FY'17 Budget Overview

Improving Community Health
Through Prevention and Local Access to the Right Care

NMC
Northwestern Medical Center

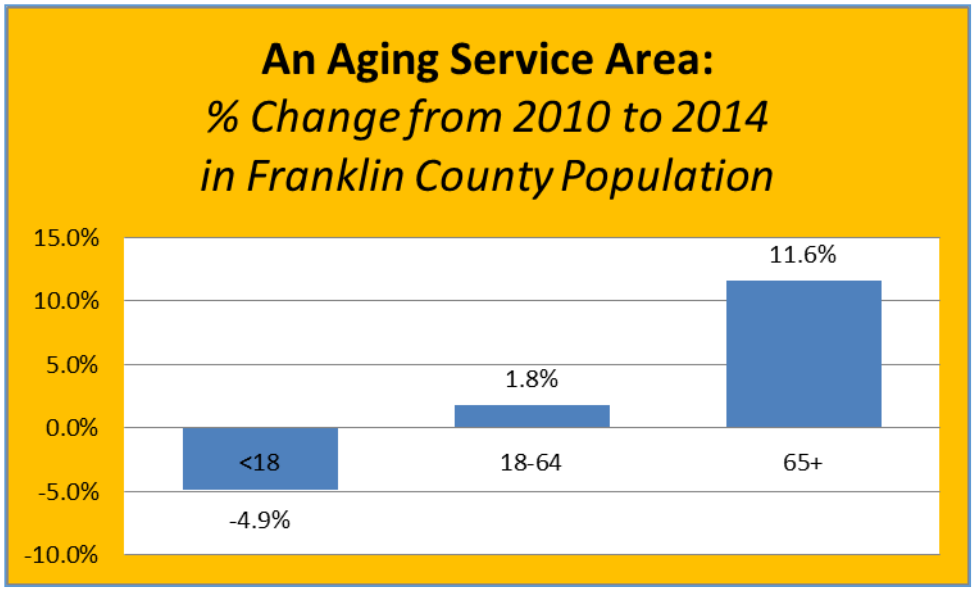
NMC's vision is to be nationally recognized for excellence and value as we partner to improve the wellness of our community and become a destination of choice for patients, staff, & providers.

Caring for Our Community

NMC provides exceptional care for our community – 55,000 people in northwestern VT.

Our top priority health needs:

- Mental Health & Substance Abuse
- Obesity
- Smoking
- Cancer
- Suicide
- Domestic & Sexual Abuse



The growth in our community is among those over 65, with that sector growing even faster than the VT and US trends

Strategically Positioning NMC for the Future:

Board of Directors, Medical Staff, hospital staff, and community stakeholders established our strategic positioning and a new strategic plan, focused on:

- **Strategic Positioning:**
  - Primary Care
  - Mental Health & Addiction
  - Surgical Specialists
  - Medical Specialists
  - Population Health
- **Providing Exceptional Care**
- **Valuing our Staff and our Medical Staff**
- **Achieving a Sustainable Operating Model**

Local Access to the Right Care Through Strategic Partnerships

Active discussions with UVMMC include the possibilities of:

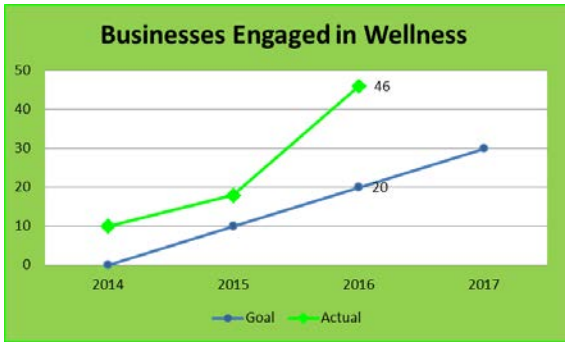
- Endocrinology (adult/pediatric)
- ENT
- Neurology
- Rheumatology
- Allergy
- Wound
- Potential post-op follow up visits.

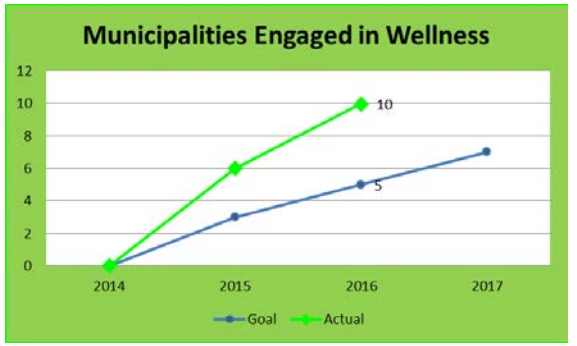
Leading the Way in Primary Prevention

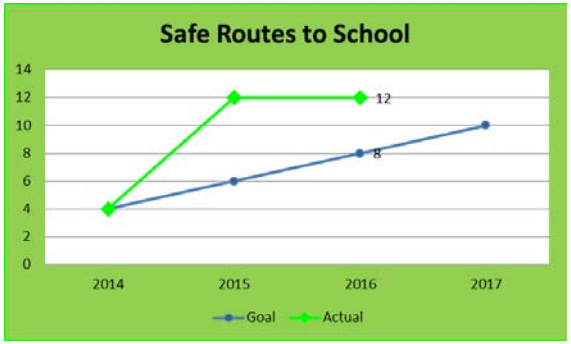
RiseVT
is a community collaborative to embrace healthier lifestyles, improve the quality of life, and lower healthcare costs where we live, work, learn, and play.

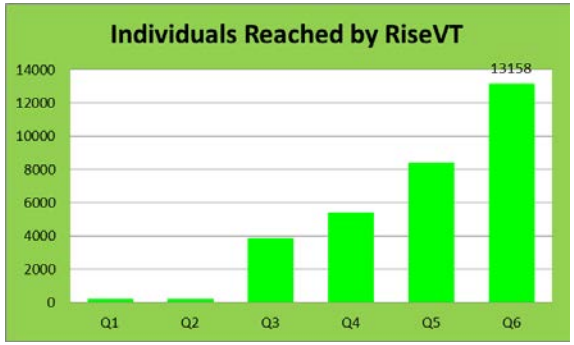
RISE VT
Embracing Healthy Lifestyles

Lowering Obesity Is Crucial to Improved Health	
Franklin County = 27%	Vermont=23%









Making Promising Progress On Population Health

Status on the 24 indicators shared with GMCB in 2015:

FY'16 Population Health Projects: Progress over 9 Months		
Primary Care & Care Management	**Year to Date**	**Goal**
HCAHPS Care Transition from hospital to home, with continuing care support	61.88	61.63%
% change in avoidable visits with charge level of 1,2, or 3 (of 6 levels)	-21.02%	5% reduction in avoidable visits
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Continued Reduction in Tobacco Use	**Year to Date**	**Goal**
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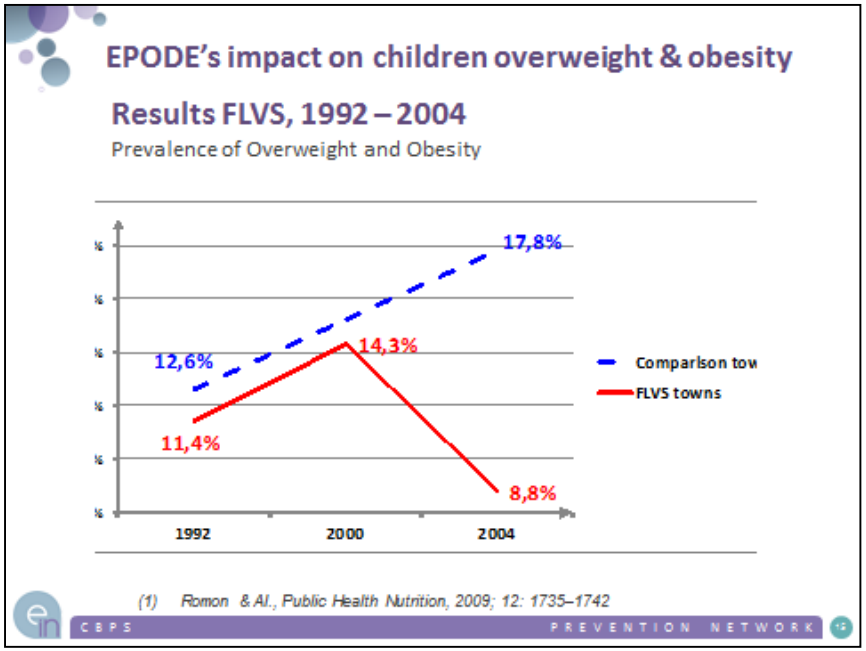
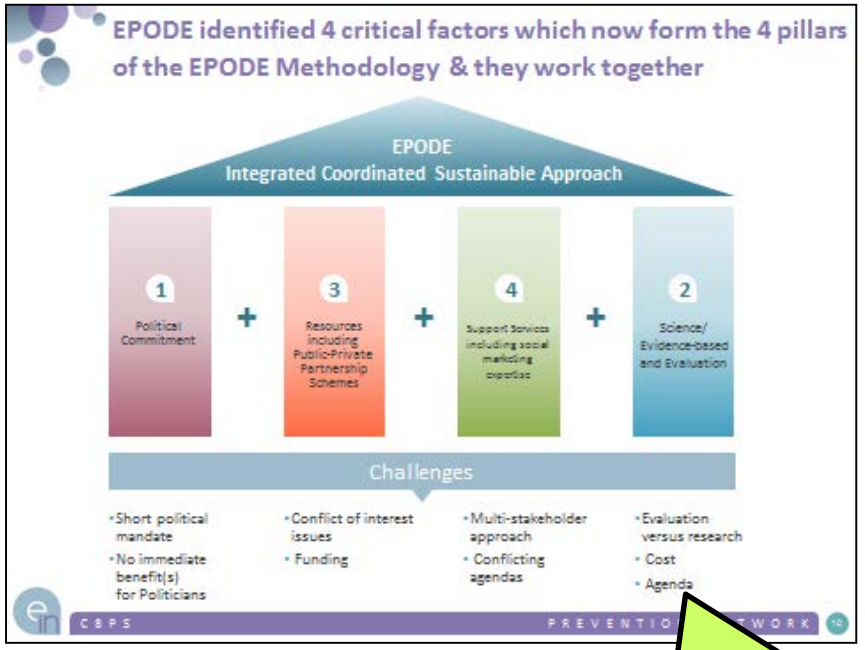
Municipalities addressing youth prevention through advertising, or other point of sale/retail options	Swanton, Enosburg future possibilites	1

