To: The Honorable Kevin Mullin, Chair, Green Mountain Care Board
From: John Brumsted, CEO, University of Vermont Health Network
Todd Keating, CFO, University of Vermont Health Network
Date: January 31, 2019
Subject: FY 2018 Actual-to-Budget Narrative

UVM Health Network Summary

Working within the framework of the All Payer Model (APM) and the Green Mountain Care Board's budget guidance, the UVM Health Network successfully controlled the cost of the high quality health care delivered to the patients of the Network's Vermont hospitals in FY 2018. The UVM Medical Center's net patient revenue (NPR) was within 0.14% of its rebased budget. Porter Hospital's NPR was 0.64% below its rebased budget. Central Vermont Medical Center's NPR was 1.65% below its approved budget, which was not rebased. Together, the Network's three Vermont hospitals received 0.13% less net patient revenue than they had budgeted.

Summary of Patient Revenue (NPR+FPP) Change from FY2018 Budget to FY2018 Actual

Hospital	FY2018 Budget Approved NPR (with rebase)*	FY2018 Actual	Difference	
UVMMC	$ 1,252,297,020	$ 1,254,036,509	$ 1,739,489	0.14%
CVMC (FY2018 Budget not rebased)	$ 198,452,560	194,586,135	$ (3,866,425)	-1.95%
Porter Hospital	$ 80,862,127	80,346,403	$ (515,724)	-0.64%
Total UVMHN - VT Hospitals	**$ 1,531,611,707**	**$ 1,528,969,047**	**$ (2,642,660)**	-0.17%

*Green Mountain Care Board Meeting 9/12/2018, GMCB Hospital Budget Team Upadate 9/18/2018

The UVM Health Network's success in controlling costs is due in no small part to its shift away from fee-for-service payments to a fixed prospective payment model through OneCare Vermont and the APM. The Network's Vermont affiliates continue to participate in all three programs – Medicare, Medicaid, and commercial – under the APM. In total the Network's three Vermont hospitals received $158 million in fixed prospective payments in FY 2018, and those payments are projected to rise to $260 million in the FY 2019 budget. The UVM Health Network also has projected that it will care for 83,000 covered lives through the ACO in plan year 2019, an increase of 24,000 over 2018.

In FY 2018, the UVM Health Network continued to invest the revenue it received to improve patient care and the way that care is delivered. The Network is building the foundation of its population health management efforts by rolling out Epic across its Vermont hospitals. It has nearly completed the Miller Building on the UVM Medical Center campus and is well down the path of planning an expanded inpatient psychiatric unit on the CVMC campus. The UVM Health Network Medical Group is optimizing the way it delivers care across the Network, with the goal of providing high quality care as close to patients' homes as possible. All of the Network's six hospitals are integrating their core operations in order to realize the savings that a true health system can provide.

As the UVM Health Network forecasted in its prior budget-related filings, it faced tighter margins in FY 2018 than it has in recent years. On a consolidated basis, the Network's Vermont hospitals realized a 2.5% margin from operations in FY 2018. It is that margin that allows the Network to maintain its high credit ratings, decrease its borrowing costs, and invest in enhancing the care it provides. As a result, all of the Network's hospitals are focused on taking the actions necessary to maintain their financial health, and thereby support investments in improving the health of Vermonters, in the coming years.

Moving forward, the UVM Health Network will continue to treat the APM as its "true north," knowing that it remains the key to improving patients' health, sustaining the hospitals' financial health, and controlling the cost of care.

THE University of Vermont HEALTH NETWORK

UVM Medical Center

NPR	Total	% over/under
FY 2018 Approved Budget	$ 1,209,654,762	
Rebasing	$ 42,642,259	3.5%
Utilization	$ 26,786,805	2.2%
Reimbursement/Payer Mix	$ (20,364,176)	-1.7%
Bad Debt/Free Care	$ (3,975,141)	-0.3%
Physician Acq/Trans	$ -	0.0%
Pharmacy	$ -	0.0%
Changes in Accounting	$ -	0.0%
Changes in DSH	$ (708,000)	-0.1%
Other (please label)		
FY 2018 Actual Results	$ 1,254,036,509	3.7%

Summary of Patient Revenue (NPR+FPP) Change from FY2018 Budget to FY2018 Actual

Hospital	FY2018 Budget Approved NPR (with rebase)*	FY2018 Actual	Difference	
UVMMC	$ 1,252,297,020	$ 1,254,036,509	$ 1,739,489	0.14%

*Green Mountain Care Board Meeting 9/12/2018, GMCB Hospital Budget Team Upadate 9/18/2018

<u>NPR, FPP & Health Reform Payments</u>
$ Variance: $1,739,489
% Variance: 0.14%

At the UVM Medical Center, patient revenue was almost exactly in line with the rebased budget. Some of the Medical Center's volume metrics were above budget, some were below, but none of the variances were significant. The Medical Center's inpatient census was high for a large portion of the year. An unbudgeted outpatient Medicare rate cut was offset by a higher than budgeted CMI and slightly positive performance in the ACO programs.

