The University of Vermont Health Network FY 2020 Budget

Green Mountain Care Board
August 26, 2019

THE
University of Vermont
HEALTH NETWORK

Overview

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Introductions

- John R. Brumsted, MD, President & CEO, UVM Health Network
- Seleem Choudhury, PhD, President & COO, Porter Medical Center
- Jennifer Bertrand, CFO, Porter Medical Center
- Anna Noonan, RN, President & COO, Central Vermont Medical Center
- Stephen Kenney, CFO, Central Vermont Medical Center
- Stephen Leffler, MD, Interim President & COO, UVM Medical Center
- Rick Vincent, CFO, UVM Medical Center
- Todd Keating, CFO, UVM Health Network
- Marc Stanislas, VP of Treasury & Financial Services, UVM Health Network

UVM Health Network Mission & Vision

To improve the health of the people in the communities we serve by integrating patient care, education and research in a caring environment

Working together, we improve people's lives

UVM Health Network

Integrated Health System

- Academic Medical Center
- 5 Community Hospitals
- FQHC Partner
- Home Health & Hospice
- Network Medical Group

Network Numbers

- Serve 1 million lives
- 1,300+ physicians: over 900 specialists and over 300 primary care providers
- 1,200 licensed inpatient beds
- Over 40,000 inpatient discharges, nearly 1.4 million outpatient encounters

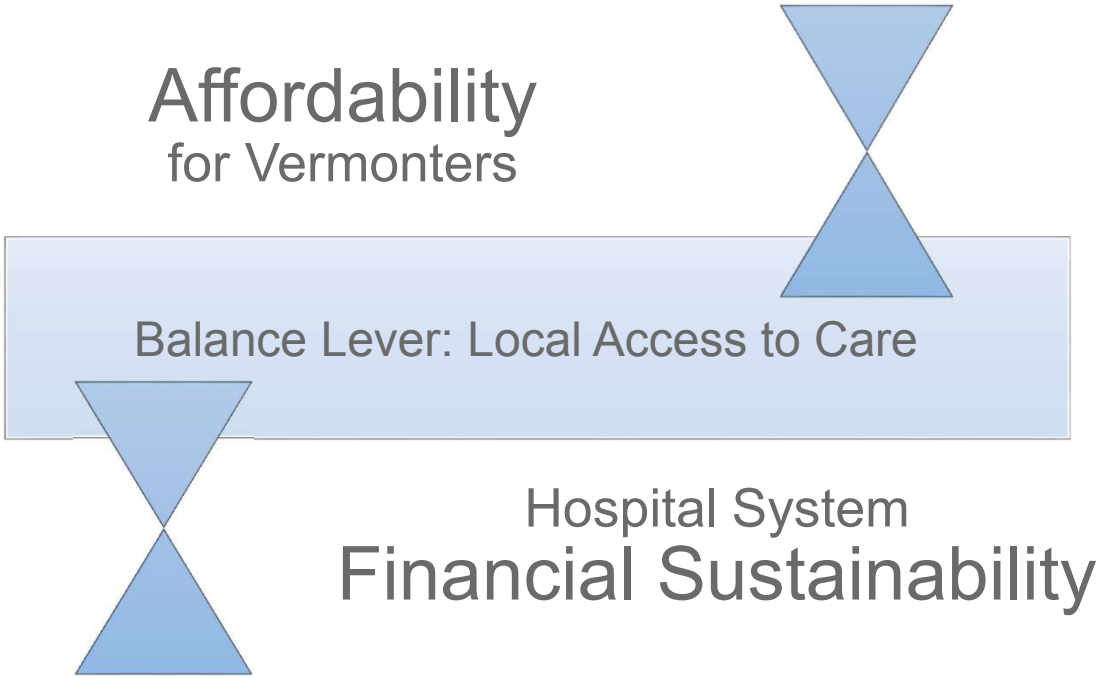
Note: Hudson Headwaters Health Network has 18 sites in Clinton, Saratoga, Warren, Essex, and Hamilton Counties in the State of New York.

UVM Health Network Overview, Strategy & Budget

Our Overarching Goal

Our locally led, non-profit Network is working to preserve access to care, while also changing the way care is delivered to focus on wellness as much as illness and to control costs

Achieving Balance Through Thoughtful Reform



Maintaining access to care for Vermonters is critical for affordability

Regulatory Goal

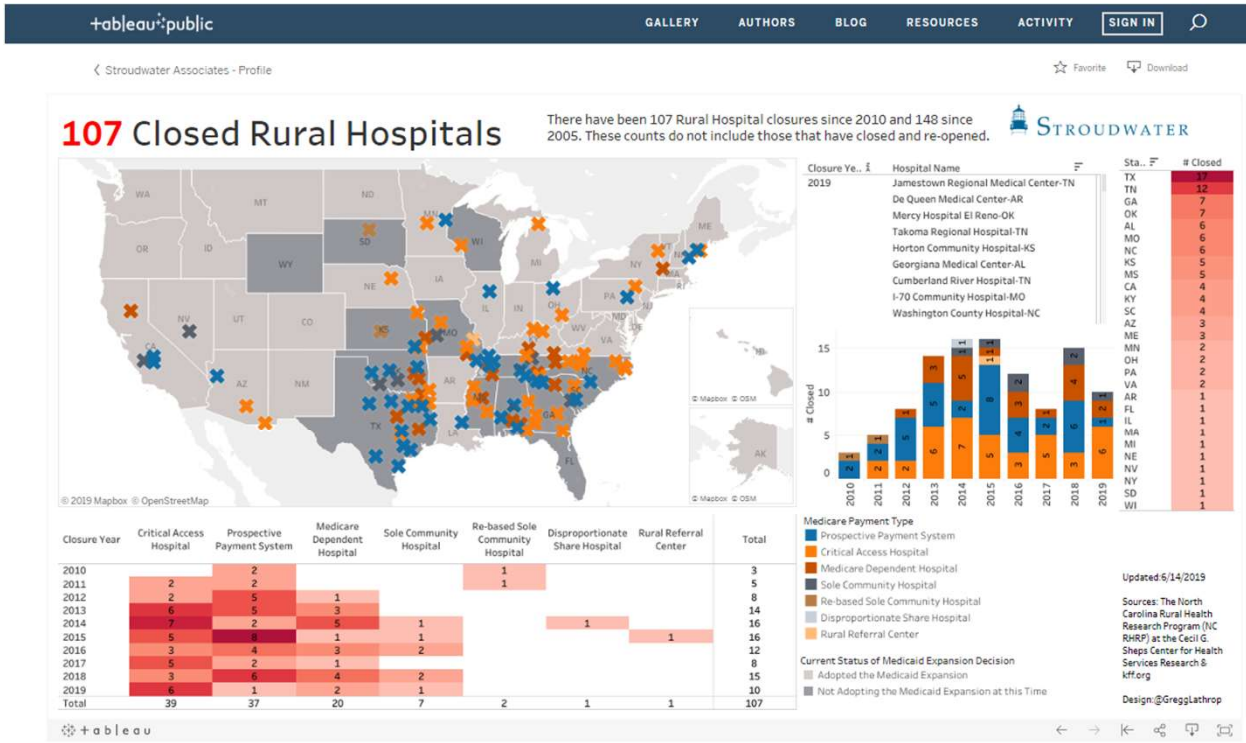
The Board's review process will promote the general good of the state, as set forth in 18 V.S.A. § 9372, by improving the health of the population; **reducing the per-capita rate of growth in expenditures for health services in Vermont across all payers while ensuring that access to care and quality of care are not compromised**; enhancing the patient and health care professional experience of care; supporting the recruitment and retention of high-quality health care professionals; and achieving administrative simplification in health care financing and delivery.

Rule 3.000: Hospital Budget Review

- Our goals are aligned, and we cannot compromise on access to quality care for all those who come to us in need
- Our ability to achieve this – not only today but into the future – is dependent on being solvent and financially stable
- As hospitals take on more risk, this becomes even more important

Challenges

According to a June 2019 analysis by Stroudwater Associates, 107 rural hospitals across the nation have closed since 2010.