Pursuing Alignment with International Best Practice to Increase Sustainability & Impact of RiseVT

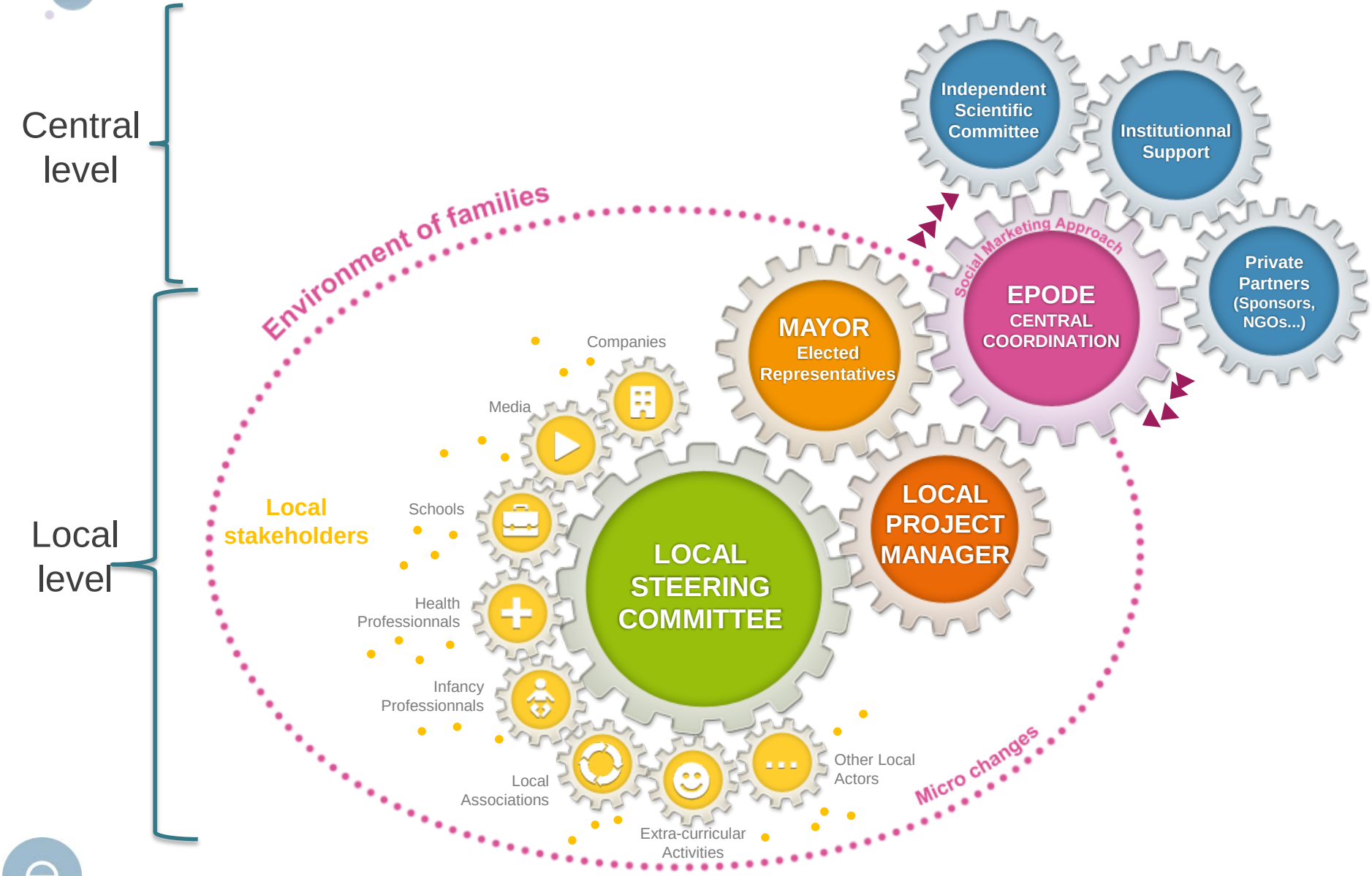




We are aligning with EPODE, an international evidence-based methodology for lowering childhood obesity.

RiseVT scored a promising 85 on EPODE's initial review, ranking us in their top 10 internationally.

The EPODE Model



Pursuing Collaboration to Bring RiseVT & EPODE Statewide for Broader Impact and Improved Sustainability

We are establishing a charter for a key stakeholders group to explore bringing RiseVT statewide, including:

- NMC
- UVM Medical Center
- VAHHS
- Brattleboro Memorial
- OneCare VT
- Blue Cross/Blue Shield
- VT Department of Health

RiseVT directly aligns with Vermont's 3-4-50 campaign.

Enhancing Access & Improving Quality in Response to Need: Laser-Focused on Outcomes

- Recruited a 3rd Physician for our addiction practice and preparing to collaborate with a new HUB in Franklin County
- Preserved access to Pediatrics
- Achieved “Most Wired” status
- Achieved “Baby Friendly” status (1 of only 2 in VT)
- Recognition from UVMMC for STEMI excellence
- Achieved National “Avatar” patient satisfaction awards
- Redesigned current and future workflows using LEAN
- Earned Quorum “Best Overall Performance” for 4 straight years

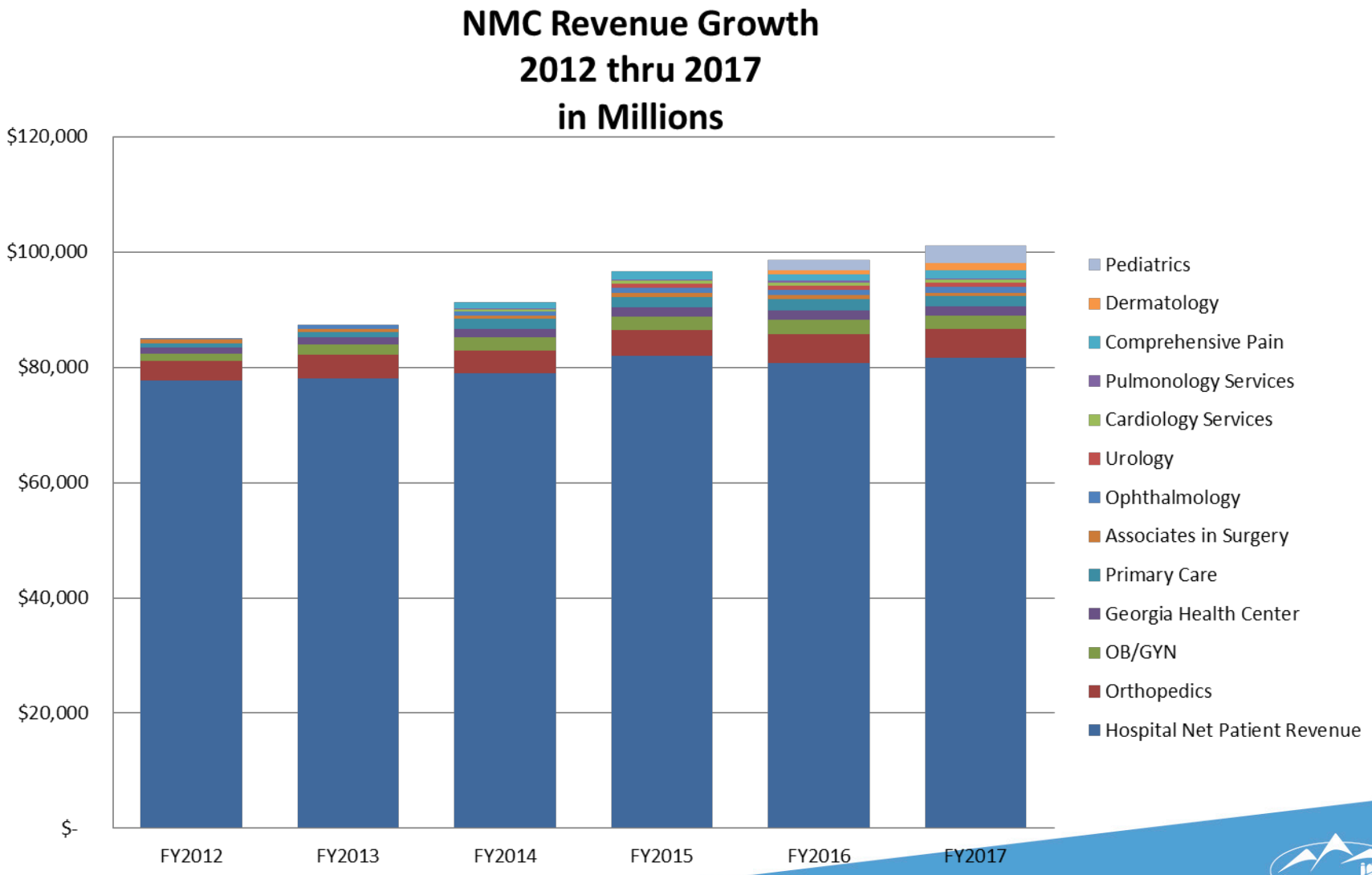
Actively Partnering in Healthcare Reform: Improving Quality, Bending the Cost Curve