<u>Other Operating Revenue</u>
$ Variance: $3,555,663
% Variance: 3.36%

Other operating revenue was higher than budgeted, largely due to 340B specialty and contract pharmacy volume.

Expenses	Amount	% over/under
FY 2018 Approved Budget	$ 1,265,182,817	
Salaries	$ 14,985,279	1.2%
Fringe Benefits	$ 4,235,455	0.3%
Physician	$ 7,510,734	0.6%
Contract Staffing	$ -	0.0%
Supplies	$ 5,210,255	0.4%
Drugs	$ 12,289,348	1.0%
Facilities	$ (579,886)	0.0%
IT Related	$ 1,070,373	0.1%
Depreciation	$ (3,048,820)	-0.2%
Interest	$ (3,333,295)	-0.3%
Health Care Provider Tax	$ 822,588	0.1%
Purchased Services	$ 15,719,109	1.2%
Other	$ (2,674,642)	-0.2%
FY 2018 Actual Results	$ 1,317,389,315	4.1%

Staff Salaries
$ Variance: ($14,985,279)
% Variance: (3.51%)

The Medical Center’s high inpatient census and above budget CMI drove a higher number of nursing FTEs. The unbudgeted contingent staffing cost for the nurses’ strike also impacted this variance.

Physician Salaries
$ Variance: ($7,510,734)
% Variance: (4.74%)

The Medical Group’s adjustable portion of physicians’ salaries was higher than budgeted.

Fringe Benefits
$ Variance: ($4,235,456)
% Variance: (2.91%)

Higher claims experience in the Medical Center’s self-funded plan resulted in a modest negative variance.

All Other Operating Expenses
$ Variance: ($25,475,029)
% Variance: (4.76%)

Higher than budgeted medical surgical supplies, inpatient pharmaceuticals, outpatient 340B drugs (driven by higher volume from other operating revenue above), and unbudgeted consulting engagements drove a variance in other operating expenses.

Net Operating Margin
$ Variance: ($4,269,088)
% Variance: (0.4%)

In FY 2018, the UVM Medical Center had an operating margin of 3.4%, which was .4% lower than expected after all of the operating revenue and expense variances were taken into account.

Non-Operating Revenue
$ Variance: $7,164,038
% Variance: 39.82%

Non-operating revenue was higher than budgeted due to the market performance on investments.

Total Margin
$ Variance: $2,894,950
% Variance: 0.00%

When the operating and non-operating margins are considered together, the strong market performance offset the small operating margin variance to place total margin on budget for the fiscal year.

Health Care Reform Investments

In FY 2019, the UVM Medical Center continued to make health care reform investments at or above the level included in its approved budget.

Central Vermont Medical Center

NPR	Total	% over/under
FY 2018 Approved Budget	$ 198,452,560	
Utilization	$ 4,167,040	2.1%
Reimbursement/Payer Mix	$ (9,262,566)	-4.7%
Bad Debt/Free Care	$ 387,164	0.2%
Physician Acq/Trans	$ -	0.0%
Pharmacy	$ -	0.0%
Changes in Accounting	$ 841,937	0.4%
Changes in DSH	$ -	0.0%
Other (please label)		0.0%
Other (please label)		
FY 2018 Actual Results	$ 194,586,135	-1.9%

Summary of Patient Revenue (NPR+FPP) Change from FY2018 Budget to FY2018 Actual

Hospital	FY2018 Budget Approved NPR (with rebase)*	FY2018 Actual	Difference	
CVMC (FY2018 Budget not rebased)	$ 198,452,560	194,586,135	$ (3,866,425)	-1.95%

*Green Mountain Care Board Meeting 9/12/2018, GMCB Hospital Budget Team Upadate 9/18/2018

<u>NPR, FPP & Health Reform Payments</u>
$ Variance: ($3,866,425)
% Variance: (1.95%)

In FY 2018, inpatient activity was down. However, there was a counterbalancing increase in outpatient activity. There was a significant difference in reimbursement/payer mix this year. While some of this variance is attributed to an unfavorable payer mix shift, much of it is due to lower than budgeted collection rates and a reserve adjustment in Medicare of $3M, which constitutes CVMC's best reserve estimate in this first year of the Medicare APM program. CVMC also made a favorable, purely technical accounting adjustment to reflect its decision to move collection agency expenses from a revenue deduction to an operating expense.

