1. The GMCB directed UVMMC to invest $21 million for mental health inpatient capacity to address the overage in FY2017 NPR. Where are these funds recorded or reserved in the financials?

   Answer: The $21 million is currently being held in cash reserves. As discussed in our narrative, when the final inpatient capacity plan and associated costs are determined, the multi-year financial framework will be updated with all revised capital expenditures including this commitment for the inpatient mental health facility investment. This commitment will be no less than $21 million. In addition, UVMHN provides the GMCB quarterly reporters on the inpatient capacity planning process, including all expenditures associated with that process.

2. Have the hospital's projections for FY2018 changed?

   Answer: There has been no material change in our projections from what was submitted. At the end of June, we were looking more favorable to our original projection, but July is not looking favorable and August is off to a slow start.

3. Please verify the hospital's Days Cash on Hand (DCOH) for the FY2019 Budget. The narrative indicates that DCOH would decline, given expenditures for the Miller Building and EPIC project commitments. Does the 192.4 DCOH estimate in the FY2019 Budget submission include the impact of those projects?

   Answer: Yes, the day's cash estimate in the FY2019 budget includes all capital and operating expenses associated with the FY2019 budget. The Miller Building capital spend is forecasted to be complete in FY2019. Epic is an approved CON multi-year project, and only the capital and operating expenses associated with the FY2019 budget are included in the day's cash estimates. Any capital or operation expenses past FY2019 are not included.

4. Are the Tilley Drive property lease versus purchase transactions reflected in the budget? If so, where?

   Answer: The assumptions around the Tilley Drive property related to the purchase are included in the FY2019 Budget: Twelve months of depreciation for the building component of the transaction is included in the budgeted 2019 depreciation expense line (line 26) on the income statement.

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

   Answer: Non-Operating Revenue includes realized and unrealized investment results, results from investments in affiliates, other increases and decreases in unrestricted net assets (like net asset transfers and actuarially driven pension adjustments, for example), and other miscellaneous expenses governed by generally accepted accounting principles as non-operating expenses (such as sundry fund activities and fundraising related expenses). The main fluctuations between FY2018 Budget and the FY2017 Actuals fall within four major categories: (1) differences in budgeted versus actual investments performance ($17.5M), (2) a net asset transfer of $50M to establish a balance sheet for the UVM Health Network, (3) actuarially driven pension adjustments of ($27.2M), and (4) the results from investments in affiliates ($7.3M). The main fluctuations between 2018 Projected and 2018 Budgeted fall within three categories: (1) change in investment performance of $6.0M, other non-operating loss assumptions of ($1.0M), and the change in investments in affiliates of $800K. The main fluctuations between the 2019 Budget and the

2018 Projected fall within the same categories as previously stated: change in investment performance activities of $3.5M, the change in investments in affiliates of $4.2M, and other non-operating loss assumptions of $1.4M.

6. Please provide more specificity about what is included in Other Operating Expense (including expenses related to the Miller Building and EPIC CONs) for FY2017 Actuals, FY2018 Budget FY2018 Projections, and FY2019 Budget, and explain the variation from year to year.

Answer:

The University Of Vermont Medical Center				
	FY17 Actual	FY18 Budget	FY18 Projected	FY19 Budget
Other Operating Expense				
Medical & Surgical Supplies	85,147,055	82,561,747	88,714,108	86,898,346
Cost of Goods Sold-Outpatient Pharmacy	23,156,689	24,061,984	25,186,330	27,321,028
Pharmaceuticals	69,674,670	70,586,893	78,226,028	79,291,873
Nutrition Supplies	5,323,387	5,646,317	5,516,291	5,987,323
Other Supplies	5,078,273	5,692,237	5,189,993	5,987,314
Purchased Services	49,380,269	48,780,422	64,340,993	60,562,562
Maintenance and Repairs	41,296,894	48,427,626	45,159,962	54,630,375
Lease and Rental	14,828,593	14,567,595	14,551,517	14,582,793
Utilities	12,440,854	14,270,233	11,796,679	14,922,046
Other Expenses	62,412,222	69,625,019	60,927,615	65,687,846
Insurance	12,919,605	12,460,405	12,466,492	13,094,512
Provision for Bad Debts	1,024,209	-	458,658	-
Internal Expense Allocation	43,656	0	0	(71,559)
Shared Services	-	(10,697)	(1,683,965)	(2,172,724)
Total Other Operating Expense	**382,726,377**	**396,669,781**	**410,850,701**	**426,721,734**

Medical, Surgical, COGS OP Pharmacy and Pharmaceuticals increase related to higher volumes, case mix, and higher cost drugs. We are also seeing a shift away from 340b over to WAC pricing.