- Actively engaged in Vermont Care Organization
- Leading role in the Unified Community Collaborative (community governance setting priorities and resources) and the Regional Clinical Performance Council (community connectedness and operationalizing priorities)
- Leading voice for the integration of prevention
- Using the Accountable Communities for Health initiative to ensure linkages among population health efforts
- Partnering with UVMMC (appropriate medical clinics)
- Partnering with BC/BS (Accountable Blue, Ambulatory Surgery, RiseVT)

Containing Hospital Costs, Investing in Access to Care:

- **Hospital revenue growth over the last 5 years has averaged 1.1%;**
- **Physician practice revenue growth over the last 5 years has averaged 22.3%;**
- In 2012 NMC had five physician services that represented $7.2 Million in NPR
  - Orthopedics
  - OB/GYN
  - Primary Care
  - General Surgery
  - Ophthalmology

Investing In Access to Local Care:



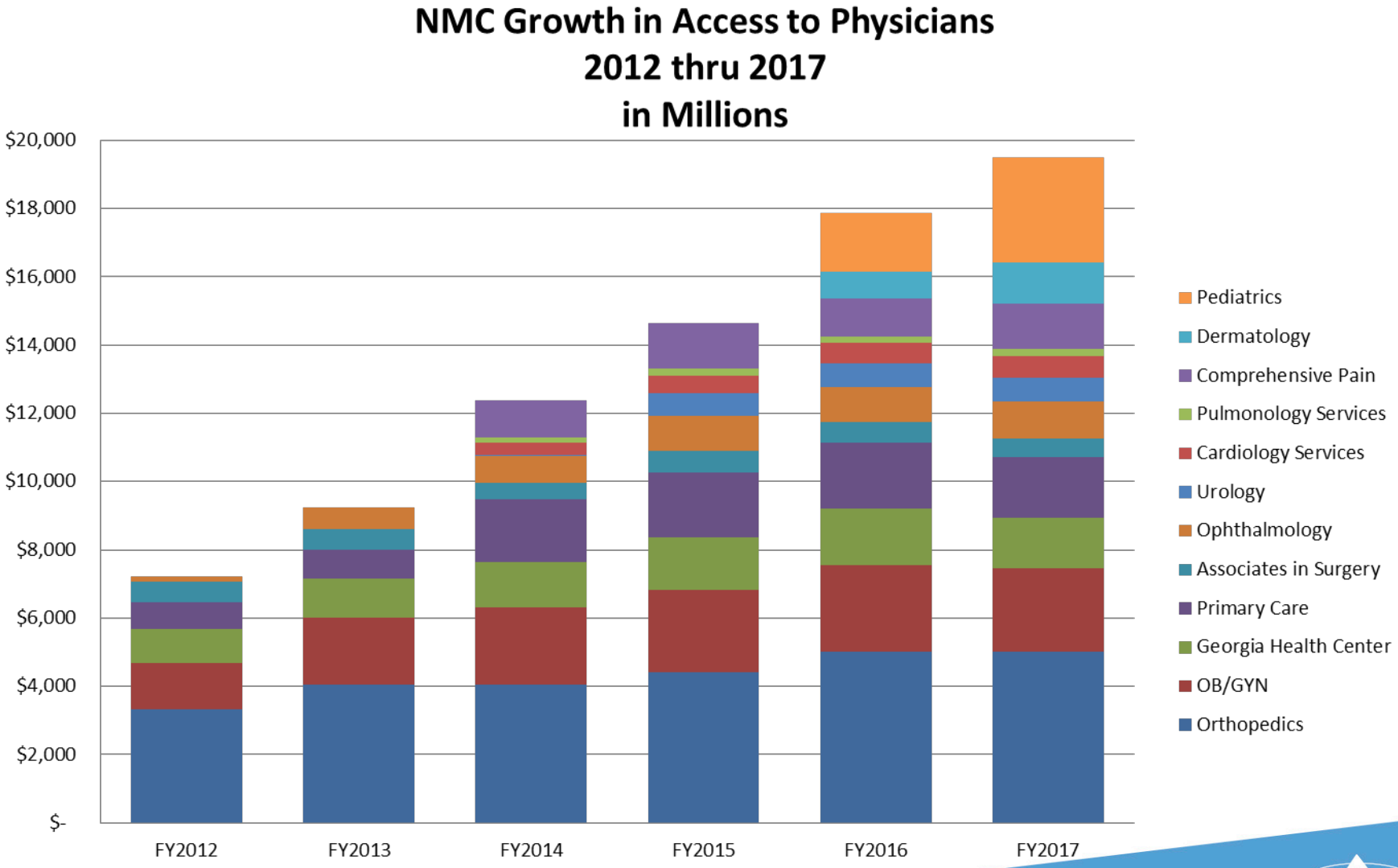
Improving Access, Preventing Higher Cost Acute Care:

To improve local access to care NMC has stabilized key basic medical services to the community by adding these services:

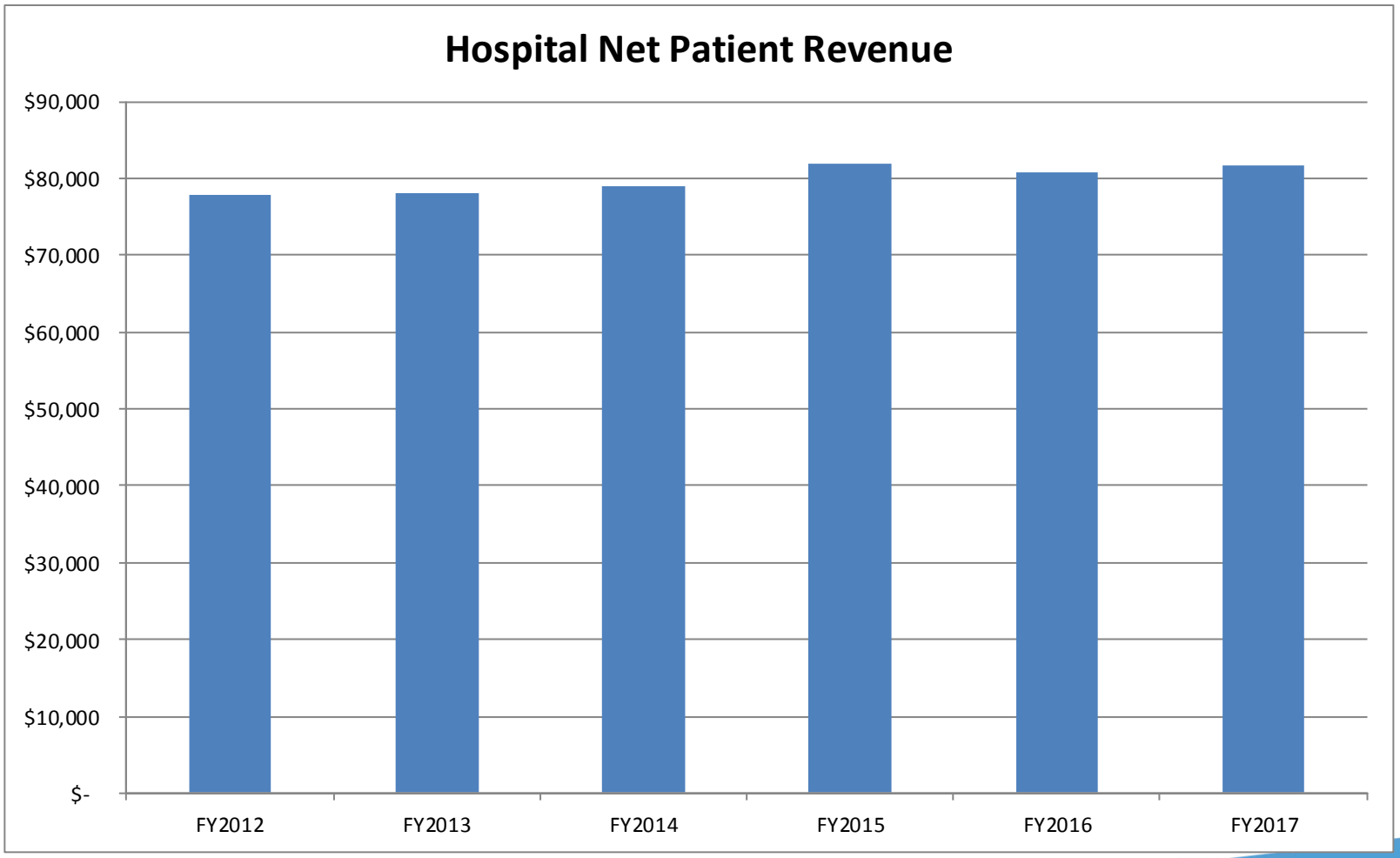
- Urology
- Cardiology
- Pulmonology
- Comprehensive Pain
- Dermatology
- Pediatrics