Expenses	Amount	% over/under
FY 2018 Approved Budget	$ 208,298,707	
Salaries	$ 1,065,704	0.5%
Fringe Benefits	$ (746,102)	-0.4%
Physician Contracts	$ 1,133,264	0.5%
Contract Staffing	$ -	0.0%
Supplies	$ 359,892	0.2%
Drugs	$ 3,361,281	1.6%
Facilities	$ (281,557)	-0.1%
IT Related	$ (554,551)	-0.3%
Depreciation	$ (125,219)	-0.1%
Interest	$ (9,862)	0.0%
Health Care Provider Tax	$ (152,675)	-0.1%
Purchased Services	$ 2,250,164	1.1%
Changes in Accounting	$ 841,937	0.4%
Other	$ 592,948	0.3%
FY 2018 Actual Results	$ 216,033,931	3.7%

Staff Salaries
$ Variance: ($1,065,704)
% Variance: (.5%)

CVMC's staff salaries were over budget by $1.1M or 1.31%, almost solely at Woodridge Nursing Home, which experienced staffing shortages and relied more heavily upon travelers as a result.

Physician Salaries
$ Variance: ($1,133,264)
% Variance: (.5%)

Physician salaries were over budget by $1.1M or 4.24% due to some changes in staffing and retirement plans and the addition of a Woodridge Medical Director.

Drugs
$ Variance: ($3,361,281)
% Variance: (1.6%)

Drug costs were over budget due to higher utilization and service mix changes, as well as higher market costs and industry-wide drug shortages.

Purchased Services
$ Variance: ($2,250,164)

% Variance: (1.1%)

Consulting services were over budget. CVMC undertook three major initiatives in FY 2018, each of which relied upon outside consulting expertise. One initiative addressed revenue cycle improvements to reduce denials; one examined Medical Group operational improvements; a third sought to increase productivity and reduce overall costs. CVMC also had higher than budgeted reference lab costs and anesthesia services.

Net Operating Margin
$ Variance: ($11,642,345)
% Variance: (5.6%)

In FY 2018, CVMC had an actual net operating loss of (3.8%), compared to a budgeted operating margin of 1.8%, which was (5.6%) lower than expected due to the factors outlined above.

Non-Operating Revenue
$ Variance: $7,886,569
% Variance: 421.5%

CVMC pooled its endowment funds with the UVM Health Network, and as a result recorded the change in the investment activity, which was favorable due to market performance.

Total Margin
$ Variance: ($3,755,777)
% Variance: (1.8%)

The strong market performance of CMVC's investments reduced the operating margin negative variance.

Health Care Reform Investments

Central Vermont Medical Center's FY 2018 budget included incremental investments in health reform totaling $1.3 million. Those investments fall primarily into the "system of care" or "shifting expenditures away from acute care" investment categories, and included:

Woodridge Nursing Home*:* CVMC has invested in staff, training, and updates to our skilled nursing facility in order to meet the goal of moving patients out of acute care and into a lower-cost setting more efficiently. Because there has been a shift away from post-surgical patients needing skilled nursing care, our focus has been on realigning the facility to accept higher-acuity medical patients appropriate for this level of care. We admit patients from multiple hospitals, including CVMC, Gifford, Copley, UVM Medical Center, and Dartmouth-Hitchcock Medical Center.

Increased access to primary care and outpatient psychiatry*:* We have added three physicians (two primary care and one psychiatrist). While this will increase NPR, there is still a loss as those revenues will not cover the expenses associated with the new physicians.

APM support*:* We have added resources for enhancing care coordination in the CVMC medical group. This strategy is intended to support the move to population health under the APM and to connect patients with community resources or health resources more appropriately.

