Agenda

• Porter Hospital Recommendation
• CVMC Recommendation
• UVMMC
  – 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:

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-6.0%</td>
<td>-3.9%</td>
<td>-0.9%</td>
<td>-5.1%</td>
<td>-4.4%</td>
<td>-2.9%</td>
<td>-0.7%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

- 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
• 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**

<table>
<thead>
<tr>
<th>Vermont Community Hospitals</th>
<th>Net Patient Revenue &amp; Fixed Prospective Payments</th>
<th>Budget 2017 Approved</th>
<th>FY 2017 Actuals</th>
<th>Amount Over/Under Budget</th>
<th>% Change Over/Under</th>
<th>Allowed 0.5% Variance per GMCB Policy</th>
<th>Amount Over/Under 0.5% Allowance</th>
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</thead>
<tbody>
<tr>
<td>Brattleboro Memorial Hospital</td>
<td>$74,006,121</td>
<td>$75,002,532</td>
<td>$(1,996,411)</td>
<td>-1.8%</td>
<td>$382,043</td>
<td>$(964,037)</td>
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<tr>
<td>Central Vermont Medical Center</td>
<td>$191,311,143</td>
<td>$195,237,530</td>
<td>$3,926,387</td>
<td>1.8%</td>
<td>$959,156</td>
<td>$2,447,231</td>
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<tr>
<td>Copley Hospital</td>
<td>$64,819,405</td>
<td>$64,983,966</td>
<td>$164,561</td>
<td>0.3%</td>
<td>$324,097</td>
<td>ok</td>
<td></td>
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<tr>
<td>Gifford Medical Center</td>
<td>$57,762,429</td>
<td>$54,307,372</td>
<td>$(3,455,056)</td>
<td>-6.0%</td>
<td>$(288,812)</td>
<td>$(3,166,244)</td>
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<tr>
<td>Grace Cottage Hospital</td>
<td>$19,205,503</td>
<td>$16,955,398</td>
<td>$(2,250,105)</td>
<td>-11.7%</td>
<td>$(96,028)</td>
<td>$(2,154,077)</td>
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</tr>
<tr>
<td>Mt. Ascutney Hospital &amp; Health Ctr</td>
<td>$47,744,700</td>
<td>$48,253,025</td>
<td>$508,325</td>
<td>1.1%</td>
<td>$238,724</td>
<td>$269,601</td>
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<tr>
<td>North Country Hospital</td>
<td>$81,189,662</td>
<td>$76,686,887</td>
<td>$(4,502,775)</td>
<td>-5.5%</td>
<td>$(405,948)</td>
<td>$(4,096,827)</td>
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<tr>
<td>Northeastern VT Regional Hospital</td>
<td>$77,069,500</td>
<td>$76,794,700</td>
<td>$(274,800)</td>
<td>-0.4%</td>
<td>$(385,348)</td>
<td>ok</td>
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<tr>
<td>Northwestern Medical Center</td>
<td>$101,935,936</td>
<td>$101,110,424</td>
<td>$(825,512)</td>
<td>-0.8%</td>
<td>$(509,680)</td>
<td>$(315,832)</td>
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<tr>
<td>Porter Medical Center</td>
<td>$76,094,921</td>
<td>$78,203,218</td>
<td>$2,108,297</td>
<td>2.8%</td>
<td>$380,475</td>
<td>$1,727,822</td>
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<tr>
<td>Rutland Regional Medical Center</td>
<td>$243,415,448</td>
<td>$242,193,431</td>
<td>$(1,222,017)</td>
<td>-0.5%</td>
<td>$(1,217,077)</td>
<td>$(4,940)</td>
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<tr>
<td>Southwestern VT Medical Center</td>
<td>$152,362,260</td>
<td>$152,602,902</td>
<td>$240,642</td>
<td>0.2%</td>
<td>$761,811</td>
<td>ok</td>
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<tr>
<td>Springfield Hospital</td>
<td>$59,147,241</td>
<td>$51,999,349</td>
<td>$(7,147,892)</td>
<td>-12.1%</td>
<td>$(295,736)</td>
<td>$(6,852,156)</td>
<td></td>
</tr>
<tr>
<td>The University of Vermont Medical Center</td>
<td>$1,172,785,845</td>
<td>$1,211,118,975</td>
<td>$38,333,130</td>
<td>3.3%</td>
<td>$5,863,929</td>
<td>$32,469,201</td>
<td></td>
</tr>
<tr>
<td>All Vermont Community Hospitals</td>
<td>$2,421,772,605</td>
<td>$2,445,509,709</td>
<td>$23,737,104</td>
<td>1.0%</td>
<td>$12,108,863</td>
<td>$19,359,742</td>
<td></td>
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</tbody>
</table>
How Does UVMMC 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.
- UVMMC Board approves, UVMHN Finance Committee approves, & UVMHN Board approves.
• 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 UVMMC