In the 2017 budget these six key services represent over $7.1 Million in Net Patient Revenue

Investing in Access to Local Care:



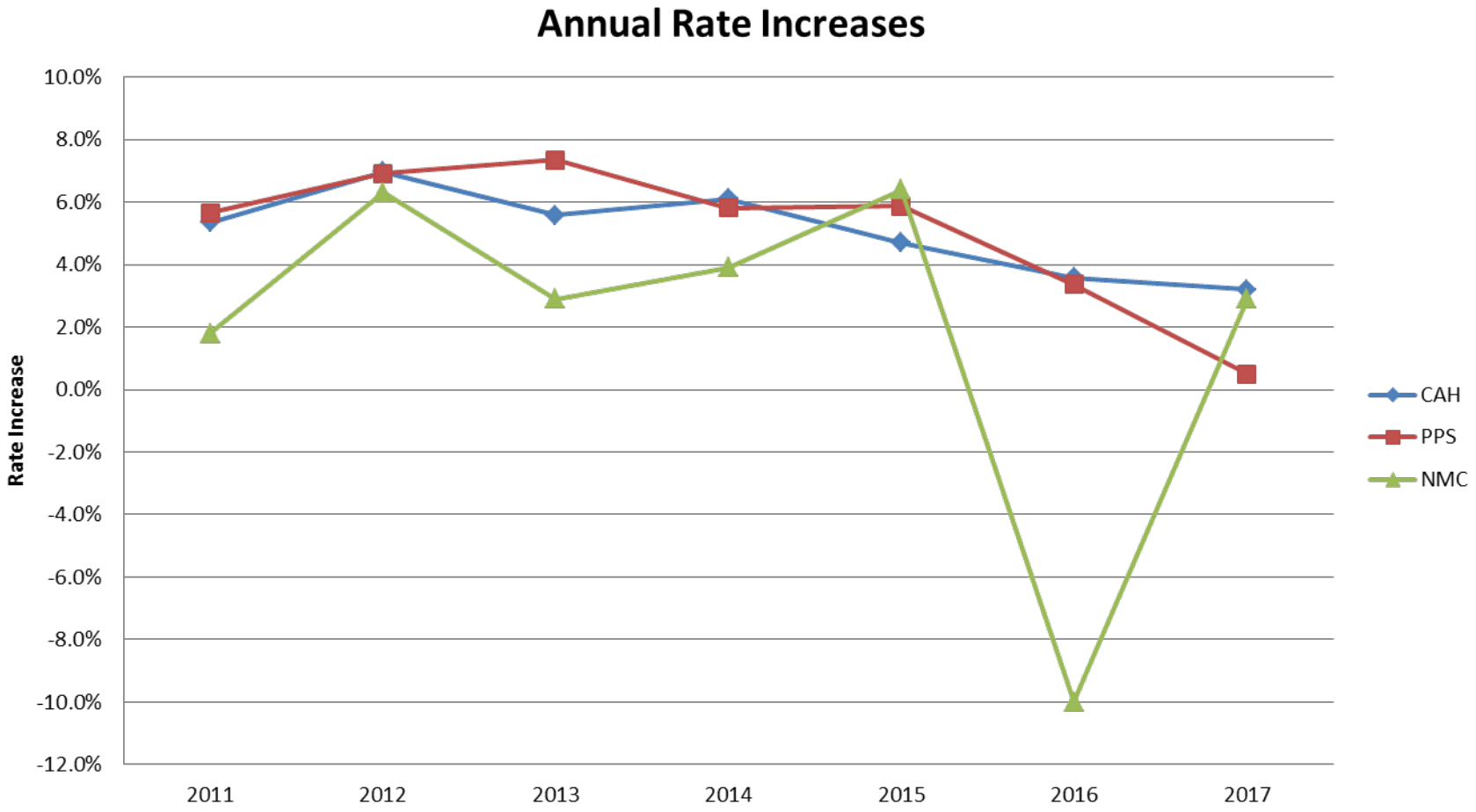
Containing Hospital Costs - Intentional Due Diligence:



History of Lower Rate Increases – Intentional Due Diligence:

- Historical Increases for NMC have been the lowest in Vermont from 2011 thru 2016
- Rate decrease in 2016 of 10%, 1.5% used to invest in the future of Population Health, build Wellness and Prevention, remaining 8.5% resulted in rate decreases
- Initial proposed increase in 2017 is 2.9%
- We have identified opportunities to reduce this increase

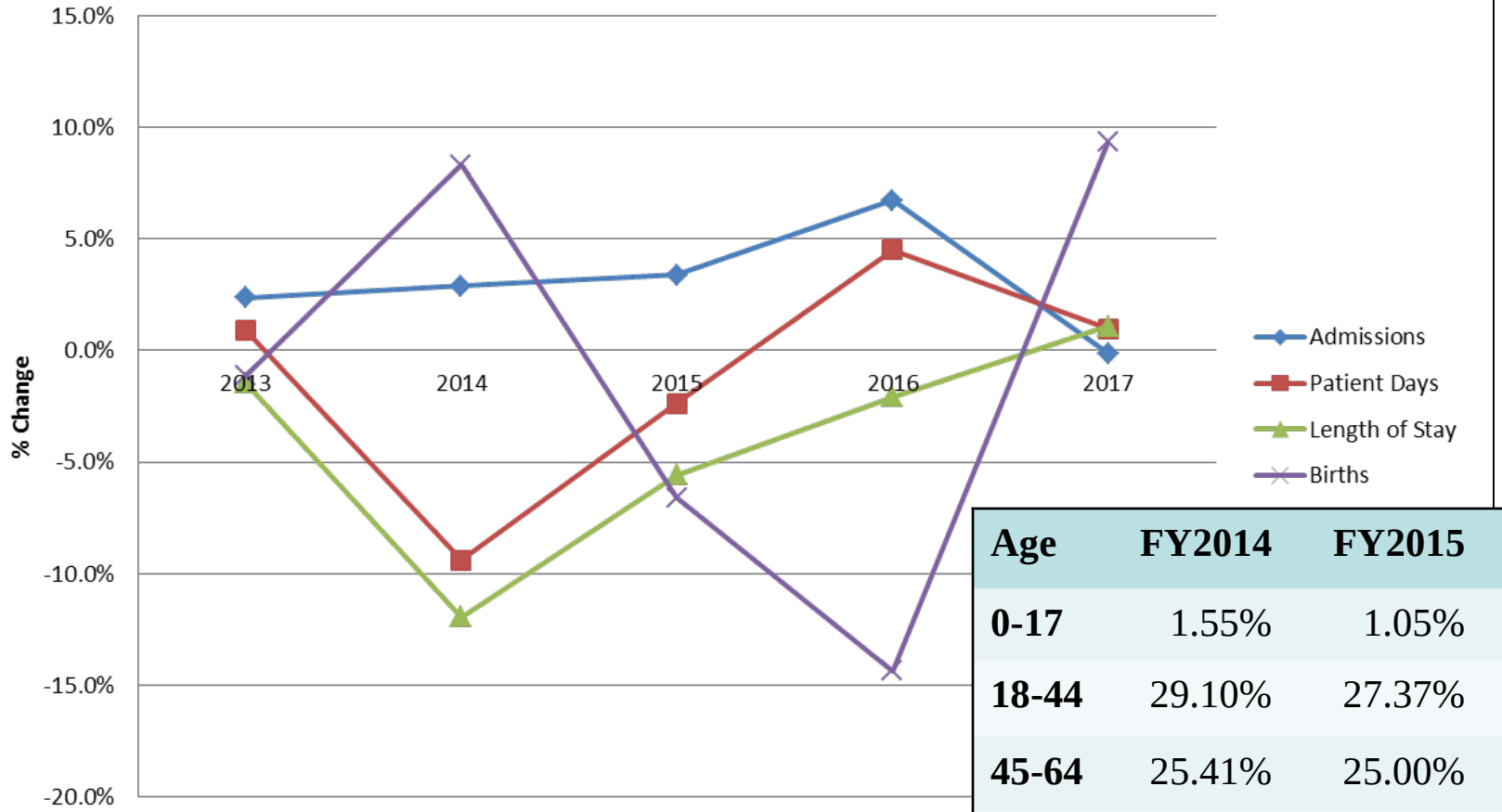
History of Lower Rate Increases – Intentional Due Diligence:



Carefully Monitoring & Cautiously Predicting the Future:

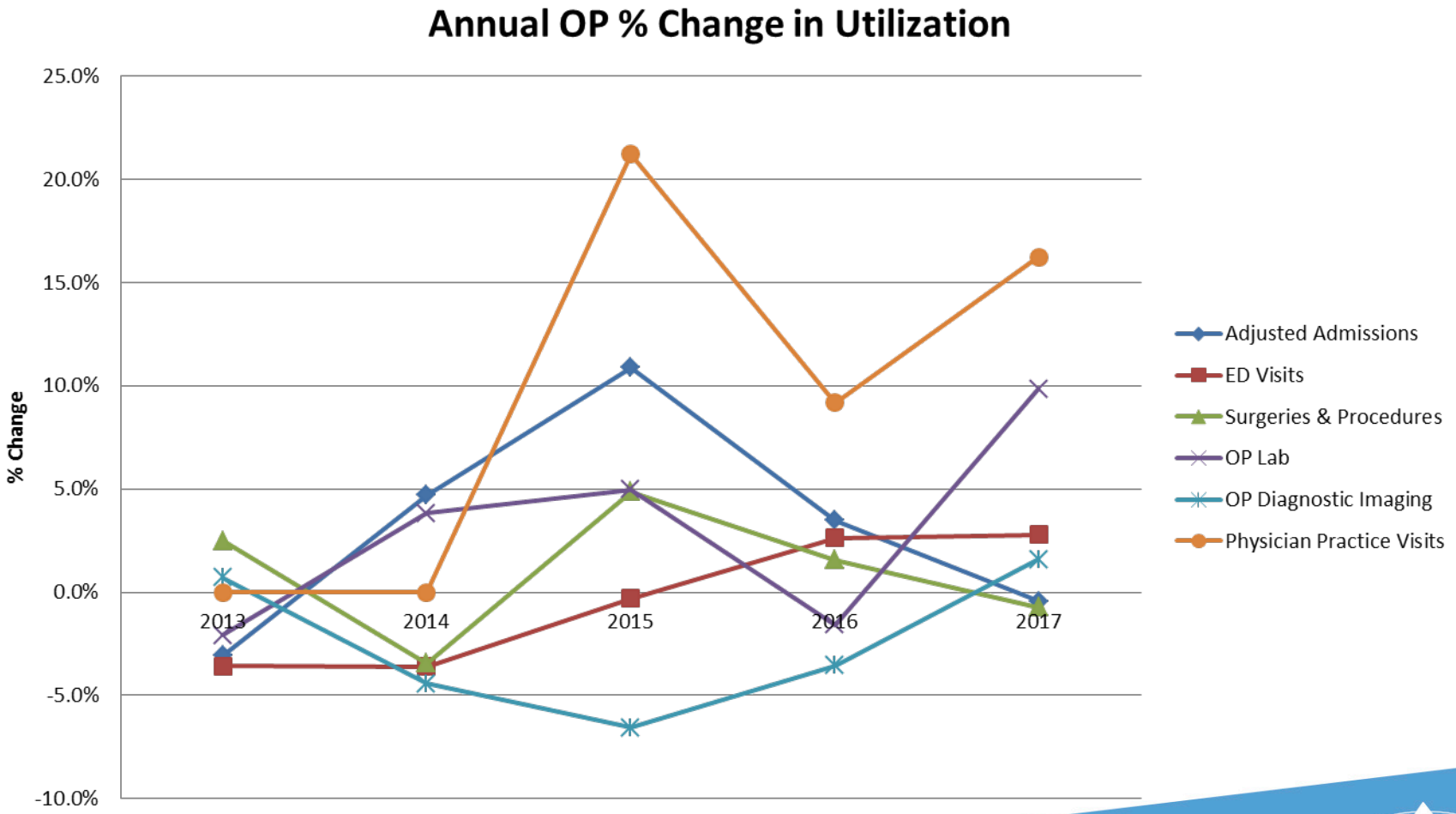
Bad debt and charity analysis								
Actual as a percentage of gross revenues								
							Budget	Adjusted
		2012	2013	2014	2015	2016	2017	2017
Bad debt		2.30%	2.60%	3.00%	2.10%	1.60%	1.90%	1.60%
Charity		1.20%	1.00%	0.70%	0.60%	0.71%	0.80%	0.70%
Total		3.50%	3.60%	3.70%	2.70%	2.31%	2.70%	2.30%

Understanding Trends In Our Inpatient Volumes:

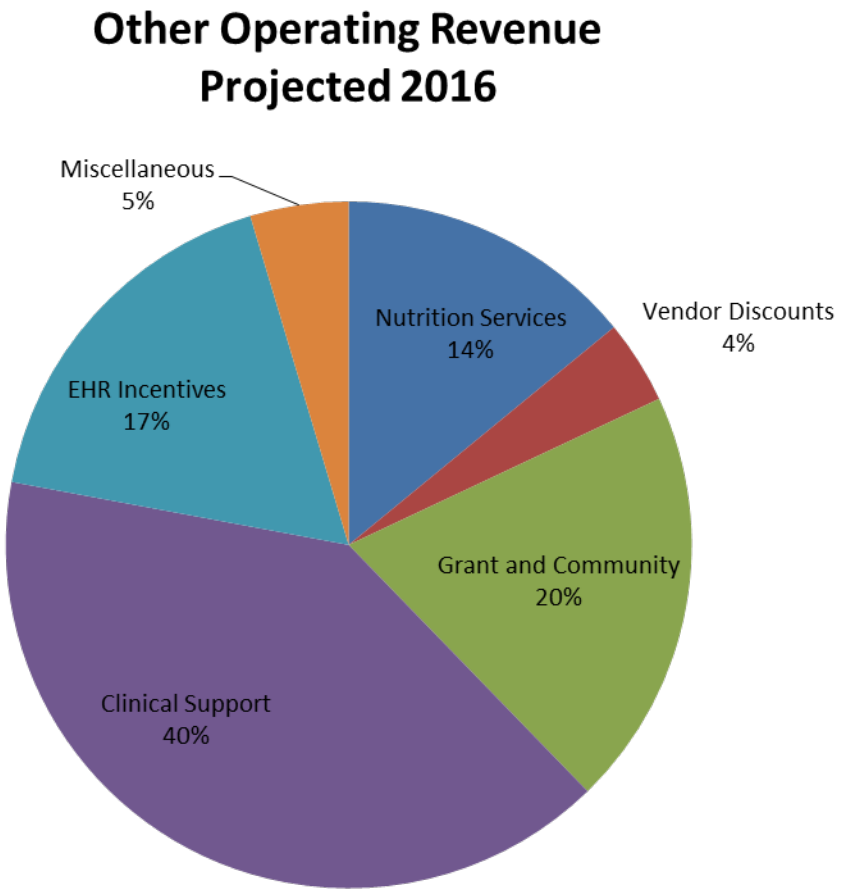


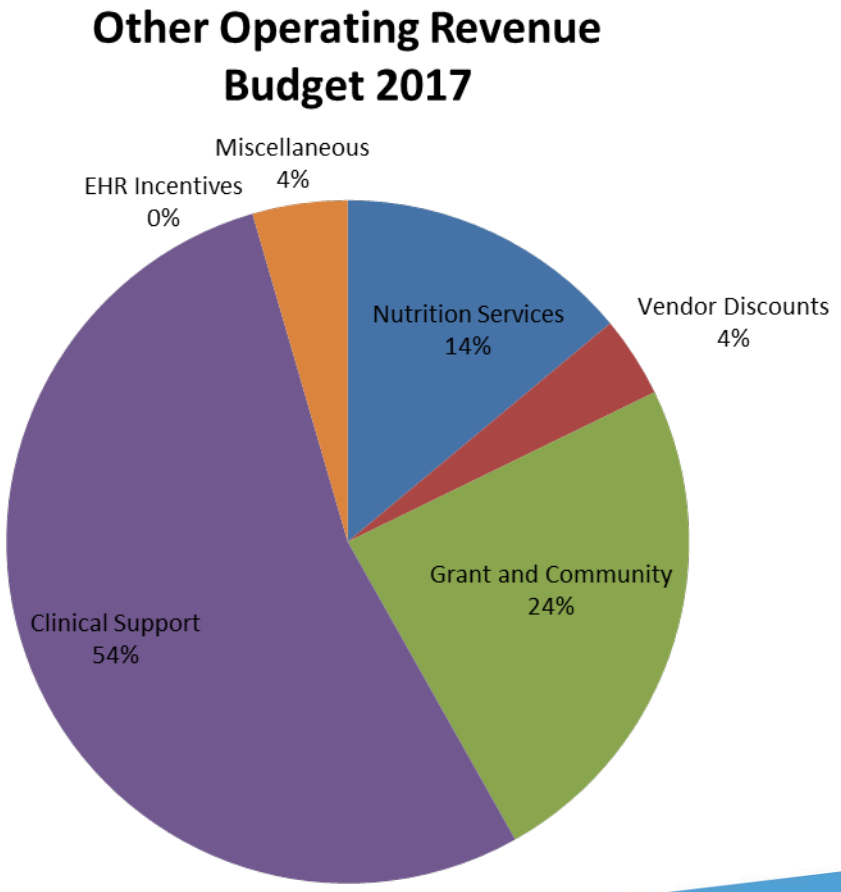
Age	FY2014	FY2015	FY2016-P
0-17	1.55%	1.05%	2.03%
18-44	29.10%	27.37%	23.25%
45-64	25.41%	25.00%	25.10%
65+	43.94%	46.58%	49.62%