Purchased Svc/consulting related to FY18 Projected compared to FY17 Actual and FY18 Budget is driven by the accounting change for OneCare participation fees and several IT initiatives requiring consultants. Purchased Svc/consulting decrease from FY18 Proj to FY19 Budget is related to the cost saving initiatives mentioned in the narrative.

Maintenance and Repairs: We have moved applications and added new ones that are now hosted offsite or in the cloud, referred to as SaaS (software as a service). Much of this has not started, but will be implemented in the last quarter of FY18 and FY19.

Utilities: This is greatly impacted by the weather and we have been experiencing warmer temperatures than the time period used for budgeting. Timing of IT projects related to new network connections is also impacting the FY18 Budget to FY18 Projection decrease. FY19 Budget increase is also related to weather and timing of IT projects.

Other Expenses: FY18 Budget to FY18 Projected is mostly related to timing of several expenses that will hit in the last quarter and were not included in the Projection (Small Equip., Bks/Subs/Dues, and Professional Develop).
Other Expense - Miller Building in FY19 is $1.6M

Other Expense - EPIC in FY19 is $5.3M

7. How does UVVMMC plan to offset expenses incurred to cover costs related to the nurses' labor dispute, as well as expense increases resulting from settlement of the dispute?

Answer: UVMMC still has to find roughly $9M in expense savings or non-patient revenue opportunities by 2020 to reach its $75M target and stay in line with our 10-year financial framework. The potential higher than FY19 budgeted nursing labor costs when known, just like any other unexpected change in our business that arises during the year, will be added to that number. The ways in which we will achieve that target is to look for efficiencies that can be gained by consolidating administrative functions across the Network, by utilizing new intelligent automation technologies to improve the efficiency of repetitive tasks, by continuing to explore opportunities in our supply chain, purchased service and other non-personnel related expense areas, by evaluating potential energy saving opportunities, and by continuing to evaluate our clinical workflows to eliminate waste and non-value added services, which is also a key component to being successful in our ever growing population based reimbursement system.

8. The narrative indicates that Bad Debt and Free Care continue to increase; please explain factors in the increase, including policy changes if any.

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, and 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 that may impact the actual trends in the future until they are experienced. That said, the 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 or experience to model that effect with confidence.

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

There are no changes to FY2018 projections.

9. There are 31 budgeted FTEs for the Miller Building and the EPIC project; please explain the need for additional FTEs.

Answer: Miller Building: The major driver for the Miller Building is related to the addition of 183,482 square feet of space. Environmental Services, Facilities, Patient Support, Security and Supply Chain services all had small increases for coverage of the additional square footage. We also added Pharmacy Techs and CATS (Critical Access Treatment Support) nurses related to the longer travel times.
EPIC: This is entirely related to the Principal Trainers and all of the hours associated with the employees that will require training on the systems.

10. UVMMC projects no travelers for FY2019; please explain why this is believed to be realistic.

Answer: UVMMC budgets for all the staff we need based on the volume and productivity assumptions we know at the time we are building the budgets. Travelers only fill vacant budgeted positions. The only part of Travelers we do not budget is the cost above what we would pay our own employees. The thought is that if we have to hire a Traveler, we will have less overtime, urgent, and called-in. Any net difference between the budgeted employed positions and the expense of travelers will be reflected is actual to budget variances.

11."Salaries non-MD" and "Fringe Benefits Non-MD" both show increases for FY2019 Budget over FY2018. "Salary per FTE – Non-MD" and "Salary & Benefits per FTE – Non-MD" are budgeted to be slightly less than FY2018 Projections. Please explain whether the decline related to the savings mentioned in the narrative and/or other factors.

Answer: The FY18 Projection contains elevated premium and traveler expense that has been reduced in the FY19 Budget, which as noted above does not include traveler expense. In addition, the cost savings mentioned in the narrative pertaining to the reduced administrative fees for our self-funded health plan contribute to the decline.

12. Long-term debt is budgeted to decrease; does this reflect the EPIC project and Tilley Drive mortgages and/or other factors? Are the mortgages included in liabilities?

Answer: Capital for the Epic project is currently projected to be funded from cash reserves without any debt; therefore, the project is not expected to impact long-term debt. The debt financing portion of the Tilley drive project was not included the in budget submission because the closing date was not known at the time of budget submission. Closing has now been scheduled for late August, and we can re-submit if the GMCB desires.

