QUESTIONS:

1. **Have the hospital's projections for FY2018 changed?**

   Answer: CVMC is revising its FY2018 projections to be $2M less in Gross Revenue, $1M less in Net Patient Service Revenue and $1M higher in Expenses which will result in a $798K Operating Margin. This is our best estimate using the results from the June financial close and projecting forward for the remaining 3 months of the fiscal year. The main contributors to these changes are declining volumes in the inpatient units and unfavorable payer mix shifts in the last quarter (April-June). Please see table for revised projections.

2. **Please provide more specificity about what is included in Non-Operating Revenue for FY2017 Actuals, FY2018 Budget and Projections, and FY2019 Budget, and explain the variation between Budget and Actuals/Projections, and from year to year.**

   Answer: The non-operating revenue includes investment income and losses including CVMC's endowment, non-operating rental and leases, unrealized gains and losses including changes in pension liability. This line item is tied to current market rate fluctuations, which are market driven and out of management control, making it difficult to accurately project and budget.
   In 2017, $11M of the $17M recorded was for a retiree annuity lump sum offering in the pension plan which reduced pension liability. Approximately $4.5 Million was related to endowment fund changes.

3. **Please explain factors in the increases in Bad Debt and Free Care in the FY2019 Budget (including policy changes if any), given the declines in Bad Debt and Free Care from FY2018 Budget to Projections.**

   Answer: Bad debt and free care are write-offs for payments primarily related to uncollectable individual patient obligation payments for services provided based upon agreed to fee schedules with the insurers and/or individual patients. Patient obligation payments for co-pays and patient deductibles vary greatly from plan to plan, even within plans certain types of services may have different patient obligation payment structures.

   Bad Debt and Free Care %s are calculated as a percentage of Total Gross Revenues. Those %s are a reflection of actual past experiences which are modeled forward on current gross revenues to establish reserves to estimated uncollectable patient obligation payments related to bad debt and free care which are not known at the time of service. There is a lag time between the date of service and the time hospitals actually know when anticipated patient payments will fall to bad debt or free care. Bad debt and free care %s are merely a reflection of past actual experiences and trends. It is very difficult to forecast changes which may impact the actual trends in the future until they are experienced. Types of shifts which may influence changes in bad debt and free care trends are large movements of non-insured patient populations to insured and vice versa. High deductible plans also have a direct effect on bad debt and charity; if the high deductible plans are increasing or if the deductible amounts of current plans increase this will have a direct impact on bad debt and charity %s. The change to the individual insurance mandate penalty will most likely have an effect on bad debt and free care %s, but we do not yet have sufficient information to model this with confidence

There has been no recent changes to bad debt write-offs or free care qualification policies.

There are no changes to FY2018 projections.

4. Please provide more specificity about what is included in Other Operating Expense for FY2017 Actuals, FY2018 Budget and Projections, and FY2019 Budget, and explain the variation from year to year.

Answer:

Central Vermont Medical Center	FY17 Actual	FY18 Budget	FY18 Projected	FY19 Budget
Other Operating Expense				
Medical & Surgical Supplies	9,615,365	9,293,001	10,242,588	10,411,521
Pharmaceuticals	12,593,549	11,250,406	13,964,741	14,348,058
Nutrition Supplies	1,686,761	1,727,153	1,682,151	1,750,117
Other Supplies	1,050,126	1,218,350	1,031,034	1,213,239
Purchased Services	7,960,033	7,247,338	10,560,626	8,261,652
Maintenance and Repairs	4,664,600	5,583,716	5,142,771	6,036,123
Lease and Rental	2,680,524	2,658,117	2,666,333	2,527,088
Utilities	2,811,924	2,913,485	2,810,278	2,921,866
Other Expenses	4,838,304	6,202,207	5,073,773	7,575,505
Insurance	787,754	685,736	698,171	706,097
Shared Services	552,500	1,149,781	1,553,130	1,813,270
Total Other Operating Expense	**49,241,440**	**49,929,290**	**55,425,594**	**57,564,537**

The Other Operating Expense category consists of medical supplies, drug supplies, nutrition supplies, miscellaneous supplies, purchased services (which includes service contracts, ACO expense, legal fees, consulting), maintenance and repairs, lease and rental, utilities, insurance, shared service expense, and management fees.