UVM Health Network Risks & Opportunities

- Risks
  - Affordability for Vermonters
  - Continuing to provide the services our patients need
  - Demographics & aging
  - Workforce
  - Epic implementation
  - 340B pharmacy proposed program changes
  - Financial risk/bond rating – inflation & cost pressures
  - Financial sustainability
- Opportunities = Necessities
  - Population scale targets
  - Regulatory alignment
  - Delivery System Reform funds
  - Regulate the UVM Health Network as one entity
  - Thoughtful approach to Total Cost of Care (TCOC)
  - UVM Health Network road ahead

The Road Ahead

- High-value care
- Affiliate performance improvement plans
- Shared administrative services implementation
- Horizontal integration of affiliate operations

FY 2020 Hospital Budget Guidance

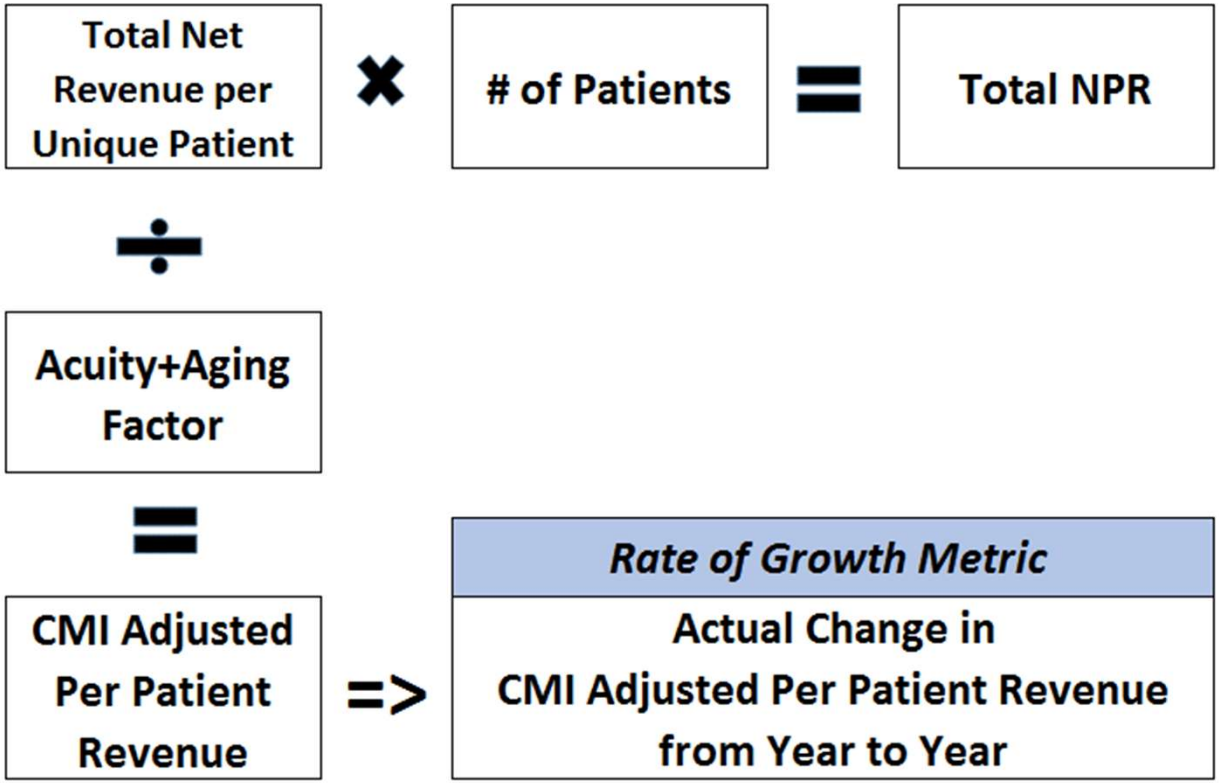
In its FY 2020 hospital budget guidance, the Board established a maximum growth target of 3.5% for individual hospitals' Net Patient Revenue and Fixed Prospective Payments (NPR/FPP).

The Board has allowed hospitals the opportunity to justify targets above 3.5%, and included several factors it would consider in this justification:

"The hospital's specific financial circumstances, including its Actual FY 2018 NPR/FPP and Expenses and its Year-to-Date and Projected FY 2019 NPR/FPP and Expenses; its historical ability to manage to its budget; its community needs; its operational investments for successful participation in the ACO program; and other relevant circumstances…For hospitals with Projected FY 2019 NPR/FPP that is greater than budgeted, the GMCB would not expect to see FY 2020 NPR/FPP greater than 3.5% unless clearly justified."

FY 2020 Hospital Budget Guidance and Reporting Documents

Implications of NPR Focus on Access



Vermont population is stable, with notable movements between counties

In Vermont: **Only the Greater Burlington area is growing.** Since 2000, three counties around Burlington have grown by more than 8%, while the five furthest from Burlington have shrunk. The remaining six were virtually unchanged, growing less than 3% over 18 years, or less than 0.2% per year (Figure 6).

National Context: Americans have flocked to metropolitan areas, especially in the last decade. Urbanization has been a global trend for over a century. In the U.S., the trend has been particularly strong in the last decade with nonmetro areas losing population. Most states have large metro areas to counteract rural population loss. Vermont's lone metro area consists of just three counties: Chittenden, Franklin, and Grand Isle (and the latter two are largely rural).

Change in County Population from 2000 to 2018		
Grew >8%	Virtually Unchanged	Shrunk >3%
Chittenden, Franklin, Lamoille	Addison, Caledonia, Grand Isle, Orange, Orleans, Washington	Bennington, Essex, Rutland, Windham, Windsor

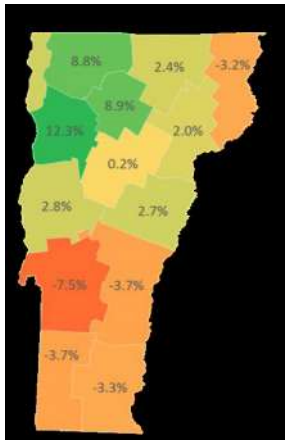


Figure 6. Change in county population from 2000 to 2018.

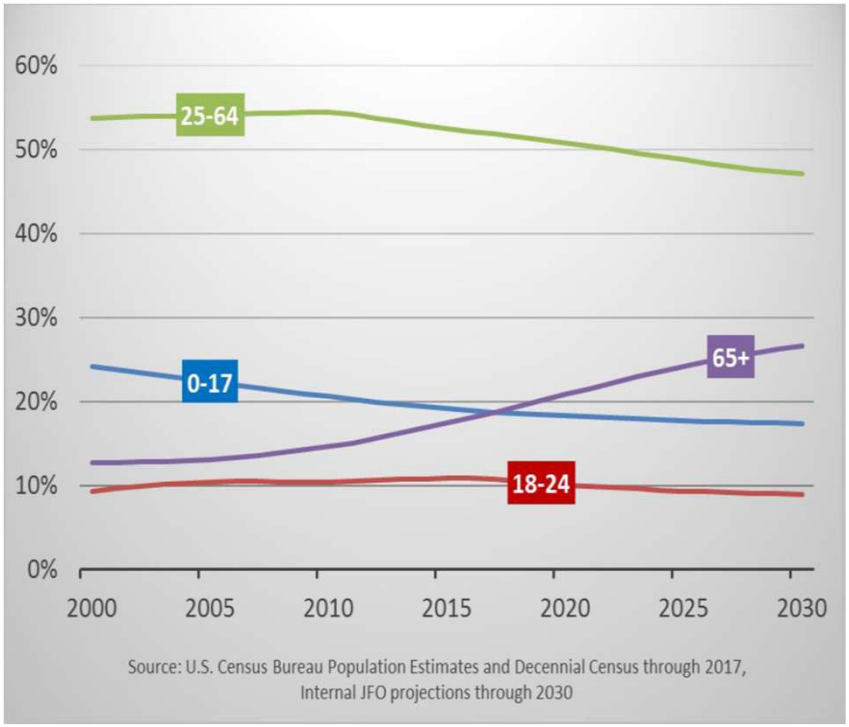
Source: Stability & Change: Three Demographic Trends and Their Implications for Vermont's State Revenue. Draft – Pub Date TBD. Vermont Legislative Joint Fiscal Office.

As population ages, cost of care increases

Trend #1: More seniors, fewer children and working-age adults.
Figure 2. Share of Vermont population by age group, 2000-2030.

