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GMCB
FY 2017 Actual
February 28, 2018

THE
University of Vermont
HEALTH NETWORK

Agenda

- Porter Hospital Recommendation
- CVMC Recommendation
- UVMHC
 - Review How We Develop Our Budget
 - Review Demographic Factors Driving Increased Utilization
 - Review How Those Factors Impact:
 - The Vermont Hospital System
 - Our Budget
 - Our Actual-to-Actual Revenue Trends
 - Recommendations on How to Address FY 2017 Unbudgeted Revenue

Porter Hospital

- Porter Hospital affiliated with the University of Vermont Health Network on April 1, 2017
- Historical Actual vs. Budget Performance:

Porter Hospital Actual to Budget NPSR Performance							
<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
-6.0%	-3.9%	-0.9%	-5.1%	-4.4%	-2.9%	-0.7%	2.8%

- FY 2017 1st time over GMCB Revenue Cap in 8 Yrs
- 2018 participation in APM/OCV: Medicare, VT Medicaid, & Commercial Exchange
- For the FY 2019 Budget, Porter is committed to limiting its proposed Vermont commercial rate increase within medical inflation

Central Vermont Medical Center

- FY 2017 Actual
 - NPR & FPP over allowable by \$2.4M
 - Actual operating loss of \$(1.9)M
 - Budgeted margin of \$3.7M, an unfavorable difference of \$(5.6)M
- New President and COO - May 2017
- Actively engaged in turnaround efforts
- 2018 participation in APM/OCV: Medicare, VT Medicaid, & Commercial Exchange
- For the FY 2019 Budget, CVMC is committed to limiting its proposed Vermont commercial rate increase within medical inflation