Mortgages are included in long-term liabilities.

Another important component to be mindful of is principal payments/the pay down of long-term debt, approximately $15-$20 million is paid annual.

13. Please explain in more detail why EPIC implementation and Via Oncology should be considered Health Reform Investments.

Answer: The Epic upgrade will give us access to advanced analytics to predict various patient outcomes and intervene before there are issues. This use of the EHR system is on the cutting edge of population health management.. When we go live with Enterprise Epic in 11/2019, we will be on Epic's most advanced platform and will have access to all elements of Healthy Planet, a Population Health suite. We will be able to create plans for patients using advanced analytics, create plans based on the patients' social determinates of health, and support a risk based payment model.

Clinical pathways programs in oncology have been shown to decrease variability in practice between physicians. Variability is a driver of both lower quality and higher cost health care. Via will allow us to: 1) identify variability 2) encourage the use us standardized treatment regimens 3) encourage enrollment in clinical trials and 4) in the future consider adding tools like Via Cost Analyzer, a shared-decision making program to discuss with patients relative benefits of different treatment approaches and regimens. An investment in Via will allow us to better manage and control costs for all patients receiving cancer care at UVMMC and ultimately UVMHN.

14. Please clarify whether the health reform investment of $7,300,000 for the "Network EPIC Implementation" is included in the CON (Docket No. GMCB-001-17con) approved by the Board on January 5, 2018 for the replacement of the EPIC electronic health record and related health information technology systems at four UVM Health Network hospitals. If not included, please explain.

Answer: The $7.3M in operating expense is included in the Network Epic total cost of ownership (TCO) of $151.7M, which is a mix of capital and operating. The $7.3M in operating expense is in addition to the Network Epic CON capital expense of $109.3M.

All expenses associated with Epic CON and TCO are reported to the GMCB through bi-annual project status updates.

15. Please provide more detail on the "cost-cutting and non-patient revenue opportunities" referenced on page 28 of the hospital's narrative.

Answer: Below is a summary of the categories which account for the approximate $14M of savings target in the FY2019 budget as referenced on page 28 of the budget narrative.

- Negotiated a reduction in the admin fees associated with our self-funded health plan
- Reduced small equipment spend
- Reduced expense for Books/Subscriptions/Dues
- Supply chain initiatives to keep growth below normal inflation estimates
- Reduced non-EPIC software applications supported by IT department
- Use of Robotic Process Automation increase efficiency
- Target specific FTE savings through productivity and efficiencies as well as some non-FTE savings that have yet to be identified

16. Please complete the table that has been provided to clarify accounting of ACO-related revenue and expenses.

Answer:

	2018 Budget ($)	Adaptive Account Name	2018 Projection ($)	Adaptive Account Name	2019 Budget ($)	Adaptive Account Name
Gross Home Hospital Spend for OCV Lives*	159,653,217	Fixed Prospective Payments	$ 100,303,905	Fixed Prospective Payments	$ 189,023,262	Fixed Prospective Payments
Gross Value Based Incentive Payments*	3,194,097	Other Reform Payments	1,889,702	Other Reform Payments	3,824,010	Other Reform Payments
(Value Based Incentive Deduction)*	1,636,718	not reported netted in FP Payments		Other Operating Expense		Other Operating Expense
(Participation Deduction)*	7,293,962	not reported netted in FP Payn	6,251,063	Other Operating Expense	9,205,542	Other Operating Expense
Gross Revenue Entered into Adaptive**	479,095,372	Gross Revenue	387,323,552	Gross Revenue	529,140,162	Gross Revenue
Contractual Allowances Entered into Adaptive**	(479,095,372)	Allowances	(341,719,230)	Allowances	(529,140,162)	Allowances
ACO Risk Accounted for (if any)	-	Reserves - Risk Portion	-	Reserves - Risk Portion	-	Reserves - Risk Portion
Total ACO Risk***	(11,135,321)		(10,398,000)		(10,398,000)	
Attributed Lives (#)					25,019	

*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 distinguish 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.

UVMMC	Before Accounting Change	After Accounting Change
Total FY FPP for OCV Lives	189,023,262	189,023,262
Total FY Other Reform Pmts	3,824,010	3,824,010
Total FY Risk Reserve	-	-
Fixed Perspective Payment	**192,847,272**	**192,847,272**
Participation Deductions	(9,205,542)	-
Net FPP	**183,641,730**	**192,847,272**
Participation Fee as an Expense on P&L	-	9,205,542
Total ***(Net FPP less Expense)***	**183,641,730**	**183,641,730**