A new normal in Vermont: Seniors outnumber children. The year 2017 marked the first time that Vermont had as many seniors (65+) as children (<18). Over the coming decade, seniors will outnumber children by an increasing margin as younger Baby Boomers reach retirement age (Figure 2). Meanwhile, the number of children and working-age adults is projected to continue dropping. By the end of the next decade, just 47% of Vermonters will be between the ages of 25 and 64, down from 54% in both 2000 and 2010.

National context: The U.S. is aging fast. Northern New England is aging faster.



Source: Stability & Change: Three Demographic Trends and Their Implications for Vermont's State Revenue. Draft – Pub Date TBD. Vermont Legislative Joint Fiscal Office.

Regulating on PMPM, Adjusted for CMI & Aging Population

- Total NPR is not a true gauge for measuring the change in cost of care
- Regulatory processes should use consistent, unique PMPM to measure the cost of care
- PMPM takes into account the number of patients receiving care and allows us to understand shifts in the costs of providing care
- Adjusting by CMI ensures intensity of services provided (driven by many factors, including age) are factored into growth

UVM Medical Center
Examples of Available Patient Counts

By State of Residence	FY2016 Actual	FY2017 Actual	FY2018 Actual
VT	210,065	212,064	212,463
NY	27,354	26,884	26,818
Other	8,575	8,993	8,920
Total Patient Count by Residence	245,994	247,941	248,201

This is the data category which was use for FY2019 Proj & FY2020 Budget

By Age Group	FY2016 Actual	FY2017 Actual	FY2018 Actual
0-18yrs	35,635	35,813	35,937
19-25yrs	22,025	21,369	20,866
26-34yrs	25,635	25,590	25,437
35-54yrs	65,372	64,133	63,128
55-64yrs	45,176	45,654	45,701
65yrs and Older	56,898	59,406	61,310
Total Patient Count by Age	**250,741**	**251,965**	**252,379**

By Payer Group	FY2016 Actual	FY2017 Actual	FY2018 Actual
Medicare	60,899	62,751	64,350
Medicaid	45,150	42,438	41,835
Commercial	133,546	134,339	133,608
Other	28,372	30,409	34,603
Total Patient Count by Payer	**267,967**	**269,937**	**274,396**

By VT County	FY2016 Actual	FY2017 Actual	FY2018 Actual
Addison	13,159	13,607	13,648
Bennington	539	516	483
Caledonia	3,634	3,675	3,668
Chittenden	115,022	116,179	117,415
Essex	534	550	549
Franklin	17,748	17,563	18,227
Grand Isle	4,545	4,534	4,653
Lamoille	9,410	9,334	9,568
Orange	4,283	4,423	4,508
Orleans	4,175	4,235	4,542
Rutland	5,780	5,706	5,910
Washington	28,899	30,186	30,362
Windham	718	733	650
Windsor	1,137	1,124	1,219
All VT Counties	**209,583**	**212,365**	**215,402**
All Other Non-VT Counties	**36,980**	**36,503**	**36,238**
Total Patient Count by County	**246,563**	**248,868**	**251,640**

True Change in Cost of Care

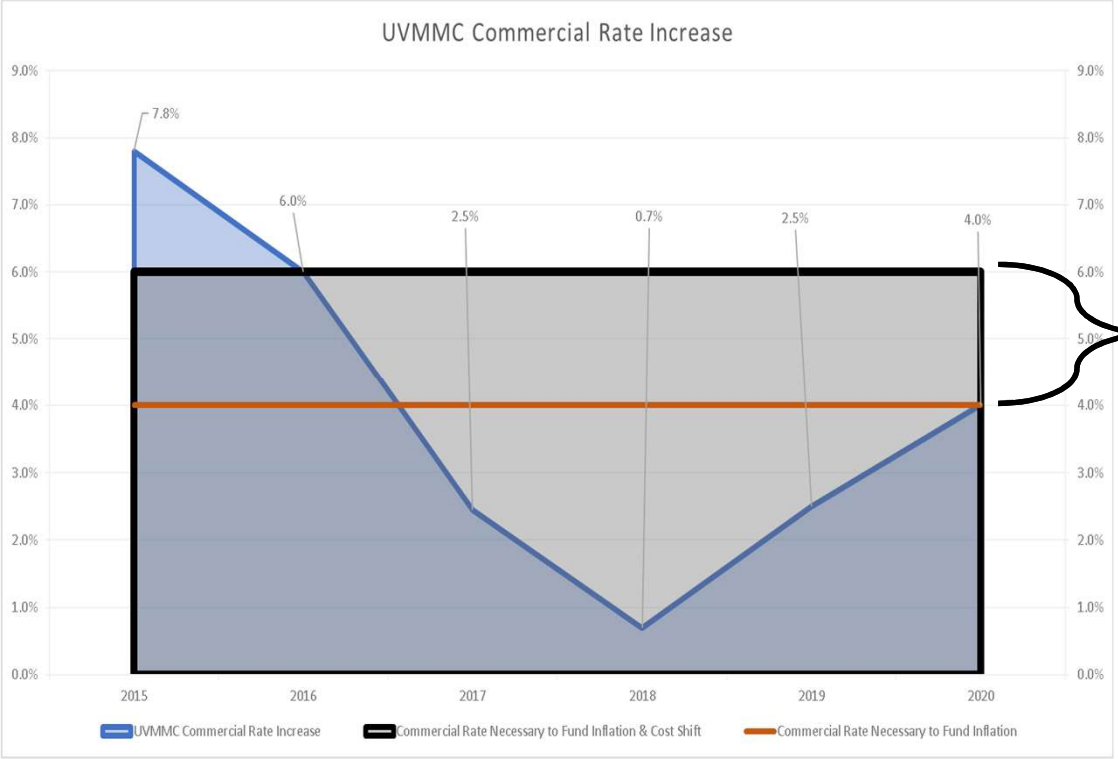
UVMMC		FY2017 Actual	FY2018 Actual	FY2019 Budget	FY2019 Projected	FY2020 Budget
Unique Patients	A	247,941	248,201	247,759	254,703	254,878
NPR + FPP	B	$ 1,211,118,975	$ 1,254,036,510	$ 1,267,090,324	$ 1,297,458,296	$ 1,351,201,702
Net Payments per Unique Patients	C = B / A	$ 4,885	$ 5,053	$ 5,114	$ 5,094	$ 5,301
CMI	D	1.70	1.69	1.71	1.71	1.73
CMI Adjusted NPR/FPP per Unique Patient (After Bad Debt / Charity / Other Fix Pymnts)	E = C / D	$ 2,873	$ 2,990	$ 2,991	$ 2,979	$ 3,064
Percent Change from Prior period			4.0%	0.0%	-0.4%	2.9%
Percent Change from FY2019 Budget to FY2020 Budget						2.5%

Note FY2019 Budget NPR + FPP is adjusted for the accounting change of $(6,369,722)

UVMMC Crosswalk: FY2019 Budget to FY2020 Budget Changes in Unique Patients and Rate Adjustments Per Patient