Understanding Trends in our Outpatient Volumes:



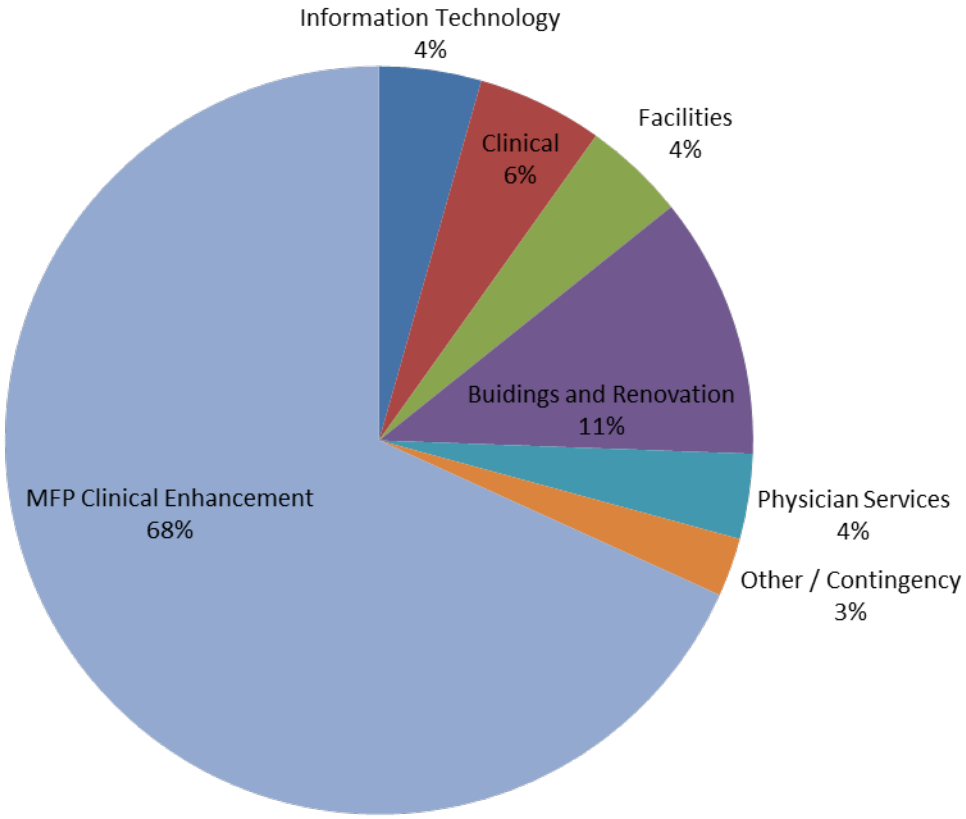
Understanding Shifts Within Other Operating Revenue:



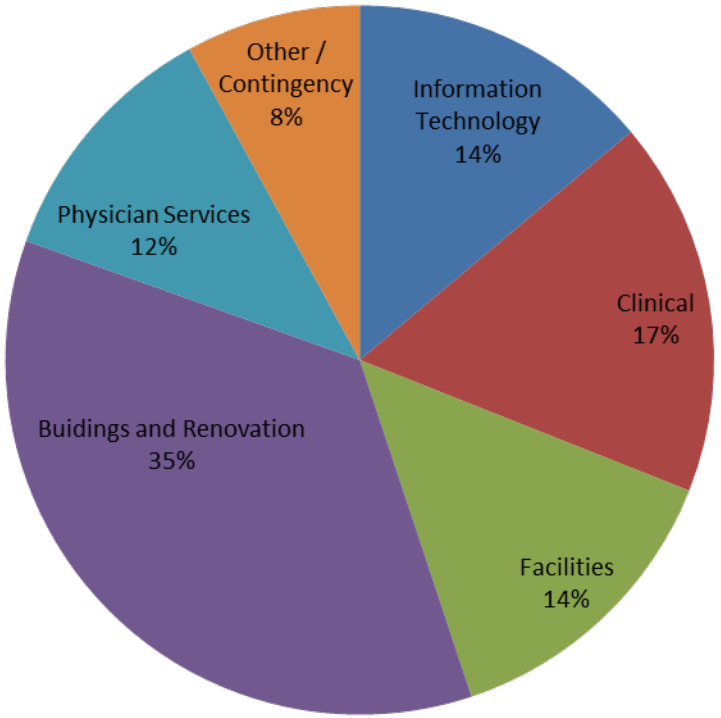


Understanding Our 2017 Capital Budget:

2017 Capital Investments



2017 Capital Excluding MFP

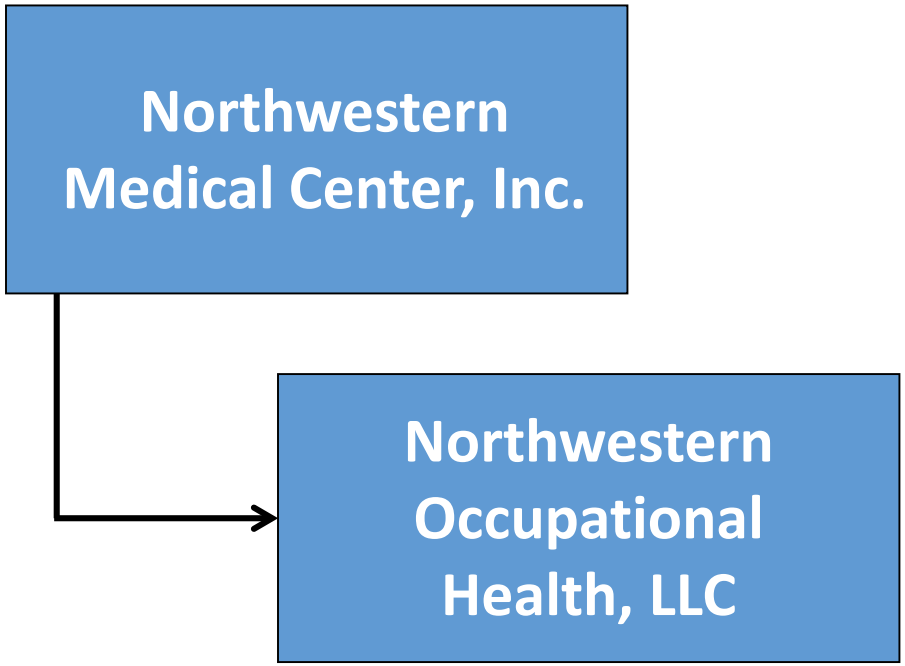


Responding to Your Questions: 2017 Major Budget Initiatives

- New Strategic Positioning & Strategic Plan
- Preparing for ACO risk based model
- Master Facility Plan – efficient flexible outpatient focus
- Physician Practices & Medical Clinics
- Population Health – RiseVT/EPODE expansion local & state
- Cost Reductions – LEAN workflows

Responding to Your Questions: Organizational Structure

NMC is a not-for-profit community hospital with a wholly-owned subsidiary.



Responding to Your Questions: 1a

How does the hospital determine the appropriate physician need for the service area? What are your longer term plans for adding additional physician disciples? Define how the hospital determines a "fully developed practice"?

- National consultation for NMC's strategic planning includes a multi-model statistical analysis of our population's estimated current and future needs which are then refined by our Medical Staff, Board, and other stakeholders based on their unique insights into local needs and conditions
- We intend to maintain full access to primary care and ensure appropriate access to specialty care. We are evaluating the development of a corporate entity for primary care integration across the community to further enhance the blueprint model
- A developed practice's providers perform at MGMA median productivity targets (this can take 3-5 years of ramp-up)

Responding to Your Questions: 1b

The physician net patient revenue is budgeted to increase $3.1 million made up of Medicaid and Commercial revenues. Why aren't Medicare revenues budgeted?

- $3.1 million is specific to the transfer of a pediatric practice– no Medicare
- Therefore, we did not budget for any increases in Medicare physician net patient revenue.