GMCB Summary FY 2017

Analysis of Enforcement Policy Trigger FY 2017 Actuals

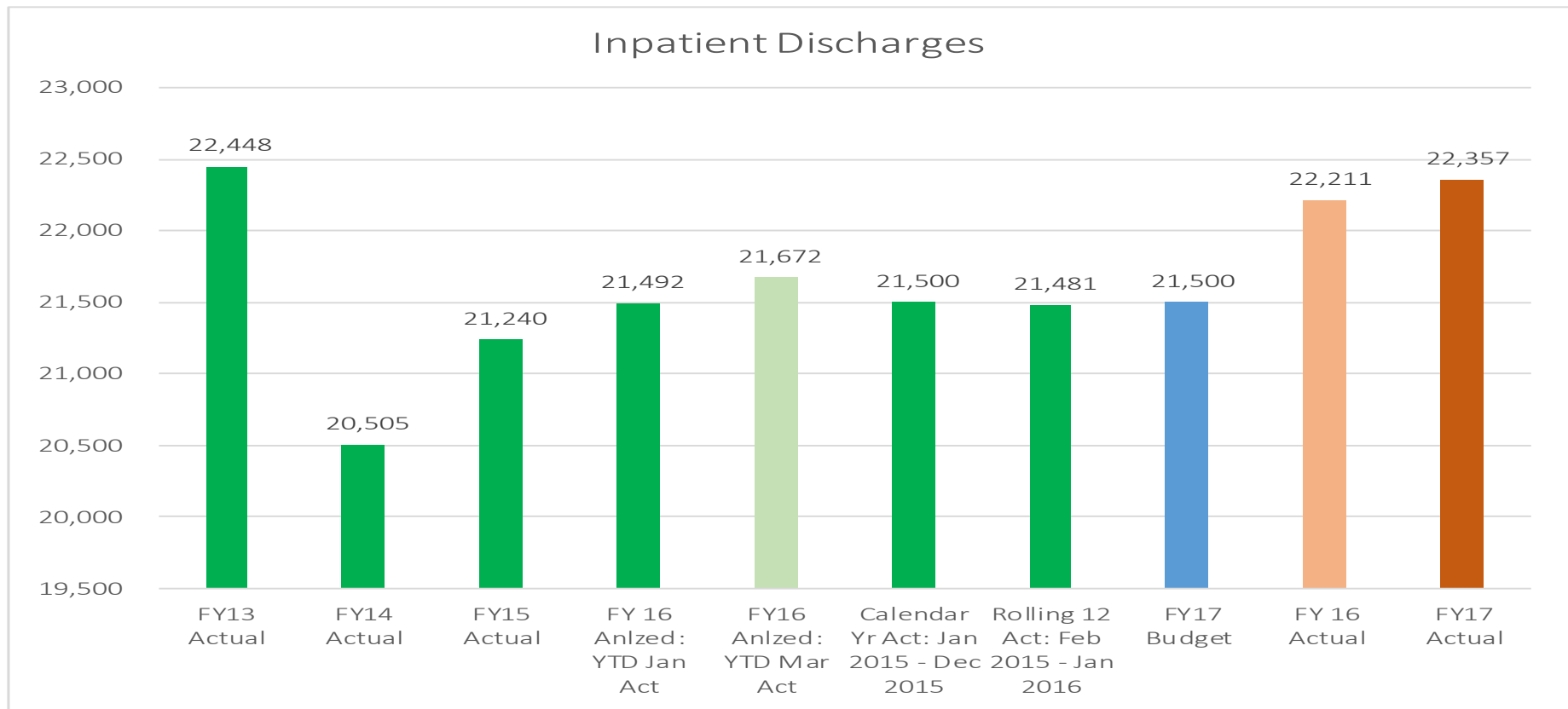
Vermont Community Hospitals							
Net Patient Revenue & Fixed Prospective Payments	Budget 2017 Approved	FY 2017 Actuals	Amount Over/Under Budget	% Change Over/Under	Allowed 0.5% Variance per GMCB Policy	Amount Over/Under 0.5% Allowance	
Brattleboro Memorial Hospital	\$ 76,408,612	\$ 75,062,532	\$ (1,346,080)	-1.8%	\$ (382,043)	\$ (964,037)	
Central Vermont Medical Center	\$ 191,831,143	\$ 195,237,530	\$ 3,406,387	1.8%	\$ 959,156	\$ 2,447,231	
Copley Hospital	\$ 64,819,405	\$ 64,983,966	\$ 164,561	0.3%	\$ 324,097	ok	
Gifford Medical Center	\$ 57,762,429	\$ 54,307,372	\$ (3,455,056)	-6.0%	\$ (288,812)	\$ (3,166,244)	
Grace Cottage Hospital	\$ 19,205,503	\$ 16,955,398	\$ (2,250,105)	-11.7%	\$ (96,028)	\$ (2,154,077)	
Mt. Ascutney Hospital & Health Ctr	\$ 47,744,700	\$ 48,253,025	\$ 508,325	1.1%	\$ 238,724	\$ 269,601	
North Country Hospital	\$ 81,189,662	\$ 76,686,887	\$ (4,502,775)	-5.5%	\$ (405,948)	\$ (4,096,827)	
Northeastern VT Regional Hospital	\$ 77,069,500	\$ 76,794,700	\$ (274,800)	-0.4%	\$ (385,348)	ok	
Northwestern Medical Center	\$ 101,935,936	\$ 101,110,424	\$ (825,512)	-0.8%	\$ (509,680)	\$ (315,832)	
Porter Medical Center	\$ 76,094,921	\$ 78,203,218	\$ 2,108,297	2.8%	\$ 380,475	\$ 1,727,822	
Rutland Regional Medical Center	\$ 243,415,448	\$ 242,193,431	\$ (1,222,017)	-0.5%	\$ (1,217,077)	\$ (4,940)	
Southwestern VT Medical Center	\$ 152,362,260	\$ 152,602,902	\$ 240,642	0.2%	\$ 761,811	ok	
Springfield Hospital	\$ 59,147,241	\$ 51,999,349	\$ (7,147,892)	-12.1%	\$ (295,736)	\$ (6,852,156)	
The University of Vermont Medical Center	\$ 1,172,785,845	\$ 1,211,118,975	\$ 38,333,130	3.3%	\$ 5,863,929	\$ 32,469,201	
All Vermont Community Hospitals	\$ 2,421,772,605	\$ 2,445,509,709	\$ 23,737,104	1.0%	\$ 12,108,863	\$ 19,359,742	

How Does UVMHC Determine Its Volume Budget

- Budgets are built from the bottom up by each department, usually in the month of March
- Departments use YTD Actual October through January as the base period
- Adjustments are then made for known & anticipated changes and prior period actual comparisons
 - Lookbacks: prior years actual, YTD actual annualized, prior calendar year actual, and rolling 12 month actual
- Many levels of budget review happen between multiple tiers of leadership, April-May, before the budget is final in June
- Senior management performs a top down review for reasonableness and if necessary, changes are made
- UVMHC Board approves, UVMHCN Finance Committee approves, & UVMHCN Board approves