		1	2	3	4	5	Δ from FY2019 Budget to FY2020 Budget		
		FY2019 Budget	FY2019 YTD March Act Annualized	FY2019 Projected	FY2020 Base Budget	FY2020 Budget	Δ per Unique Patient	$ Δ	% Δ
Unique Patients Seeking Services	A	247,759	249,044	254,703	254,878	254,878	7,119	$ 36,650,926	2.9%
Anticipated Payments Per Unique Patient									
Base Amount	B	$ 5,148	$ 5,148	$ 5,131	$ 5,131	$ 5,217	$ 5,148		
Other Adjustments	C	$ -	$ (17)	$ -	$ 26	$ -	$ 9	$ 2,288,358	0.2%
CMI / Acuity / Age	D	$ -	$ -	$ -	$ 60	$ -	$ 60	$ 15,297,060	1.2%
FY2020 Rate Change	E	$ -	$ -	$ -	$ -	$ 108	$ 108	$ 27,423,226	2.1%
Total Payment per Unique Patient	F = B+C+D+E	$ 5,148	$ 5,131	$ 5,131	$ 5,217	$ 5,325	$ 5,325	$ 45,008,644	3.4%
Unique Patients x Anticipated Payments	G = A * F	$ 1,275,463,833	$ 1,277,958,404	$ 1,306,995,795	$ 1,329,700,177	$ 1,357,123,403		$ 81,659,570	6.3%
						27,423,226			
Changes in Contractual Allowances not directly related to unique patients									
Bad Debt Deductions	H	$ (28,834,737)	$ (32,418,447)	$ (32,005,260)	$ (28,916,453)	$ (28,504,203)			
Charity Care	I	$ (20,131,012)	$ (18,180,983)	$ (18,424,633)	$ (17,338,015)	$ (18,769,732)			
DSH Payment	J	$ 10,592,241	$ 10,892,395	$ 10,892,395	$ 11,352,235	$ 11,352,235	(34)		
Enhanced Medicaid GME Revenues	K	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000	$ 30,000,000			
Total Changes in other contractual Allowances	L = H + I + J + K	$ (8,373,509)	$ (9,707,034)	$ (9,537,498)	$ (4,902,232)	$ (5,921,701)	10	$ 2,451,808	0.2%
$ Per Unique Patient	M = L / A	$ (34)	$ (39)	$ (37)	$ (19)	$ (23)	(24)		
Total NPR + FPP	N = G + L	$ 1,267,090,324	$ 1,268,251,370	$ 1,297,458,296	$ 1,324,797,945	$ 1,351,201,702		$ 84,111,378	6.5%
								6.6%	
Total NPR + FPP / Unique Patients (after bad debt/charity/other fixed)	O = N / A	5,114	5,092	5,094	5,198	5,301	5,300		
Case Mix Index (CMI)	P	1.71	1.71	1.71	1.73	1.73			
CMI Adjusted NPR/FPP per Unique Patient (After Bad Debt / Charity / Other Fix Pymnts)	Q = F / G	2,991	2,978	2,979	3,004	3,064			
Reconciliation to GMCB NPR + FPP	R = N - GMCB NPR/FPP	difference = Acctg Δ (6,369,722)	(0)	(0)	(0)	(1)			

Commercial Rate Necessary to Fund Annual Inflation on Commercial Business & Cost Shift – UVM Medical Center

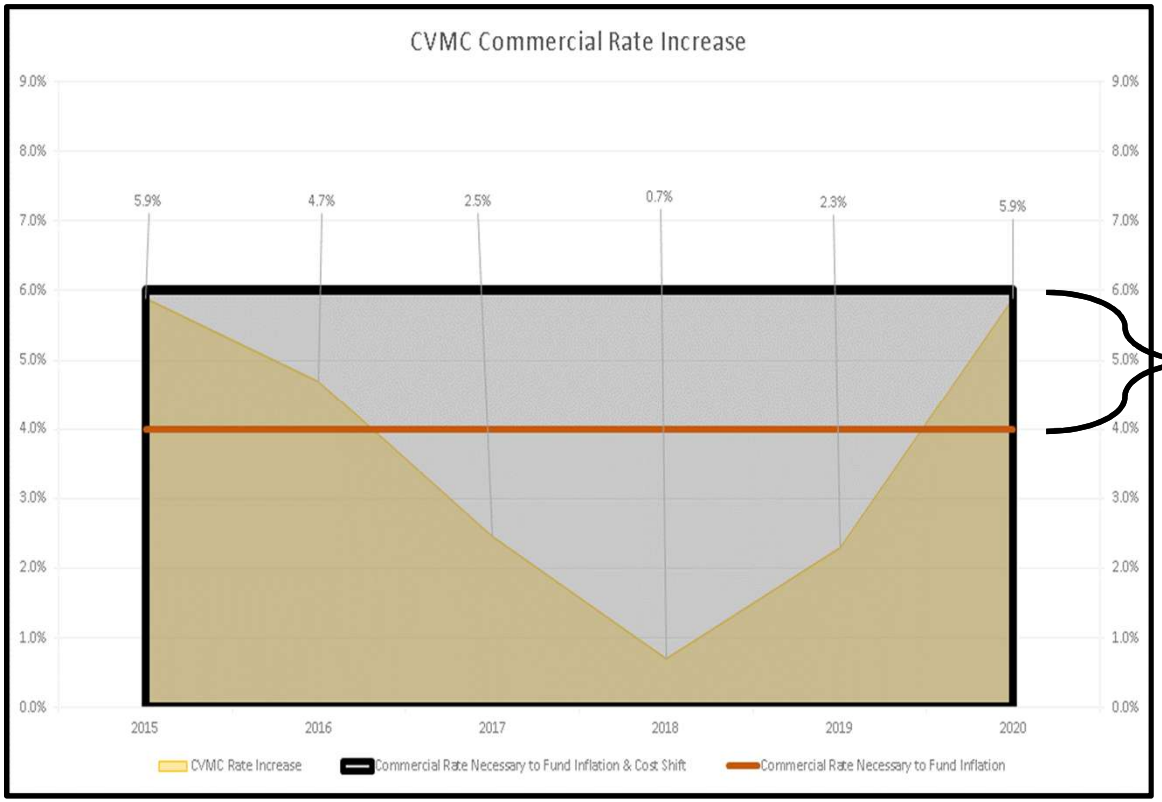


A commercial rate increase below these lines means the hospital is funding annual commercial rate inflation and the cost shift

Corridor of rate increase necessary to fund cost shift

Commercial rate increase necessary to fund annual inflation on commercial business

Commercial Rate Necessary to Fund Annual Inflation on Commercial Business & Cost Shift – CVMC

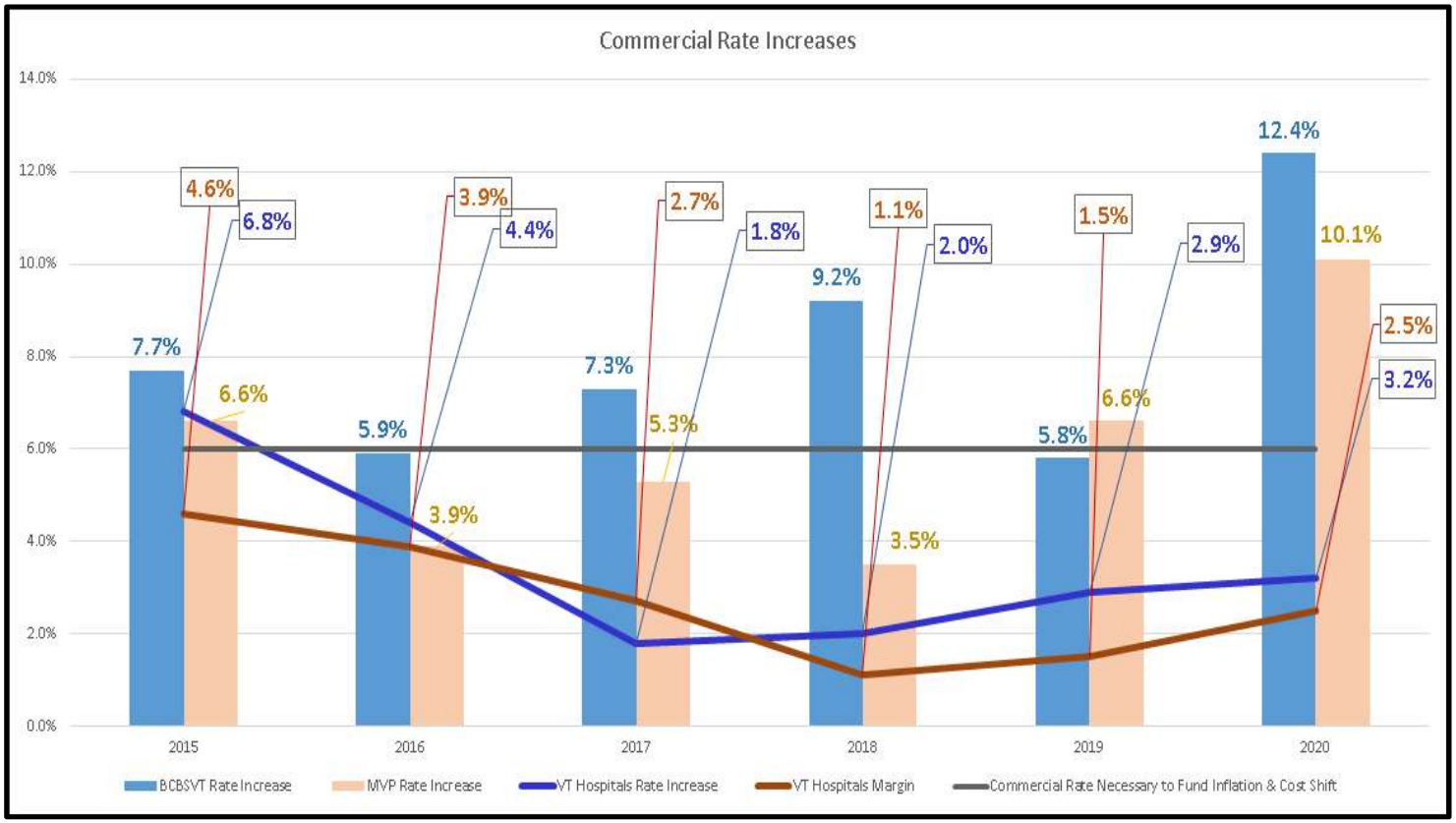


A commercial rate increase below these lines means the hospital is funding annual commercial rate inflation and the cost shift