Porter Hospital

NPR	Total	% over/under
FY 2018 Approved Budget	$ 78,348,499	
Rebasing	$ 2,513,628	3.2%
Utilization	$ 668,387	0.9%
Reimbursement/Payer Mix	$ (842,757)	-1.1%
Bad Debt/Free Care	$ (266,681)	-0.3%
Physician Acq/Trans	$ -	0.0%
Pharmacy	$ -	0.0%
Changes in Accounting	$ -	0.0%
Changes in DSH	$ (74,676)	-0.1%
Other (please label)		
Other (please label)		
FY 2018 Actual Results	$ 80,346,401	2.6%

Summary of Patient Revenue (NPR+FPP) Change from FY2018 Budget to FY2018 Actual

Hospital	FY2018 Budget Approved NPR (with rebase)*	FY2018 Actual	Difference	
Porter Hospital	$ 80,862,127	80,346,403	$ (515,724)	-0.64%

*Green Mountain Care Board Meeting 9/12/2018, GMCB Hospital Budget Team Upadate 9/18/2018

<u>NPR, FPP & Health Reform Payments</u>
$ Variance: ($515,724)
% Variance: (0.64%)

Porter Hospital's Net Revenue as compared to the FY 2018 approved NPR with rebase was unfavorable by 0.64%. This decrease was primarily driven by a decline in inpatient volume, as total admissions were below budgeted expectations by 4%.

Other Operating Revenue
$ Variance: ($131,806)
% Variance: (5.2%)

Other Operating Revenue performed below budgeted expectations. This is a result of an operational decision to consolidate our practice billing under one National Provider Identifier (NPI), thus reducing the capitated payments received from Medicaid and Blue Cross.

Expenses	**Amount**	**% over/under**
FY 2018 Approved Budget	$ 81,062,878	
Salaries	$ (389,712)	-0.5%
Fringe Benefits	$ 275,558	0.3%
Physician Contracts	$ 1,204,817	1.5%
Contract Staffing	$ -	0.0%
Supplies	$ (216,212)	-0.3%
Drugs	$ 150,279	0.2%
Facilities	$ -	0.0%
IT Related	$ (222,649)	-0.3%
Depreciation	$ (305,078)	-0.4%
Interest	$ 450	0.0%
Health Care Provider Tax	$ (17,023)	0.0%
Purchased Services	$ (234,403)	-0.3%
Other (please label)	$ (75,583)	-0.1%
FY 2018 Actual Results	$ 81,233,322	0.2%

Salaries & Fringe Benefits
$ Variance: $1,090,663
% Variance: 2.3%

Total expenses closely aligned with budgeted expectations. The unfavorable salary expense variance of $1.1M was driven by the heavy reliance on temporary labor, which continues to be an area of focus for the organization. A new nurse-staffing model was implemented at the beginning of FY 2018; however, due to recruitment and orientation requirements, it has taken longer than anticipated to get the program underway. When compared to prior year experience, temporary labor expense decreased by 32%.

Depreciation
$ Variance: ($305,078)
% Variance: 9.6%

Depreciation expense was favorable to budget by 9.6%, due to realized savings for equipment purchases that were negotiated under Network pricing. Additionally, there were selected capital items that were deferred as a result of infrastructure constraints.

All Other Operating Expenses
$ Variance: ($598,568)
% Variance: 2.4%

Insurance expense was favorable to budget by 25%. In addition, purchased services/consulting resulted in a savings of 3.3% due to project schedules occurring later in the fiscal year than originally anticipated.

Net Operating Margin
$ Variance: ($817,976)
% Variance: (1.0%)

Operating margin performance was unfavorable to budgeted expectations. When factoring in the FY 2018 approved NPR with rebase, patient volume performed below expectation. This gap, combined with the higher than anticipated temporary labor expense, resulted in a 1.0% variance.

Non-Operating Revenue
$ Variance: $834,064
% Variance: 28.4%

Non-operating revenue exceeded budgeted expectations due to favorable investment performance and favorable 340B pharmacy volume.

Total Margin
$ Variance: $16,088
% Variance: 0.3%

Total margin was relatively flat to budget (when factoring in the FY 2018 approved NPR with rebase).

Health Care Reform Investments

FY 2018 ACO Risk Reserve

The amount reserved for ACO risk was reduced for FY 2018 to appropriately adjust for lower attribution levels than initially provided during the budget process and to account for the postponed participation of Blue Cross in the FPP portion of the program.

Recognizing this reserve allows Porter to manage its business under the new payment methodology where the hospital bears the risk and is the initial source of investment for the APM. Acknowledging the volatile nature of the risk program is necessary because it allows us to continue to serve our patient population and achieve our mission to improve the health of our community and accomplish the goals of the APM.