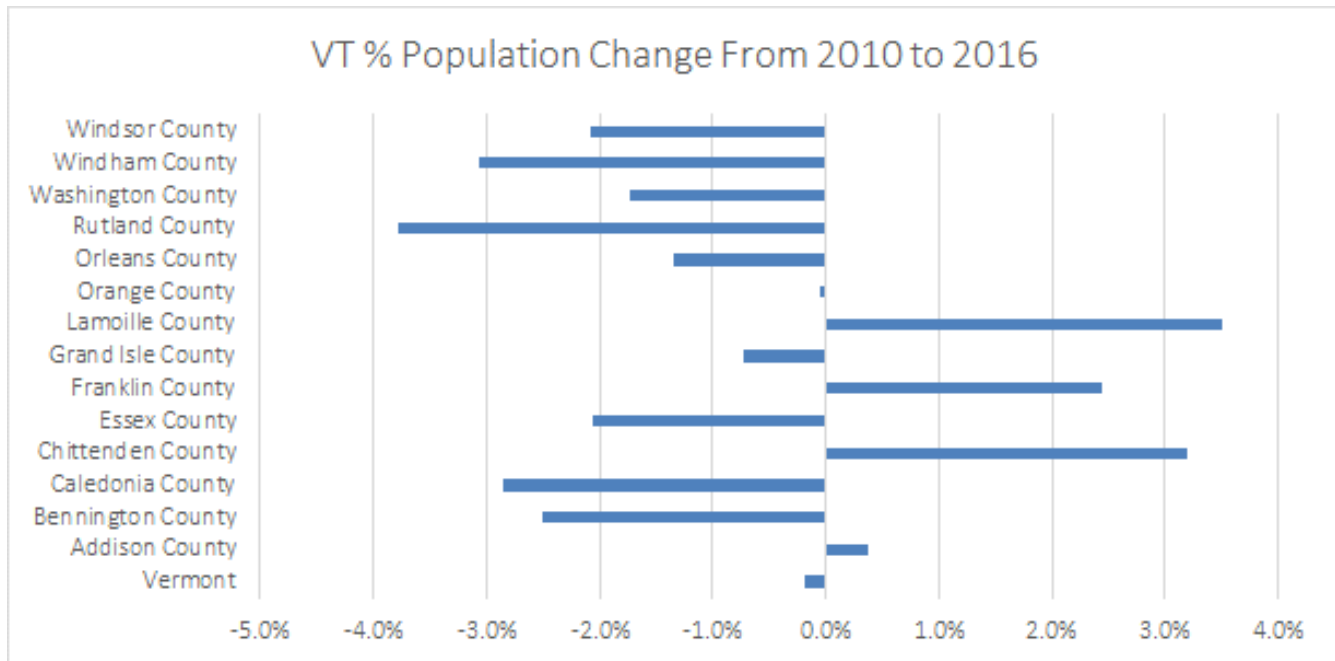
UVMMMC: Volume Chart – Inpatient Discharges

- FY17 budget target was reasonable based on information available at the time of budget development (information highlighted in green)
- Volume increase was related to end of year actual trend
- Same trend was evident in other major volume indicators



A Population Shift is Happening in VT

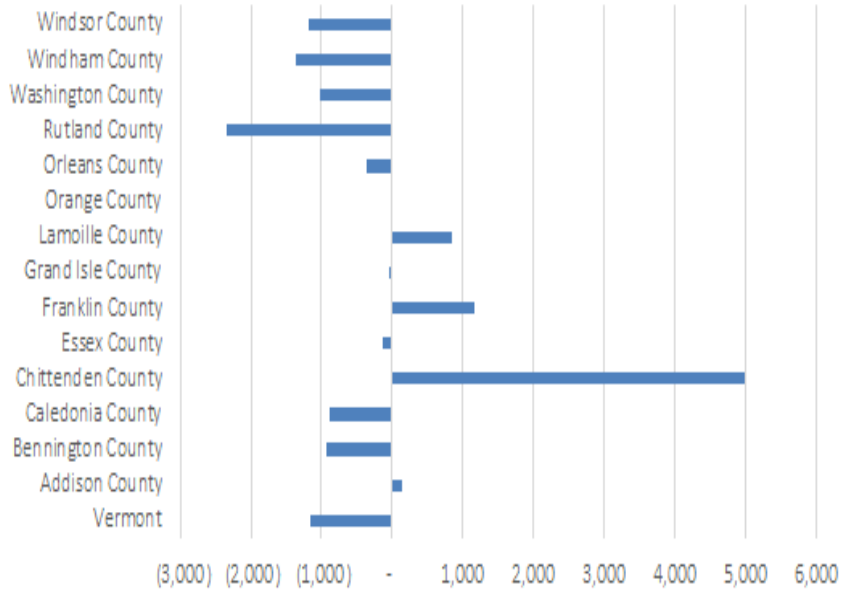
- VT Population shrank by (0.2)% from 2010 to 2016
- Population increased in only four counties from 2010 to 2016: Chittenden 3.2%, Franklin 2.4%, Lamoille 3.5%, & Addison 0.4%
- A real in-state population shift is occurring between counties and hospital services areas