Corridor of rate increase necessary to fund cost shift

Commercial rate increase necessary to fund annual inflation on commercial business

In recent years, Vermont hospitals have been impacted by commercial rates not funding annual inflation and have had to bear the burden of the cost shift



Decisions regarding FY 2020 hospital budgets will be a *critical indicator*

If this pattern continues, it will threaten the solvency and financial sustainability of the entire Vermont hospital system

Justification for UVM Health Network 6.4% NPR/FPP Changes for FY 2020

Justifiable changes which should be considered

3.9%

- 2.4% - More unique patients seeking services
- 1.2% - Increased case mix & aging population
- 0.3% - Physician transfers/access

Effective NPR change

2.5%

- -0.05% - FY 2019 change in payer mix/rate/utilization
- 0.1% - Reserves: APM & Medicare cost settlement
- 0.1% - Bad debt/free care/DSH/other
- 2.4% - FY 2020 rate change

UVM Health Network – Gross Price & Commercial Rate Changes for FY 2020

UVM Health Network Gross Price Changes

2.8%

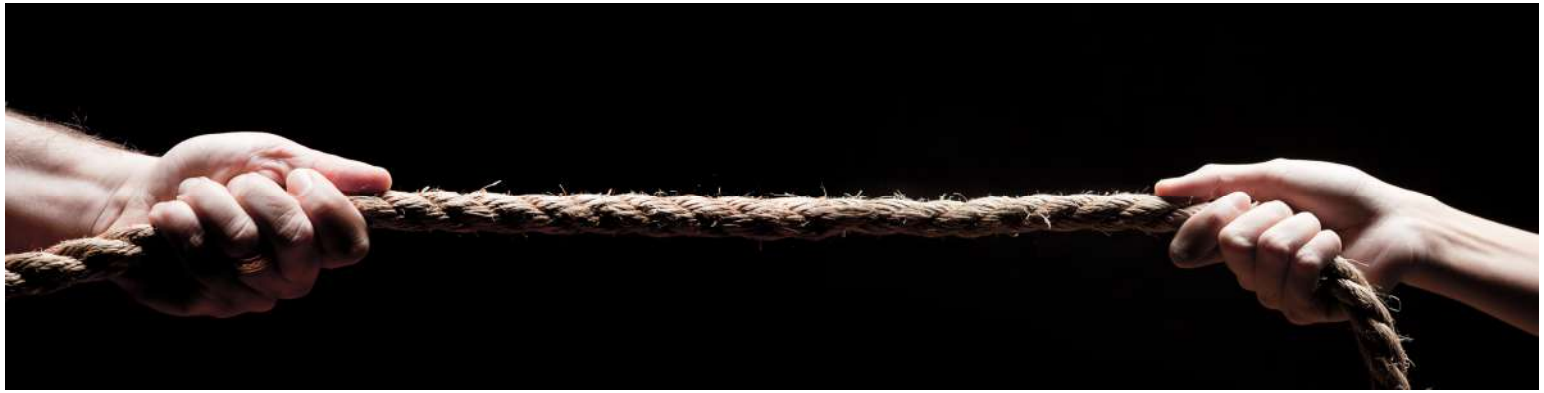
- 3.0% - UVM Medical Center
- 3.0% - CVMC
- 0% - Porter Hospital

UVM Health Network Commercial Rate Changes

4.2%

- 4.0% - UVM Medical Center: funds commercial rate inflation only
- 5.9% - CVMC: funds commercial rate inflation & cost shift
- 2.6% - Porter Hospital: funds commercial rate inflation only

A Critical Moment



Fee for Service (FFS)

- Non-alignment in regulatory processes
- Focus on NPR
- Volume over value
- Incentivizes sickness

Fixed Prospective Payment (FPP)

- Scale/population base
- Regulation by unique PMPM
- Aligned regulatory processes
- Capacity to fund risk
- Value over volume
- Incentivizes health

Porter Hospital

Porter Hospital Overview

- The road to financial sustainability
- Reinvestment in capital
- Meeting the needs of our community
- Independent provider integration
- Helen Porter Skilled Nursing Facility
- Health care reform participation
- Access to care
- The path forward – further investment & development

Porter Hospital Issues & Risks

- Financial sustainability
- Adequate reinvestment in plant & equipment
- Wage pressures
- Workforce
- Bargaining discussions
- Epic implementation
- Helen Porter support
- Payments keeping pace with population base's care needs
- Appropriately reserving for risk
- Access to services
- Statewide mental health care capacity
- Medication Assisted Treatment (MAT)

Porter Hospital Opportunities

- Increased 340B revenue
- Cardiac rehab
- Expanding palliative care
- Perioperative optimization
  - Rebuilding general surgery
  - Service line evaluation
- Population health

Porter Hospital
3.5% Net NPR/FPP Change for FY 2020

- Porter remains in compliance with budget guidelines
- Incorporates a 2.6% commercial rate increase
  - Only funds commercial rate inflation
  - One of the lowest commercial rate increases of the Vermont hospitals

Net Impact of NPR		
4.8%	—	Budget-to-buget change
-1.3%	—	Physician Transfers
3.5%	—	**Net Impact**

Justifiable changes which should be considered

3.7%
- 2.4% - Increased case mix & aging population
- 1.3% - Physician transfers/access

Effective NPR change

1.1%
- 1.1% - FY 2020 rate change
- -1.1% - Change in payer mix/rate/utilization
- 1.4% - Reserves: APM
- -0.3% - Bad debt/free care/DSH

Porter Medical Center Operating Margin

Porter Medical Center Margin Summary						
Fiscal Year	Porter Hospital	+	Helen Porter	+	PMC & PREH	=	Porter Medical Center Consolodated
FY 2020 Budget	3.8%		($1,288,948)		$284,791		**2.5%**
FY 2019 Projection	3.5%		($2,703,451)		$294,530		**0.8%**
FY2019 Budget	3.7%		($1,486,517)		$284,990		**2.1%**
FY2018 Actual	5.4%		($2,045,939)		$300,117		**3.0%**
FY2017 Actual	6.2%		($2,417,487)		$425,920		**3.4%**
FY2016 Actual	5.5%		($2,896,107)		$342,835		**2.1%**

Helen Porter Skilled Nursing Facility

3 Day Waiver Program

- Driving down the cost of care
- Population health strategy
- Incremental progress

Total Program to Date 3 Day Waiver Savings Impact			
From May 2018 to May 2019			
	Patient Count		Total Per 3 Day Increment
Hospital Setting	48	$	981,900
SNF Setting	48	$	74,601
Grand Total Savings to System		**$**	**907,299**

Porter FY 2019 Updated Projection

Favorable Developments:

- Potential increase in Net Revenue – refiling of 2018 cost report and the impact on FY 2019
- Results of risk settlement activity for CY 2018

Unfavorable Developments:

- Continued decline in surgical service volume
- Continued decline in laboratory volume

Porter Hospital FY 2020 Budget is Responsible

- Porter continues to remain in compliance with GMCB guidelines
- Commercial rate increase only funds annual inflation on the commercial business
- The budget we are proposing is the budget that will allow us to build a sustainable future that is dedicated to population health initiatives, adequate investment in resources, and meeting the needs of our community