FY2017 Actuals vs. FY2018 Budget
The increase in the total operating expense grew less than inflation, at 1.4%

FY2018 Projections vs. FY2018 Budget
The FY2018 Projection as it compares to the FY2018 Budget equates to an increase of $5.5M. Medical, Surgical, and Pharmaceuticals increases of $3.6M are related to higher volumes, case mix, and higher cost drugs. $2M is driven by the accounting change for OneCare participation fees.

FY2018 Budget vs. FY2019 Budget
The FY2018 Budget as it compares to FY2019 Budget equates to an increase of $7.6M. Medical, Surgical, and Pharmaceuticals increases of $4.2M are related to higher volumes, case mix, and

higher cost drugs. $2.7M is driven by the accounting change for OneCare participation fees. The remaining $700K is due to increases in our UVMHN shared services.

FY19 Budget vs. FY18 Projected
The FY2019 Budget is $2.1M over the FY18 Projected, which is a 3.8% increase and represents inflationary and utilization increases as well as increases in the ACO expense and the shared services.

5. Please explain the large changes from FY2017 Actuals to FY2018 Projections to FY2019 Budget in Physician Work RVU and Physician Visits.

Answer: In previous years' submissions, CVMC submitted only Physician visits as its main metric for the Medical Group Practices. We are now submitting both Physician work RVUs and Physician visits. There was an error in the adaptive insights projection, which caused the work RVU and the office visits to be combined. See below for the corrected figures, as well as values that hadn't previously been part of the submission for CVMC. Of the 16,497 increase in RVUs from Projected to Budget, more than half are due to our investments in Family Medicine and primary care. The increase in RVUs is mainly a function of the number of providers, including both MLPs and Physicians. Looking at the work RVUs per provider FTE, the numbers are relatively consistent and actually show a slight decrease year over year. The office visits for FY2019 budget submission are currently overstated, we will work with GMCB staff to determine how best to update in adaptive. The revenue is budgeted off of the work RVU and not the office visits.

UTILIZATION & STAFFING	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2018 B-2018 P	2018 B-2019 B	2018 P-2019 B
Provider Work RVU	263,832	310,740	320,152	328,769	333,632	350,129	1.5%	6.5%	4.9%
Physician Office Visits	192,997	216,786	221,921	242,332	234,046	284,937	-3.4%	17.6%	21.7%
work RVU per visit	1.37	1.43	1.44	1.36	1.43	1.23	5.1%	-9.4%	-13.8%
work RVU per Provider FTE	3,239	2,441	2,519	2,635	2,511	2,464	-4.7%	-6.5%	-1.8%

6**. The narrative indicates that 8 CVMC FTEs were included in the UVMMC budget for FY2018; they are now included in the CVMC budget for FY 2019. What are the additional areas of FTE growth between FY2017 Actuals, FY2018 Projections, and FY2019 Budget?**

Answer: The additional areas of FTE growth are listed below

Medical Group	31.1
Nursing	7.6
Woodridge	5.5
Revenue Cycle	8.3
Quality	1.0
Nutrition Food Staff	2.7
Pharmacy	2.5
Staffing Initiatives	(2.9)

7. Why are Salary & Benefits per FTE in FY2019 Budget less than in FY2017 Actuals? Are these changes related to the operational efficiencies mentioned in the narrative, and/or other factors?

Answer: The main driver of the Salary and Benefit per FTE change from FY2017 actuals is the benefit cost component. CVMC has been able to lower our overall benefit expense per FTE in part due to being self insured, an active wellness component, changes in benefit plan structure and pension de-risking activities which included a one time retiree lump sum annuity purchase.