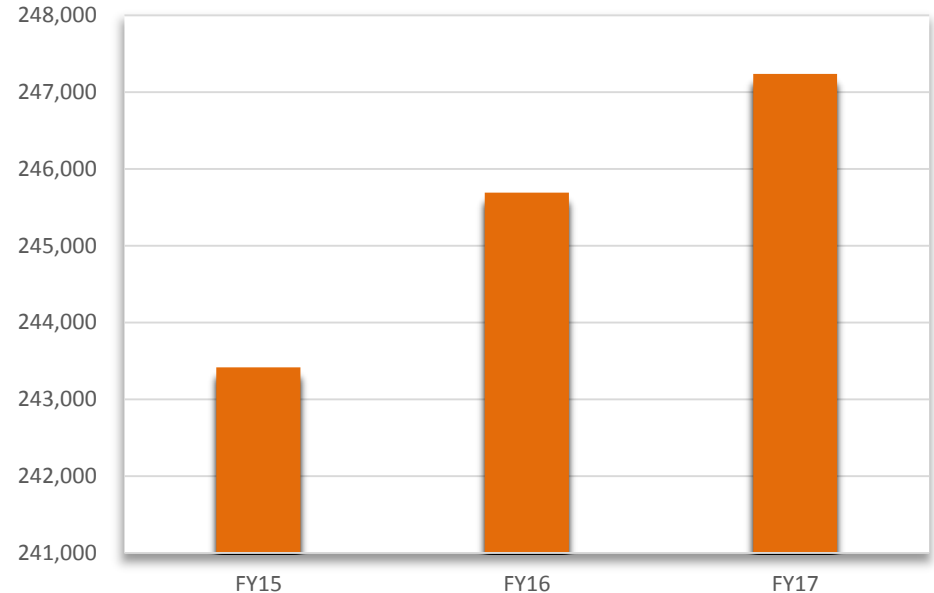
More Patients Seeking Treatment at UVMMMC

Consistent with this population shift, more patients are seeking care at UVMMMC

VT Population Change from 2010 to 2016



Unique Patients Treated at UVMMMC

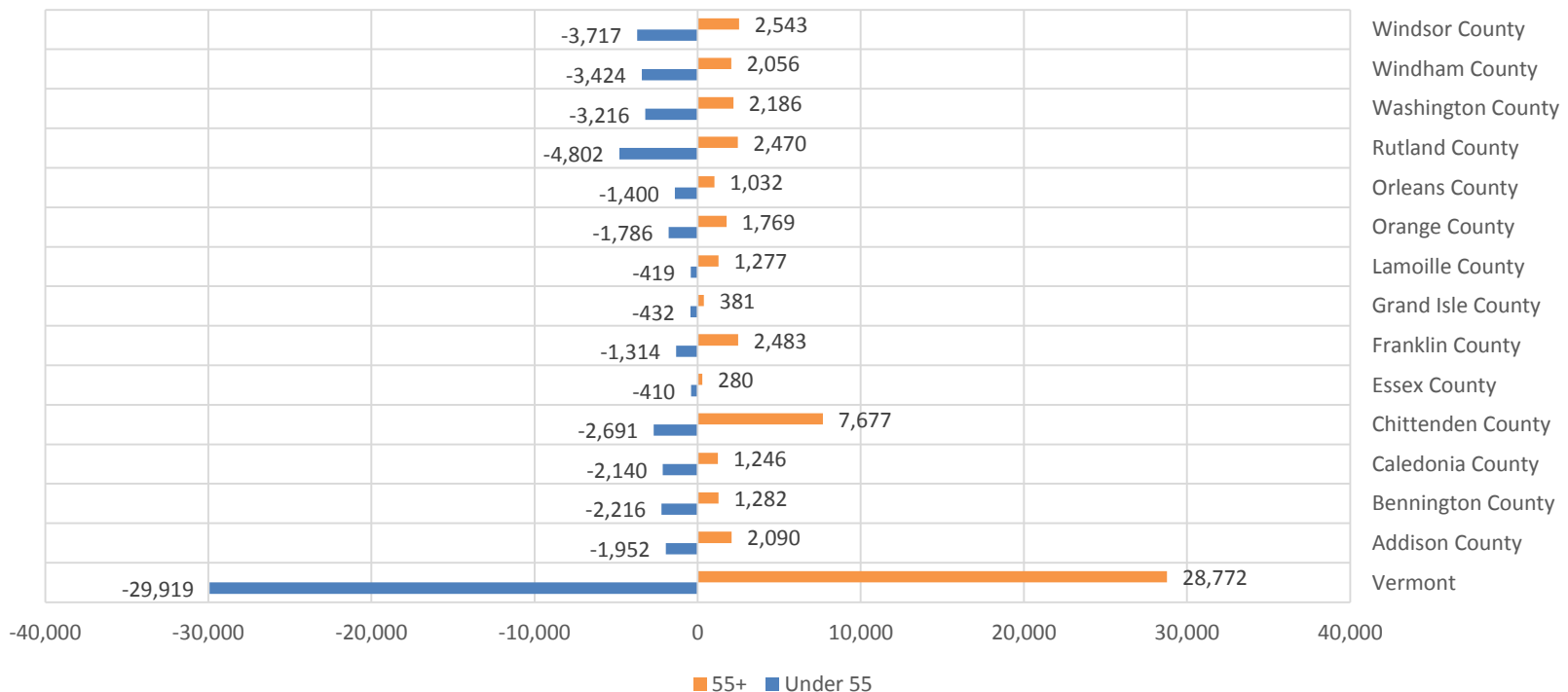


Material Growth in Population Age 55+

From 2010-16, Vermont gained 28,772 residents aged 55+ and lost 29,919 residents under 55