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

- Addison County
- Windham County
- Washington County
- Rutland County
- Orleans County
- Orange County
- Lamoille County
- Grand Isle County
- Franklin County
- Essex County
- Chittenden County
- Caledonia County
- Bennington County
- Windsor County

-40,000 -30,000 -20,000 -10,000 0 10,000 20,000 30,000 40,000

55+  Under 55
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.
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, UVMMC is the only in-state tertiary and quaternary referral hospital.

- Aging patients have more advanced and specialized treatment needs, and UVMMC is the only Vermont hospital equipped to meet many of those needs.

### Impact of VTs Aging Population on UVMMC

<table>
<thead>
<tr>
<th>Case Mix Index - All Payers</th>
<th>Cash Mix Index - Medicare Only</th>
<th>Average Length of Stay (ALOS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6</td>
<td>1.7</td>
<td>1.81</td>
</tr>
<tr>
<td>1.81</td>
<td>1.94</td>
<td>5.49</td>
</tr>
<tr>
<td>5.49</td>
<td>5.74</td>
<td></td>
</tr>
</tbody>
</table>

Case Mix Index & Average Length of Stay Trends

- FY13 Actual
- FY17 Actual
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”)

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

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### National Health Spend Compared to VT Hospitals

*Actual Spend Growth*

<table>
<thead>
<tr>
<th>Year</th>
<th>VT Hospital System</th>
<th>National Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>4.2%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>5.7%</td>
<td></td>
</tr>
</tbody>
</table>

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### National Health Spend: Use & Price

- **Total**
  - 2014: 4.2%
  - 2015: 5.7%
  - 2016: 5.0%

- **National Price Change**
  - 2014: 3.0%
  - 2015: 5.1%
  - 2016: 3.8%

- **National Use Change**
  - 2014: 1.2%
  - 2015: 0.6%
  - 2016: 1.2%
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

<table>
<thead>
<tr>
<th>NPR &amp; FPP</th>
<th>Other Revenue</th>
<th>Expenses</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$38.3M</strong></td>
<td><strong>$10.5M</strong></td>
<td><strong>$(28.2)M</strong></td>
<td><strong>$20.6M</strong></td>
</tr>
</tbody>
</table>

- 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

- 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

<table>
<thead>
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<th>Other Revenue</th>
<th>Expenses</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>$23.7M</td>
<td>$16.5M</td>
<td>$(41.8)M</td>
<td>$(1.6M)</td>
</tr>
</tbody>
</table>

3.1 Commercial
(14.3) Medicaid
50.9 Medicare
(15.9) Bad Debt / Free Care
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

- UVMMC 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 UVMMC service area
  – A markedly aging population throughout the state, including Chittenden County
  – More acute and expensive patients treated at UVMMC

• 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 UVMMC revenues

- Will allow the GMCB and UVMMC 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

• UVMMC:
  – 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?