Central Vermont Medical Center

CVMC Overview

- An acute care hospital, our 27 community-based medical group practices, including two Express Care facilities that are open 7 days a week, and Woodridge Rehabilitation and Nursing, a 153-bed long-term and short-term Skilled Nursing Facility
- Central Vermont region has experienced a 2% decline in overall population, coupled with an increase in the average age of patients receiving care and treatment
- Washington and Orange counties have seen increases in excess of 4% and 5%, respectively, in our 65 and older population
- The aging population in Central Vermont is reflected in the complexity of medical care being provided to patients in our hospital, medical practices, and at Woodridge

CVMC Overview

- Our Case Mix Index (CMI) has increased from 1.19 in FY 2017, to 1.25 in FY 2018, to 1.33 in FY 2019 (through June) – reflective of the increase in the complexity of care being provided to patients in our acute care setting
- CVMC has experienced a higher run-rate in contractual allowances the last few months, which is impacting the NPR projection for FY 2019
- The total number of uninsured citizens in Washington Country decreased from 6.9% for the period 2011-2014 to 3.9% for the period 2014-2017 – a higher number of the population we serve are accessing health services
- CVMC was recognized in Becker's Hospital Review as a Top 100 "Great Community Hospital in 2018 and 2017" – two of the primary factors associated with this recognition are our high quality and low cost

CVMC Issues & Risks

- Patient demographics
  - Aging population with multiple, complex co-morbidities
  - High inpatient census
- Lowest unemployment rate on record – 2.1%
  (Source: June 2019 U.S. Bureau of Statistics)
  - Increased competition for entry level positions in our market
- Epic implementation in our clinic practices and revenue cycle
- Aging physical plant with deferred maintenance

CVMC Issues & Risks

- 2019 Community Health Needs Assessment identified:
  - High percentage of patients over 65 with multiple co-morbidities and chronic disease
  - High incidence of chronic disease
  - Access to mental health services
  - Substance use disorder
- Our revised FY 2019 projection indicates a $4M loss

CVMC Opportunities

- Psychiatric capacity planning process
  - Responding to the statewide need for increased adult inpatient psychiatric capacity to address extended wait times in Emergency Departments around the state
- Workforce
  - Reducing premium labor expenses and increasing workforce opportunities within our community through launch of our CCA, LNA, and LPN educational programs
  - $10K sign-on bonus for RNs and LPNs, and $6K relocation expense reimbursement
- Improving access to proactive population health management
  - Transforming ambulatory practices initiative
- Energy Star certified
  - Performing at the top 25% of hospitals nationwide for energy efficiency, despite challenges of aging physical plant

Justification for CVMC
5.5% NPR/FPP Changes for FY 2020

Justifiable changes which should be considered

2.3%

- 0.8% - Increased case mix & aging population
- 1.5% - Physician transfers/access

Effective NPR change

3.2%

- -0.7% - FY 2019 change in payer mix/rate/utilization
- 0.1% - Bad debt/free care/DSH/other
- 3.8% - FY 2020 rate change

CVMC Other Initiatives

- Substance use programs
  - Emergency Department
    - Rapid Access to Medication Assisted Treatment (RAM)
    - Peer support model
    - Community Health Team investments – 2 FTEs staffing peak census times
  - Washington County Substance Abuse Regional Partnership (WCSARP)
    - HRSA grant recipient
- Woodridge Rehabilitation and Nursing
  - 2019 AHCA bronze award
  - 3 day waiver program
  - 6 days/week onsite provider coverage
- THRIVE
  - Our accountable community for health
  - A community partnership to address social determinants of health

CVMC FY 2020 Budget is Responsible

- Commercial rate increase funds the annual inflation on our commercial business and some cost shift
- Rate of patient revenue growth after factoring in intensity of services to meet patient needs and the increased care needs of serving an aging population is 3.2%
- Changes to the FY 2020 budget will impact access and our ability to care for the population we serve

UVM Medical Center

UVM Medical Center Overview

- Overall population growth in Vermont is flat, but our primary service area is growing, while others are declining
- The age and complexity of our patients is growing
- UVM Medical Center's cost and revenue per CMI adjusted patient day continues to be near the 25th percentile, compared to other Academic Medical Centers
- UVM Medical Center operating margin has dropped from 6.1% in FY 2016 to 3.1% in the proposed FY 2020 budget, which is also at the 25th percentile for Academic Medical Centers

UVM Medical Center Overview

- Commercial rate increase in FY 2016 was 6.0%, 2.5% in FY 2017, 0.7% in FY 2018, 2.5% in FY 2019 and 4.0% in the proposed FY 2020 budget
- Using our CMI adjusted unique patient metric, year to year patient revenue growth from FY 2016 to the FY 2020 proposed budget has stayed below 3.5% each year, averaging 2.0% per year during period of time
- From FY 2016 to the FY 2020 proposed budget, our total costs per CMI adjusted unique patient has grown by an average of 2.8% per year

UVM Medical Center Issues & Risks

- Low unemployment & increasing wage inflation
- Increasing pharmaceutical costs
- Commercial rate increases not covering the cost of inflation, which has had a significantly negative impact on our finances
- ACO programs not yet generating 3.5% PMPM increase
- Lack of adequate state mental health capacity continuing to generate increased costs
- 340B pharmacy proposed program changes
- Inability to create risk reserves for ACO programs
- Epic revenue cycle implementation
- Further financial deterioration will directly impact access

UVM Medical Center Opportunities

- Using our self-funded health plan population to test new wellness opportunities
- Continued supply chain opportunities through collaborations with regional and national purchasing groups
- Continue development of our Robotic Process Automation (RPA) program
- Continued consolidation of systems and standardization of processes across the UVM Health Network

UVM Medical Center Opportunities

- Exploring new energy cost savings opportunities, such as solar and battery storage systems
- New systems and processes to improve documentation of our inpatients, and now our outpatients, will provide a more accurate reflection of their acuity
- Regulatory alignment will be foundational to realizing the full potential of the APM

Justification for UVM Medical Center 6.6% NPR/FPP Changes for FY 2020

Justifiable changes which should be considered

4.1%

- 2.9% - More unique patients seeking services
- 1.2% - Increased case mix & aging population

Effective NPR change

2.5%

- 0.1% - FY 2019 change in payer mix/rate/utilization
- 0.2% - Bad debt/free care/DSH/other
- 2.2% - FY 2020 rate change

UVM Medical Center Other Initiatives

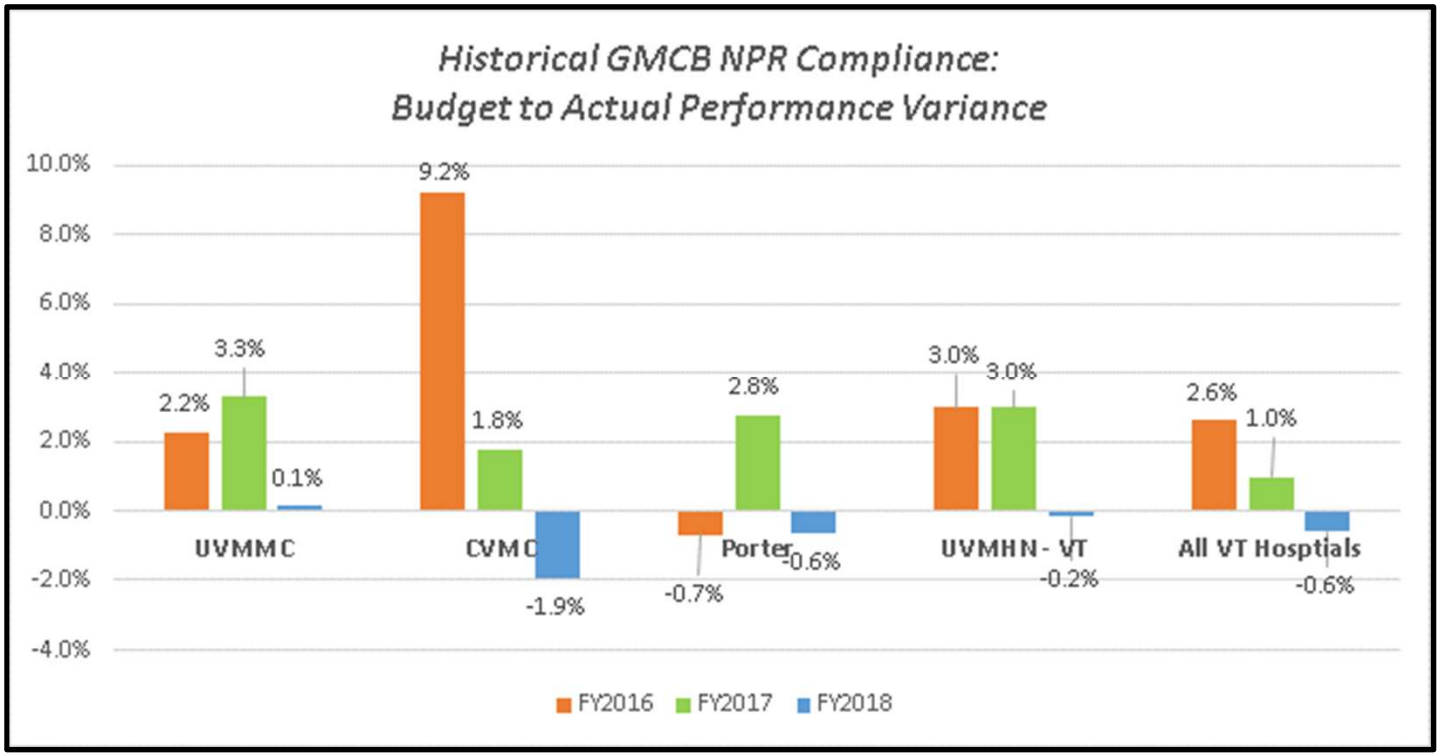
- Epic implementation – status update and Go-Live
- Financial performance improvement
- Culture work
- Community partnerships