8. Please explain in more detail what IT Investments encompass and why they should be considered a Health Reform Investment.

Answer: When Epic is implemented, allowing for one medical record across the network, there will be vast improvements in the continuum of care. As described more fullin in UVMMC's submission of this same date, the Epic implementation is crucial to the UVMHN's population health management efforts. When Epic is implemented CVMC's current EMR, Meditech will be replaced which will eliminate the general ledger, accounts payable, payroll and accounting platform. Epic does not offer these systems as part of its IT platform, therefore prior to the Epic implementation CVMC needs to adopt 2 new systems, Premier Connect and Workday. Because Epic is the driver of these changes, these systems should also be considered Health Reform related. In addition to these new systems, we are backfilling our IT staff in order to keep our current systems running and supported while a significant number of our employees have been reassigned to Epic duties.

9. Please complete the ACO table.

Answer:

	2018 Budget ($)	Adaptive Account Name	2018 Projection ($)	Adaptive Account Name	2019 Budget ($)	Adaptive Account Name
Gross Home Hospital Spend for OCV Lives*	43,111,883	Fixed Prospective Payments	32,531,052	Fixed Prospective Payments	$ 48,962,113	Fixed Prospective Payments
Gross Value Based Incentive Payments*	707,220	Other Reform Payments	941,671	Other Reform Payments	1,871,986	Other Reform Payments
(Value Based Incentive Deduction)*	451,726	not reported netted in FP Payments		Other Operating Expense		Other Operating Expense
(Participation Deduction)*	2,303,273	not reported netted in FP Paym	2,000,000	Other Operating Expense	2,711,709	Other Operating Expense
Gross Revenue Entered into Adaptive**	109,375,281	Gross Revenue	62,536,615	Gross Revenue	110,855,005	Gross Revenue
Contractual Allowances Entered into Adaptive**	(109,375,281)	Allowances	(40,636,762)	Allowances	(109,572,055)	Allowances
ACO Risk Accounted for (if any)	-	Reserves - Risk Portion	-	Reserves - Risk Portion	-	Reserves - Risk Portion
Total ACO Risk***	3,495,808		3,677,562		3,677,562	
Attributed Lives (#)					14,713	

*Please indicate the Adaptive account used (Revenue accounts can be found on the 'Payer Revenue (Input)' tab on this spreadsheet). If anything is recorded in an expense account or on the balance sheet, please indicate where in Adaptive it is recorded.

**In order to account for the claims associated with OneCare attributed lives, many hospitals have included the total gross revenue related to the attributed lives by payer, then took a deduction through contractual allowances. If your hospital did this, please enter the dollar value and accounts used.

***Please list the risk amount regardless of whether you are recording anything.

Below is a table explaining the detailing the mechanics of the accounting change we thought might be useful, amounts in the table are based the FY2019 budget submission highlighting the two different accounting methods for booking the participation fees.

Under the current agreement with the ACO, there is not a distinction between the Value Based Incentive Deduction and the Participation Deduction; these two amounts are combined. For this reason, our auditing firm, PwC, is unable to clearly identify an expense for administrative/participation fees from true deductions for the value based incentives. Without that distinction, we are not able to classify the administrative fee as an expense separately from the value based incentive, which should be recognized as a deduction from the fixed prospective payment. Please refer to the table below for further clarification.

CVMC	Before Accounting Change	After Accounting Change
Total FY FPP for OCV Lives	48,962,113	48,962,113
Total FY Other Reform Pmts	1,871,986	1,871,986
Total FY Risk Reserve	-	-
Fixed Perspective Payment	**50,834,099**	**50,834,099**
Participation Deductions	(2,711,709)	-
Net FPP	**48,122,390**	**50,834,099**
Participation Fee as an Expense on P&L	-	2,711,709
Total ***(Net FPP less Expense)***	**48,122,390**	**48,122,390**