Every county experienced this shift to some degree

VT Population Age Shift 2010 to 2016: From <55 to 55+

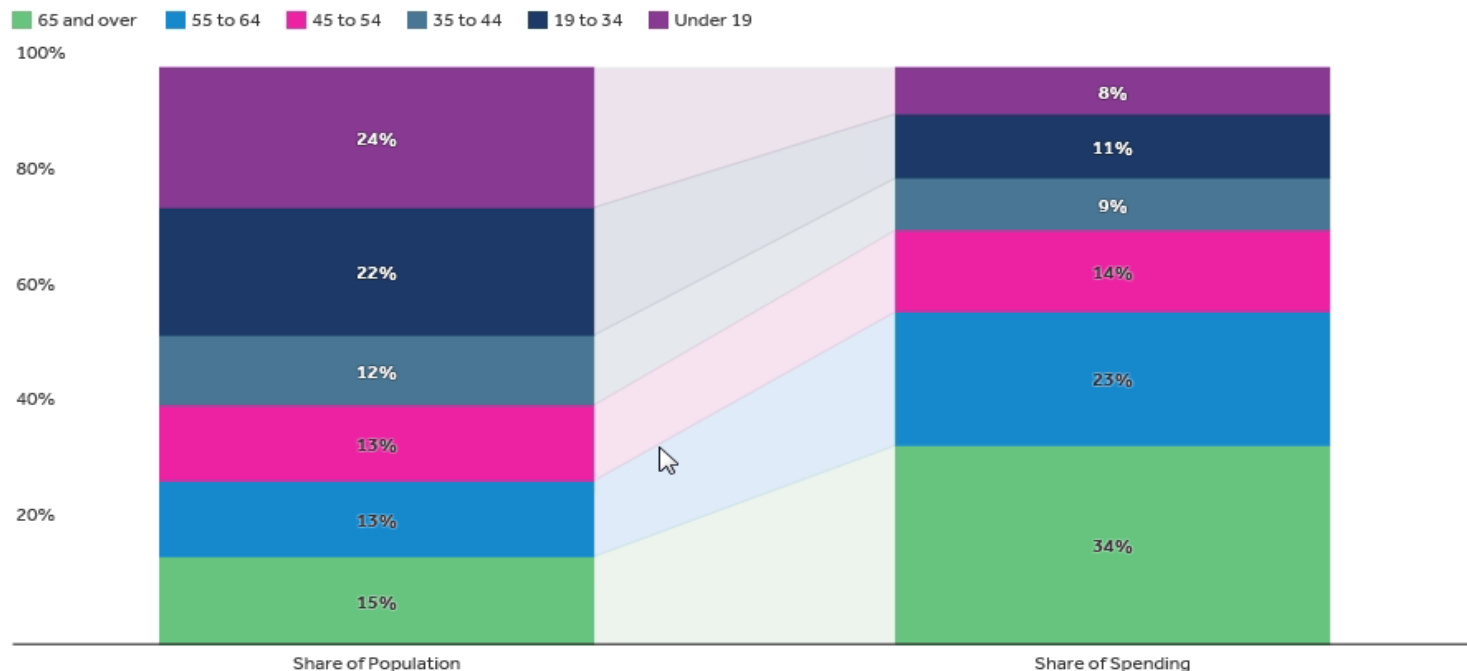


Population Age Group to % of Health Spend

- The 55+ age group accounts for 28% of population and 58% of total health care spend
- Cost is 3.4x higher for +55 age group than <55 age group
- Vermont is tied with Maine for the highest population percentage in the US in the 55+ category

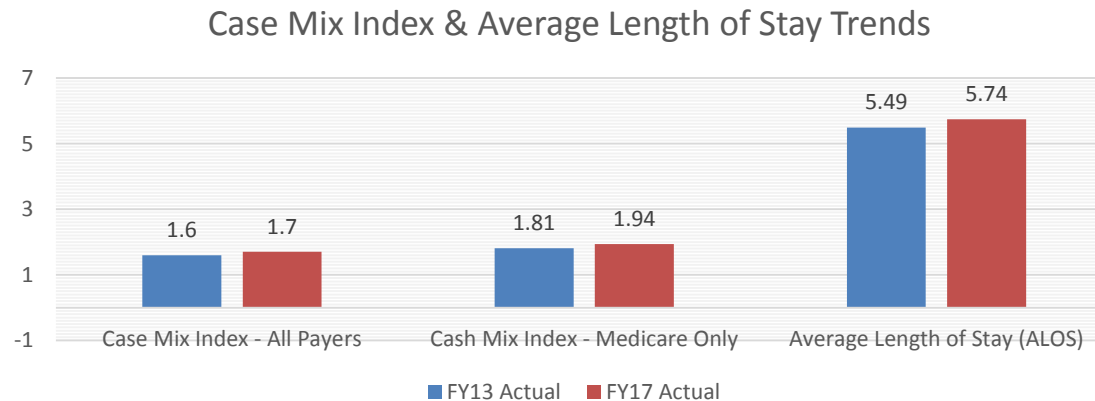
People age 55 and over account for over half of total health spending