UVM Medical Center FY 2020 Budget is Responsible

- Budget should be approved as submitted
- Commercial rate increase only funds annual inflation on the commercial business
- Rate of patient revenue growth after factoring in more patients seeking services, acuity of services to meet patient needs, and the increased care needs of serving an aging population is 2.5%
- Tertiary care happens
  - Maintaining local access helps affordability
  - Regulations should not place patient revenue at odds with access
- Changes to the FY 2020 budget will impact access

UVM Health Network Financials

UVM Health Network
Historical Compliance with NPR Budget Orders



UVM Health Network Multi-Year Financial Framework – Underlying Assumptions

- Projects P&L, Balance Sheet, Capital, & Debt through FY 2028
- Constantly monitored for changes and completely refreshed every 12 months
- Primary driver is achieving minimum margin targets by FY 2022 – 2028
  - UVM Medical Center 3.5%
  - CVMC & Porter 2.5%
- FY 2020 – 2022 will be the most challenging & worrisome years
  - Full amount of Miller Building & Epic expense coming online
  - Epic has a short depreciable life
  - Establishing additional state mental health capacity will cost much more than $21M
  - Will need to find approximately $40M of operational efficiencies each year to transition from current performance & to fund additional expense burdens to achieve minimum margin targets

UVM Health Network Financial Framework Metrics

	2020	2021	2022	2023	2024	2025	2026	2027	2028
Profitability Ratios									
Operating Margin	2.9%	3.2%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Operating EBIDA Margin	8.7%	9.7%	10.0%	9.7%	9.4%	8.9%	8.2%	7.9%	7.8%
Capital Structure Ratios									
Long Term Debt to Capitalization	28.0%	28.8%	26.4%	24.1%	22.0%	20.2%	18.5%	17.0%	15.4%
Debt Service Coverage	4.34	4.67	4.85	5.03	5.22	6.02	6.94	7.01	7.93
Liquidity Ratios									
Days Cash on Hand	172.7	180.9	199.8	217.6	231.7	247.3	248.7	255.4	263.9
Other Ratios									
Average Age of Plant	11.6	10.9	11.3	12.5	13.5	15.3	18.1	19.8	20.4
Capital Spending Ratio	94.3%	171.4%	45.5%	44.3%	63.5%	60.7%	147.5%	122.9%	120.4%

Multi-Year Financial Framework is Attainable with Focused Effort

The key will be managing the balance between margin performance, cash, capital & debt

- Margin appears suitable, EBIDA is about 1% too low in later years
- While cash appears adequate, age of plant is growing and capital spend is too low, averaging approximately 100% of depreciation; should be in the range of 125-150%
- Model shows additional debt capacity
- Increased capital & debt will put more burden on margin; may need additional efficiencies to maintain margin targets
- FY 2020 performance will be foundational to realizing overarching margin target by FY 2022

UVM Health Network Multi-Year Capital

Current capital requests total $735M for FY 2019-2023; must reduce by $(122M) to get to the $613M in the multi-year financial framework

GMCB Summary (UVMHN,UVMMC,CVMC,PMC)									
Capital - Resource Allocation	FY 2019		FY 2020						
Fiscal Years 2019 - 2023	Budget*	Projected	Carry Over/Forward	Requested New Capital	Total Requested	FY 2021 Requested	FY 2022 Requested	FY 2023 Requested	Total FY'19 Proj + Requested FY20-23
Total GMCB Capital - Routine/CON	**163.3**	**138.2**	**25.2**	**80.4**	**105.5**	**143.4**	**130.3**	**96.2**	**613.6**
Total GMCB - Routine Capital	73.9	67.4	6.5	64.8	71.3	60.6	43.1	44.1	286.6
Total GMCB - Potential CON Projects	89.4	70.7	18.7	40.6	59.2	102.8	117.2	99.1	449.1
Necessary Capital Reductions	0.0	0.0	0.0	(25.0)	(25.0)	(20.0)	(30.0)	(47.0)	(122.0)

UVM Health Network CON Update

Approved CONs:

- UVMMC - Miller Building - project complete, opened June 1, 2019 ($187.3M)
- UVMMC - Epic Project - in process, phase 1 of 3 go-lives targeted for November 1, 2019 ($151.7M combined capital and operating)
- UVMMC - Essex Primary Care - in process ($8.6M)
- UVMMC - MRI Replacement and Space Renovation - in process ($2.9M)
- UVMMC - Interventional Radiology Suite 22 - project complete ($2.1M)

Pending CONs:

- UVMMC - Request for an Amendment to the Epic CON to add Elizabethtown Community Hospital and Alice Hyde Medical Center to the Project ($15.8M)

Potential CONs in FY 2020:

- UVMMC - NICU McClure 6 Renovations ($16.3M)
- UVMMC - ED Renovations ($15.8M)
- UVMMC - Rutland Dialysis Replacement ($14.3M)
- UVMMC - Replace Berlin Dialysis Site ($8.4M)
- UVMMC - LINAC ($6.0M)
- UVMMC - 194 Tilley Drive Ophthalmology ($5.1M)
- UVMMC - 194 Tilley Drive Dermatology ($4.2M)
- UVMMC - CT Scanner ($1.5M)
- CVMC – Inpatient Psychiatry ($21.0M – this $21.0M commitment will be incorporated into a larger CON filing, which will be higher)
- CVMC – Woodridge Update ($8.6M)
- CVMC – LINAC ($3.0M)

Note: For more detail, please refer to UVM Health Network submitted FY 2020 budget narrative

UVM Health Network: FY 2020 Epic

Epic 11/1/19 Go-Live for clinical documentation & revenue cycle:

UVM Medical Center hospital & practice components

CVMC, Porter & CVPH practice components

Risk: first 6 months of FY 2020

- Already initiated capital restrictions on all non-critical capital items and arranged for a 24-month UVM Health Network line of credit with a bank to assist with any cash disruptions
- If financial performance lags due to implementation, more acute intervention may be necessary

Opportunity

- Once Epic is online, it will allow us to connect our network as one and fundamentally change the way we deliver care to our patients