Responding to Your Questions: 1c

Provide a summary schedule that shows the types of changes in admissions and how the age of the patients is impacting the change.

- Seeing a trend of more inpatients with ages 65+
- Census data shows that the average annual growth in Franklin County for individuals age 65+ from 2010 to 2014 is 2.9%. Our acute admissions are growing at a rate of 2.6%.

Age	FY2014	FY2015	FY2016-P
0-17	1.55%	1.05%	2.03%
18-44	29.10%	27.37%	23.25%
45-64	25.41%	25.00%	25.10%
65+	43.94%	46.58%	49.62%

Responding to Your Questions: 1c con't

Explain your net patient revenue changes at the budget hearing using the payer schedule provided in the staff's analysis.

Originally Submission Page 4

Net Revenue Changes	Total	Commercial	Medicaid	Medicare
Utilization	2,607,299	(240,973)	1,362,915	1,485,357
Physician Acquisition	3,106,808	2,051,293	1,055,515	0
Bad Debt & Charity Care	1,393,959	1,393,959	0	0
Other Changes in Mix	(1,690,915)	(3,062,803)	(1,016,391)	2,388,279
Total	$5,417,151	$141,476	$1,402,039	$3,873,636

Revised Page 4

Net Revenue Changes	Total	Commercial	Medicaid	Medicare
Utilization	$2,406,590	$(410,258)	$471,950	$2,344,898
Physician Acquisition	$3,080,325	2,024,810	1,055,515	0
Bad Debt & Charity Care	$2,198,755	2,198,755	0	0
Other Changes in Mix	(1,582,392)	(464,846)	(1,387,918)	270,372
Total	$6,103,278	$3,348,461	$139,547	$2,615,270

Responding to Your Questions: 1c con't

Explain your net patient revenue changes at the budget hearing using the payer schedule provided in the staff's analysis.

There are several key issues that impact the distribution outlined in page 4 of our submission:

- Increase in Medicare utilization driven by the aging population discussed previously
- Addition of the pediatric practice which impacted Medicaid and Commercial Insurance
- Reduction in Bad Debt and Charity Care, we display this primarily in Commercial but it impacts other payors as well
- Other mix changes are driven by changes in acuity as well as distribution of services provided

Responding to Your Questions: 2

Provide a schedule showing the total number of FTEs for the hospital separate from those supporting physicians. Show this for the years 2015 through 2017.

FTEs	Budget 2015		Budget 2016		Budget 2017	
Physician Practice Providers	26.10	4.5%	25.25	4.2%	35.56	5.3%
Physician Practice Support Staff	66.25	11.5%	69.69	11.6%	106.77	15.9%
All Other	484.75	84.0%	506.66	84.2%	527.47*	78.8%
Total	577.10	100.0%	601.60	100.0%	669.80	100.0%

* This includes 12 FTE's to support the Blueprint community health team

Responding to Your Questions: 3

Is it the hospital's practice to budget for both "locums" and physician FTEs? How many and how are these recorded in the hospital's budget?

- No - We do not budget for both locum and employed physicians at the same time
- In 2017, we have budgeted for 2 locum physicians in primary care for the first 6 months of the fiscal year (1 FTE) and 2 employed physicians in primary care for the last 6 months of the fiscal year (1 FTE)
- We also have locum services budgeted in our Comprehensive Pain Program as we continue recruitment efforts

Responding to Your Questions: 4

The hospital is requesting a 2.9% rate increase. This rate will generate an estimated $1.752 million in NPR dollars and has the effect of increasing the operating margin (surplus) % from 2.1% in 2016 to 3.2% in 2017. In light of the strong financial health of the hospital and the size of the NPR budget increase, what is the impact if the margin remains at 2.1%?

Per Becker's Hospital Review: the median net operating margin for 2015 is 3.0%. Impacts of reducing below that level to 2.1%:

- Capital Investment - Potentially reduces our ability to invest in capital
- Borrowing - Potentially impacts our ability to borrow funds:
  - Directly impacts interest expense to the system
  - Potentially impacts meeting our bond covenants
- Payment Reform & Innovation– will limit our ability to be leaders:
  - Challenges our ability to take on risk based contracts
  - Restricts our ability to fund primary prevention

Responding to Your Questions: 5

Bad debt is projected to be lower than budget in 2016, going from $5.0 million to $3.1 million. However, FY 2017 is budgeted to be higher than projected 2016 by $700,000. What is the basis for increasing bad debt?

- Financially prudent to budget based on historical performance that goes back multiple years, risky to rely on one year of favorable results

- Adjusting to our current run rate would decrease bad debt and charity care write offs by another $804,796

- Results in decreased rate increase request from 2.9% to 1.8%

Responding to Your Questions: 6

The hospital has moved reference lab dollars from NPR to other operating. Explain why these are no longer considered NPR funds? Who makes this decision?

- Reference labs are those lab tests ordered by providers NOT employed by NMC. Therefore, they are not considered our patients.
- Attempt to report consistently throughout the State.
- Decision is made by hospital management in consultation with our independent audit firm and ultimately approved by our Board.

Responding to Your Questions: 7

Describe the hospital's efforts with local mental health and other providers to strengthen community health services. Describe any successes and identify limitations of those efforts.

- Recruited Dr. Christopher Bondi as the 3rd full-time physician in our Chronic Pain & Addiction Medicine practice
- Collaborating with The Howard Center on their current and future space needs to keep pace with community need
- Collaborating with BAART as they establish a HUB in Franklin County
- Participating in the learning collaborative on Behavioral Health integration across our community with multiple stakeholders (social determinants of health are the key factors in results with mental health patients)
- Working with NCSS to educate our RiseVT health advocates in Mental Health First Aid and to bring wellness services to NCSS
- Enhancing embedded care management within our Primary Care practices with goal of fulltime

Responding to Your Questions: 8

Are the FY 16 projections for net revenues, expenditures, and surplus as reported still valid? If not, describe any material changes.

- The FY 16 projections provided with the 2017 budget are still valid.

- Market performance has been strong – we do not budget for realized or unrealized gains/losses on our investments. If market performance stays at the current level, we will have approximately $3.3 million of non-operating surplus above what was originally projected.

Responding to Your Questions: 9

Non-operating revenues show a loss budgeted for 2017 related to a subsidiary organization. What is the basis for budgeting a loss? Is the loss a subsidy?

- Northwestern Occupational Health ("NOH") is the wholly owned subsidiary of NMC. NOH provides occupational health and urgent care services.
- NOH does generate a significant loss but we believe in offering urgent care as an extension to primary care to our community and have seen a decrease in avoidable emergency department visits since opening urgent care.
- Revised 2017 budget to include master facility plan contributions of $600,000.

Responding to Your Questions: 10

The hospital is budgeting an increase from $1.093 million to $1.184 (+8%) million for their Population Health Model. Describe the outcome measures used to evaluate the program.

We reviewed the 24 outcome measures we are using for these programs earlier

(see slide 6)

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Percent of adult tobacco users in F/GI making a quit attempt in year	No new BRFS Data yet	62%
Municipalities addressing youth prevention through advertising, or other point of sale/retail options	Swanton, Enosburg future possibilites	1

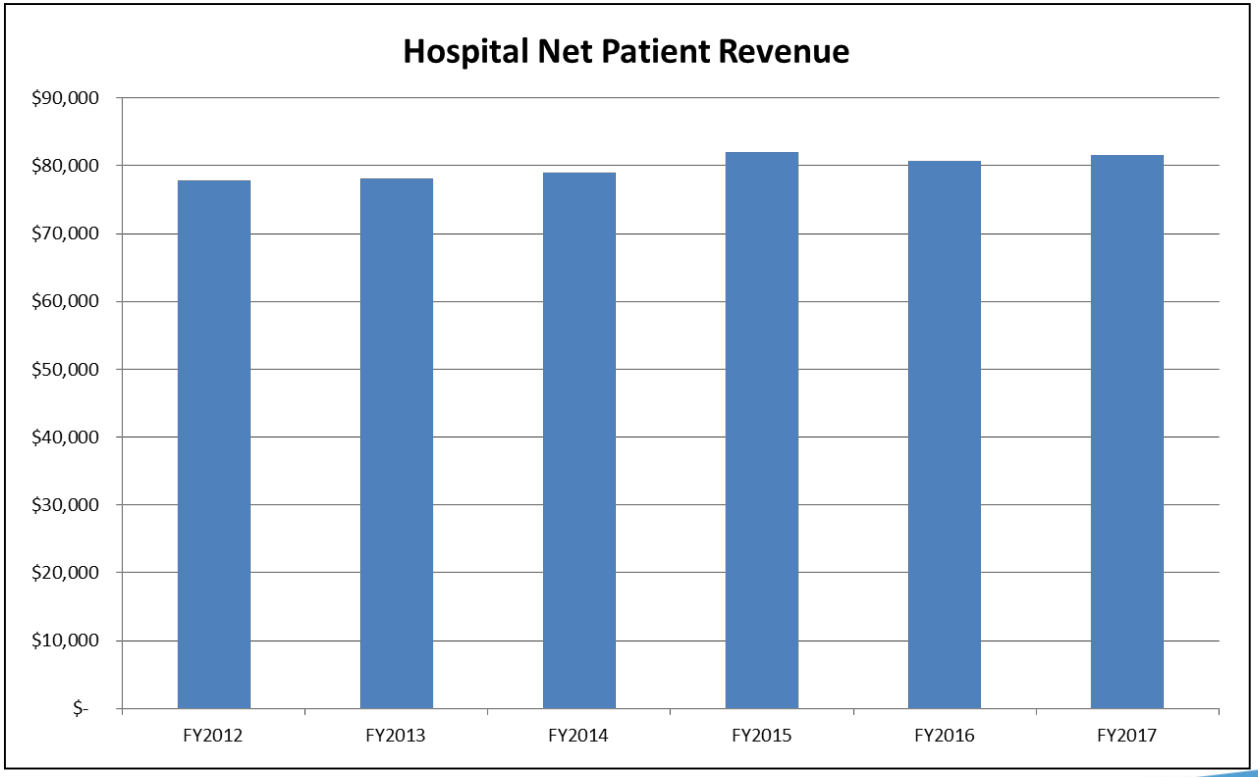
Responding to Your Questions: 11

Salaries and benefits per FTE, at $76,474, show a 0.4% increase over budget 2016. However, projected 2016 shows a value of $78,107. Explain what is happening here.

