.5	4.3	0.0	7.8
UVMHC	MRI Ortho	0.0	0.0	0.0	2.3	2.3	0.0	0.0	0.0	2.3
UVMHC	Davinci	2.4	2.4	0.0	0.0	0.0	0.0	0.0	0.0	2.4
UVMHC	Pet CT	2.7	0.0	2.7	0.0	2.7	0.0	0.0	0.0	2.7
<b>Total Potential CON Projects</b>		<b>73.5</b>	<b>29.0</b>	<b>44.5</b>	<b>40.1</b>	<b>84.6</b>	<b>100.1</b>	<b>89.1</b>	<b>29.7</b>	<b>332.5</b>
<b>Total UVMHC &amp; CVMC Capital - Routine/CON</b>		<b>137.8</b>	<b>92.0</b>	<b>57.5</b>	<b>107.6</b>	<b>165.1</b>	<b>142.6</b>	<b>130.4</b>	<b>71.6</b>	<b>601.8</b>

\* These amounts don't include capitalized interest.  
 \*\*\* FY 16 Budget amount represents carry-forward from FY 15.

**“Agents of Change”**

*Journal of Healthcare Contracting* (June 2016)

**“UVM Medical Center Blazes Genetic Mapping Trail”**

*Burlington Free Press* (June 7, 2016)