Share of total health spending by age group, 2015; Share of population, 2015



Impact of VTs Aging Population on UVMMMC

- The increase in healthcare cost for treating the aging Vermont population has impacted Vermont's only academic medical center disproportionately
- In addition to being the State's largest community hospital, UVMMMC is the only in-state tertiary and quaternary referral hospital
 - Aging patients have more advanced and specialized treatment needs, and UVMMMC is the only Vermont hospital equipped to meet many of those needs



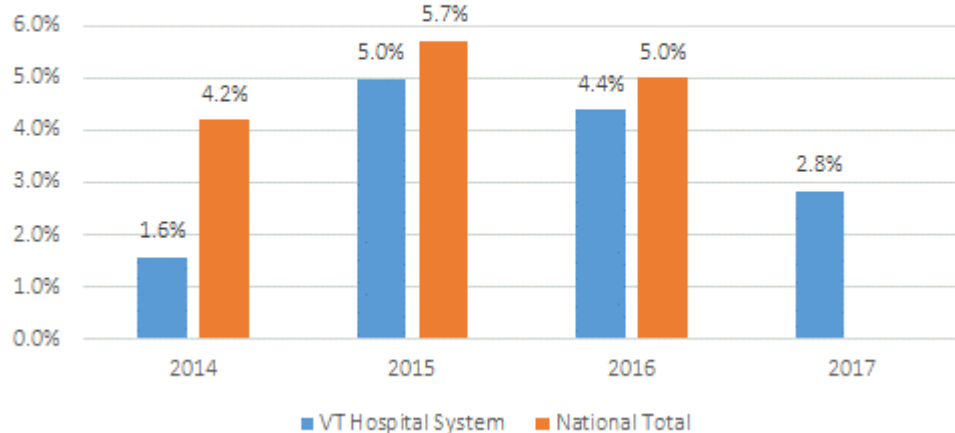
UVMMC: External Validation Of Value

- In the face of these trends, UVMMC continues to provide its patient population with high quality and efficient care
 - Vizient ranked UVMMC in top quartile in quality compared to AMC peers for seven years in a row.
 - Ranked # 2 in Supply Chain nationally based on cost reduction strategies
 - GMCB-commissioned Optumas study (February 2017):
 - Lower PMPM costs in Burlington HSA than most of state
 - Lowest PMPM spending by commercial payers in Burlington HSA
 - Lower PMPM inpatient spending in Burlington HSA than other HSAs
 - Commonwealth State Report Card on State Health System Performance
 - Vermont ranked #1 Overall 2017
 - #1 Access & Affordability, #1 Prevention & Treatment, #12 Avoidable Hospital Use & Cost, #5 Healthy Lives, & #2 Equity
 - Working with the GMCB, Vermont hospitals and UVMMC are effectively managing the cost of care, holding actual spend to below national averages

VT Hospitals Are Managing Costs

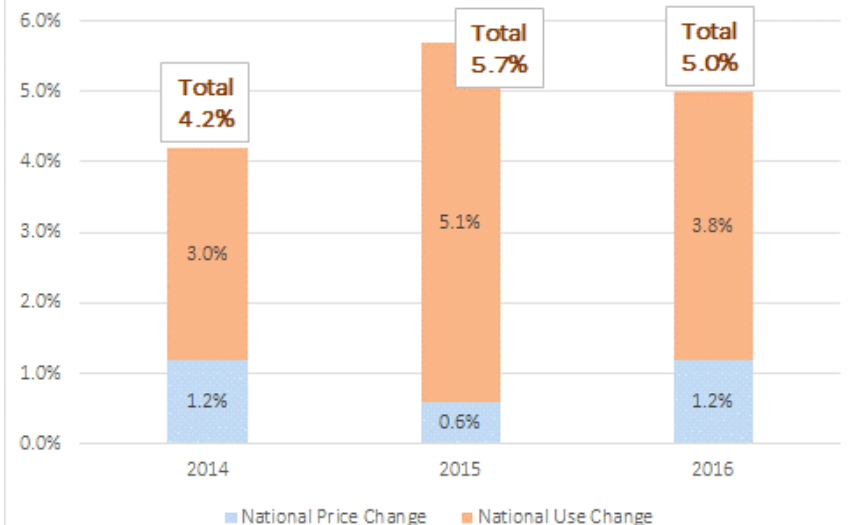
True Cost Changes are Calculated by Comparing Actual to Actual
(“not budget to budget” or “budget to actual”)