- Reduced overtime in 2017 budget by $285,000
- Projection for 2016 based on 10 months of available data is salaries and benefits per FTE of $75,525

In Summary - Creating a Healthier, Sustainable Future:

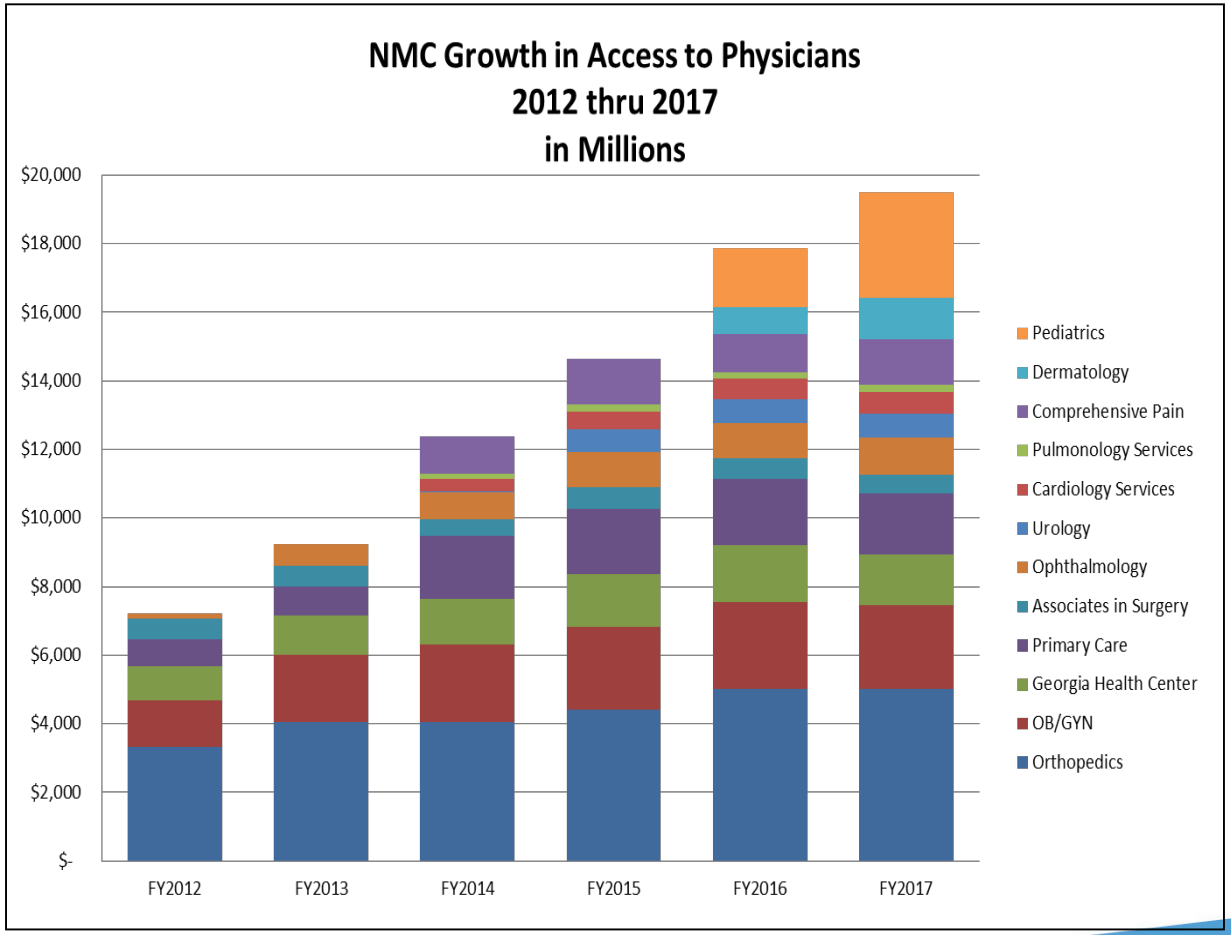
We have kept our *hospital* growth at 1.1% per year on average over the last 5 years well under the 3% cap:



In Summary - Creating a Healthier, Sustainable Future:

We have grown physician practice revenue by 22.3% annually through investing in the right care locally:

- Primary Care
- Pediatrics
- Addiction Medicine (comprehensive pain)
- Appropriate specialty care



In Summary - Creating a Healthier, Sustainable Future:

Bending the cost curve long-term takes time and money.

NMC is all in:

- Focusing on supply cost standardization: Over $340,000 savings achieved in Orthopedic devices alone, significant LEAN project underway to standardize care for our top 3 DRG's
- Achieving 92% productivity overall compared to national benchmarks
- Investing $2.5 million in prevention and population health efforts

In Summary - Creating a Healthier, Sustainable Future:

- **Primary Prevention**
  - RiseVT & EPODE – (local advancement & statewide expansion)
    - How do we invest in prevention and finance the future of population health to ultimately bend the cost curve? Revenue reallocation? This is the real question.
    - Will the charter get us there?
- **Secondary Prevention**
  - Lifestyle Medicine Clinic (an extension of Primary Care)
  - Community Care Management
  - BC/BS collaborations

In Summary - Creating a Healthier, Sustainable Future:

What's next for NMC?

- Deliberate ongoing identification of cost reduction initiatives
- ACO selection/decision – Risk or no risk … clarity, All Payer
- Execute Our Strategic Position:
  - Primary care integration across the community to further enhance the Blueprint model
  - Mental Health Collaboration
  - Medical clinics to provide local access to preventive care
  - Ambulatory Surgery transformation
  - Population Health Expansion

In Summary - Creating a Healthier, Sustainable Future:

Summary of Revenue Growth In Response to Community Demand:	
Revenue Growth Allowed:	3.0%
Health Care Reform Allowed:	0.4%
Pediatrics Practice Transfer:	3.2%
Growth Sub-Total:	6.6%
Maturity of Previous Physician Practice Exceptions:	1.2%
Revised Total:	7.8%
Revenue Growth in Current Proposed Budget:	7.5%

In Summary - Creating a Healthier, Sustainable Future:

Alternative - addressing both rate increases and revenue growth:

- In order to get our budget back to a 6.6% revenue growth and produce a 0% rate increase we would have to reduce our net patient revenue by $853,600 and identify an additional $853,600 reduction in expense in order to maintain a 3.2% operating margin
- If we are unable to identify the $853,600 in expense reduction this would reduce our operating margin to 2.4%

In Summary - Creating a Healthier, Sustainable Future:

Recommendation - Proposed adjustments to budget as presented:

- Reduce Bad Debt and Charity Care by ($804,796), this brings the percentages closer to 2016 actual levels, this step provides a significant amount of risk to NMC that we are willing to accept
- Add $600,000 in Non Operating Revenue to recognize the release of donated funds associated with our MFP
- Since we have only 10 months of experience with our (8.5%) rate reduction, **we recommend**:
  - Maintaining our revenue growth at 7.5%.
  - **Lowering our rate increase from 2.9% to 1.8%**

In Summary - Creating a Healthier, Sustainable Future:

As such, we ask the Green Mountain Care Board to approve our Fiscal Year 2017 budget with the adjustments identified, recognizing that NMC is on the right path as we:

- Contain hospital costs to create sustainable model with reform
- Invest in access to the right care locally
- Invest in primary and secondary prevention
- Engage local and statewide partners to improve results
- Lead in healthcare reform locally and at the state level,
- Care comprehensively for a complex community who have entrusted us to partner with them for their overall well being

In Summary - Creating a Healthier, Sustainable Future:

“Cultural transformation takes grit … deliberate effort … passion and perseverance.”

Angela Duckworth - Grit

Master Plan Projects Proceeding On Time, On Budget

Thank you for this opportunity.

What questions do you have?