National Health Spend Compared to VT Hospitals
Actual Spend Growth

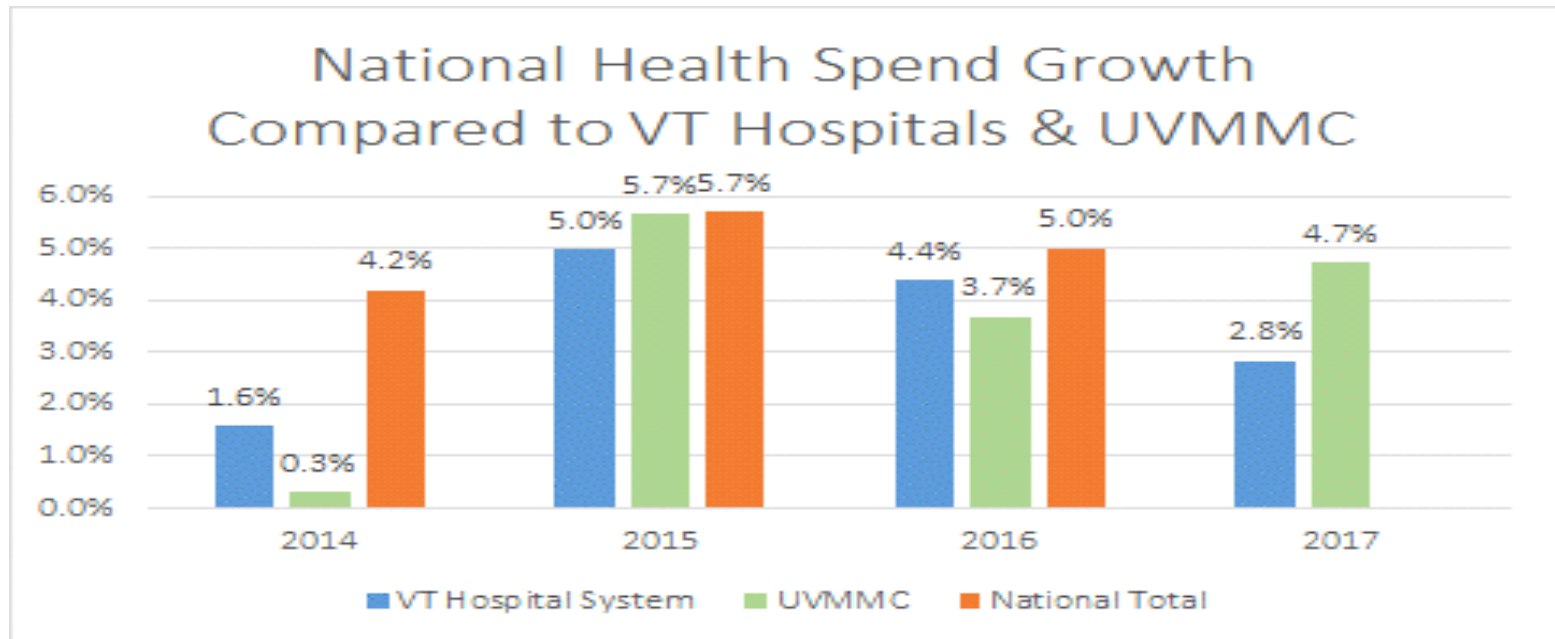


Volume Growth is helping keep price inflation down.....

National Health Spend: Use & Price



UVMMC Compared to VT Hospital Cost Trend



- UVMMC is below national growth rates
- In some years UVMMC is above the VT hospital growth rate; in others it is substantially below

UVMMC FY 2017 Actual-to-Budget Summary

NPR&FPP		Other Revenue		Expenses		Margin	
\$38.3M		\$10.5M		\$(28.2)M		\$20.6M	
26.0	Medicare	10.5	Primarily higher 340B contract pharmacy	(29.7)	Expense related to additional NPR (utilization=more patients treated)	2.1	Cost Saving Measures
(2.8)	VT Medicaid			(16.0)	Pension	9.4	Other Revenue related margin
8.0	Out of State Medicaid			17.5	All Other Expenses	(3.6)	One-Time Items
17.2	Major VT Commercial Payers					4.1	Depreciation under budget (non-cash impact)
(10.0)	Other Commercial/Self-Pay/Other					8.6	Higher NPR that flowed to margin

- Medicare & Out of State Medicaid accounted for 88.8% of the NPR difference
- NPR difference only related to \$8.6M bottom line impact
 - or 0.7% difference when compared to total actual NPR

GMCB: VT Hospital System FY17 NPR Difference by Payer

NPR&FPP	Other Revenue	Expenses	Margin
\$23.7M	\$16.5M	\$(41.8)M	\$(1.6M)
3.1 Commercial			
(14.3) Medicaid			
50.9 Medicare			
(15.9) Bad Debt/Free Care			

- VT Hospitals over NPR target by \$23.7M or 1%
- Medicare accounted for more than twice the difference: \$50M
- Virtually no commercial difference at system level
- NPR difference did not carry over to a bottom line margin improvement; in fact the VT hospital System went backwards by \$(1.6)M

Mental Health Crisis Impacting FY18 Costs

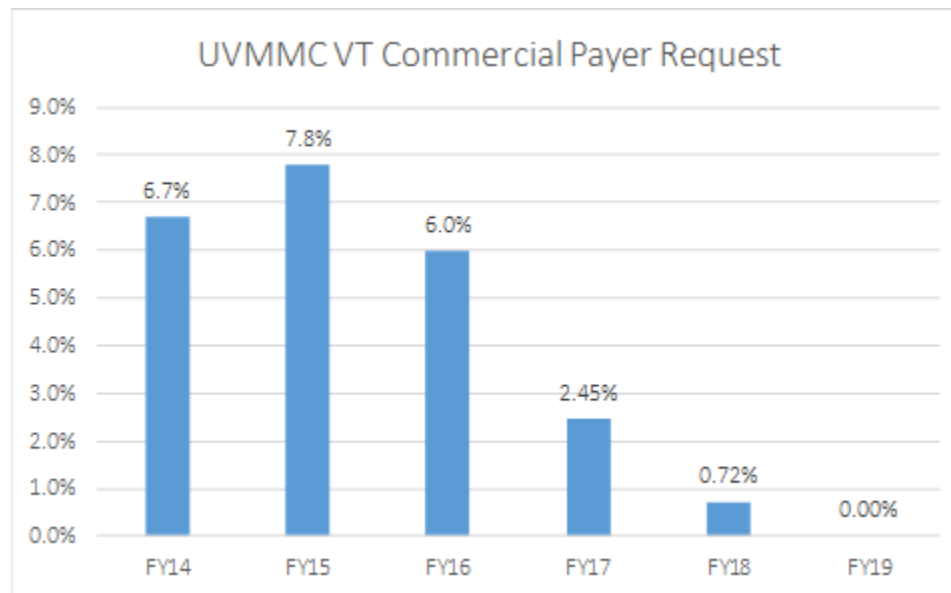
- Employing observers for mental health patients at ED and inpatient at average annual cost of over \$5.4M
- Keeping patients in hospital (whether ED or inpatient) beyond their expected length of stay because no more appropriate post-acute setting available, often with little or no increased payments
- Exploring modifications to UVMMC ED – to better ensure the safety of our mental health patients, other patients and families, and our providers. Estimated Cost \$5.5M
- State has made clear it will call upon the hospitals to address lack of mental health inpatient capacity, specifically UVMMC
- These costs in FY18 will take away if not completely eliminate the \$8.6M FY17 NPR bottom line favorability

Other Changes in FY18 Reducing FY17 Carryforward

- Taking on Risk-Based Contracts Accounting for ~20% of Patient Revenue
 - Downside risk \$9.6M
- Unbudgeted Revenue Cuts:
 - Medicare 340B Part B Drug Reimbursement Reduction
 - Unbudgeted Medicaid DSH Reduction
 - Unbudgeted Medicare IPPS Reduction
 - Unbudgeted Medicaid OPPS Reduction
 - Unbudgeted Higher Bad Debt & Charity Care
- Previously Approved Capital and Operating Commitments:
 - Miller Building Coming Online
 - Most remaining capital to come from cash
 - Approximately \$16M in annual operating expenses
 - Epic Implementation Commencing
 - Capital to come from cash

Recommendation: Flat Vermont Commercial Rate in FY 2019

- UVMHC Commits To 0.0% VT Commercial Rate Change for FY 2019, Continuing Year-Over-Year Decline



- Addressing Through FY 2019 Rates Is Only Way For GMCB to Ensure Rate Savings Passed Through to Patients By Commercial Insurers

2019 Budgets Should Be Adjusted to Account for Demographic Shifts and Utilization Reality

- In the 8 years since GMCB first imposed budget-to-budget caps, Vermont hospitals have seen:
 - A pronounced shift in where Vermonters live, with net increases in UVMHC service area
 - A markedly aging population throughout the state, including Chittenden County
 - More acute and expensive patients treated at UVMHC
- As a result, basing 2019 revenue targets on past budgets, as opposed to actual results, does not take account of who our patients are, or the choices they make about where to live and where to seek care
 - Budget-to-budget will almost unavoidably result in discrepancy between budgeted and actual volume and revenue

FY 2019 Growth Targets Should Be Based On FY 2017 Actuals

- FY 2017 actuals provide the best base from which to build FY 2019 budget guidance
 - 2017 is most recent and accurate picture of true utilization choices made by Vermonters
 - Consistent with budget base for ACO, which will account for significant and increasing proportion of UVMHC revenues
- Will allow the GMCB and UVMHC to better focus their joint efforts on factors that hospitals can control
 - Providing the most cost effective and highest quality care for those patients seeking treatment
- Rather than focusing on those we cannot control
 - Our aging patient population
 - Where our patients choose to live and seek their care

Summary

- PMC & CVMC: For the FY 2019 budget, both hospitals commit to limiting proposed VT commercial rate increase to rate of medical inflation
- UVMHC:
 - For FY 2019 budget, commit to 0.0% VT commercial rate increase
 - Adjust base for FY 2019 budget to account for current actual demographic and utilization trends
- Questions or follow-up?