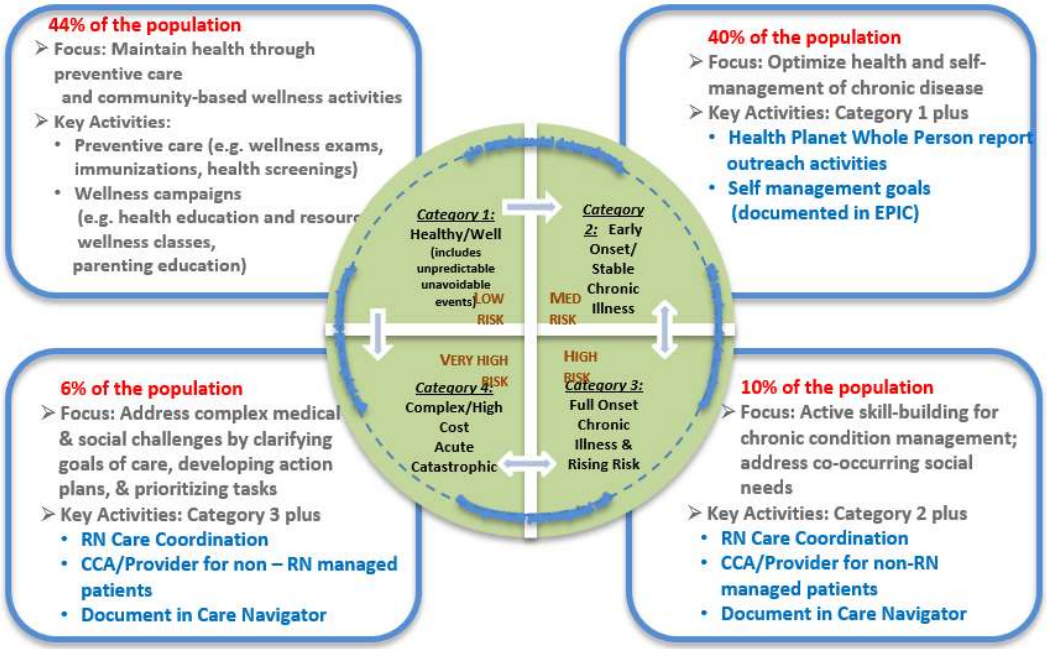
Total Cost of Care (TCOC)

> We have a shared duty to ensure that not only are we informed by data, but that all Vermonters have easy access to the same factual data as they consider the path we are taking. Given our shared commitment to true and open transparency, we believe it is important for the Green Mountain Care Board (GMCB), as Vermont's health care regulatory agency, to be the source of fact as we move forward. We think that an important next step is for the GMCB to analyze and publish data on health care expenditure and utilization variation across the state of Vermont by hospital service area (HSA). Additionally, we ask that the GMCB particularly identify and compare expenditures and utilization at the University of Vermont Medical Center, both within its HSA and across all other HSAs.
>
> *October 31, 2016 letter to GMCB*

- We are fully supportive – and have been for some time – of an approach like the Total Cost of Care (TCOC)
- Data needs to be validated and hospital-specific versus HSA perspective
- Encourage collaboration with OneCare Vermont, VAHHS, and others to ensure the data is useful in this manner and can inform decision making

Management Model – Reducing TCOC and Aligning with APM

Category 3s and 4s comprise 16% of total attribution versus 55-60% of the total spend



Recent Studies

One payment model, the Vermont ACO Shared Savings Program (SSP), yielded $97 million in Medicaid savings over 3 years relative to spending for an in-state comparison group…Only Vermont's ACO SSP model, which was implemented to align with Medicare, Medicaid, and the largest commercial insurer in the state, had a statistically significant slower increase in total Medicaid expenditures after 2 and 3 years of implementation.
Centers for Medicare and Medicaid Services (CMS)

In practice, Vermont was the only state to achieve significant coordination across payers: Vermont made significant efforts to align operational aspects (eg, covered services, attribution, care management requirements, provider payment incentives) of its Medicaid and commercial ACO shared savings programs with the Medicare Shared Savings Program…Between the three states, Vermont had the most promising results in reducing high-cost service use (inpatient admissions and ED visits) and Medicaid cost growth…Vermont aligned its Medicaid ACO design with Medicare and commercial ACOs in the state. As a result, ACO-participating providers were subject to similar program features across all the payers with which they entered into an ACO arrangement. This cross-payer alignment may have made it easier for providers to meet program expectations.
Milbank Memorial Fund

UVM Health Network FY 2020 Budget is Responsible

- Rate of patient revenue growth after factoring in more patients seeking services, acuity of services to meet patient needs, and the increased care needs of serving an aging population is 2.5%
- The actual change in CMI adjusted revenue per unique patient from year to year must be the metric by which the rate of growth is measured, not total NPR
- Commercial rate increases are responsible
- The APM is at a critical moment
- UVM Health Network budget should be approved as submitted:

  FY 2020 budget balances affordability for Vermonters and financial sustainability for the hospital system while working to preserve access to care to meet the needs of the present without compromising the future

Questions?

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Thank you

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Appendix

Financial Tables

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UVM Health Network P&L

	UVMHN		
	FY18 Actual	Projected as of Sep-2019	FY20 Budget
SUMMARY INCOME STATEMENT			
Patient Revenue	3,260,564,605	3,474,606,131	3,565,758,056
Deductions	1,889,696,066	2,074,963,630	2,208,446,342
Net Patient Service Revenue	**1,370,868,539**	**1,399,642,501**	**1,357,311,714**
FPP + OCV Revenue	158,100,506	191,292,974	303,402,214
Other Revenue	125,438,716	156,479,566	166,292,228
TOTAL UNRESTRICTED REVENUE & OTHER	**1,654,407,761**	**1,747,415,042**	**1,827,006,156**
Salaries	757,622,564	795,301,238	829,106,672
Benefits	186,358,981	192,547,632	200,326,554
Other Expense	522,994,736	561,167,842	569,756,218
Depreciation	61,646,012	65,728,690	78,541,652
Provider Tax	86,034,275	89,419,358	95,140,968
TOTAL EXPENSES	**1,614,656,568**	**1,704,164,759**	**1,772,872,064**
NET INCOME (LOSS) FROM OPERATIONS	**39,751,193**	**43,250,283**	**54,134,092**
%	**2.4%**	**2.5%**	**3.0%**

UVM Health Network Volume

Account Description	FY18 Actual	FY19 Budget	FY19 Anlzd YTD Jan	FY19 Anlzd YTD Mar	FY19 Projected	FY20 Budget
Discharges						
Inpatient Discharges	28,570	28,585	28,914	28,940	28,848	28,940
CMI - All FSCs						
UVMMC	1.69	1.71	1.69	1.68	1.71	1.73
CVMC	1.25	1.26	1.32	1.33	1.33	1.33
PMC	1.19	1.19	1.35	1.32	1.27	1.35
Patient Days						
Inpatient Patient Days	152,026	150,909	158,745	158,266	157,769	155,894
Outpatient Patient Days	35,596	36,088	35,302	34,380	34,479	35,629
ALOS	*5.32*	*5.28*	*5.49*	*5.47*	*5.47*	*5.39*
MISC						
MG Professional Worked RVUs (including Anes)	3,261,633	3,402,317	3,130,527	3,191,942	3,304,039	3,418,392
MG Professional Arrived Visits (including Anes)	1,067,896	1,184,820	1,078,986	1,062,710	1,071,632	1,116,774
Total ED Visits	96,737	97,736	94,266	95,558	96,083	95,861
Total OR Cases	24,321	25,376	25,146	24,732	24,922	25,154
Total Billed Lab Test	3,249,502	3,198,020	3,179,901	3,175,096	3,173,673	3,145,729
Procedures						
Total Cath Lab	4,896	5,002	5,424	5,214	5,141	5,047
Total EP	1,727	1,595	1,965	1,868	1,863	1,831
Total GI/Endoscopy	14,728	15,607	14,835	14,714	14,565	13,450
Total Interventional Radiology	12,436	13,973	13,386	12,994	12,948	13,751
Total Radiation Oncology	44,804	42,675	44,889	44,964	45,703	44,807
Major Imaging						
Total MRI	25,447	24,527	25,305	25,012	24,862	25,119
Total CT Scan	67,363	65,661	70,584	70,052	69,934	68,818
Total Nuc Med + PET	9,221	9,039	8,544	8,494	8,709	9,047
Minor Imaging						
Total Rad Diagnostic	183,630	180,983	183,030	183,510	182,670	181,853
Total Ultrasound	36,822	36,084	38,511	37,980	37,740	37,366
Total Mammography	60,946	62,400	61,560	61,050	61,030	61,333

UVM Health Network Cash Flow

	UVMHN		
	FY18 Actual	Projected as of Sep-2019	FY20 Budget
STATEMENT OF CASH FLOWS			
Sources of Cash:			
Income from Operations	39,751,193	43,250,283	54,134,092
Net NonOperating Income	38,681,207	20,392,244	22,717,594
Items Not Affecting Working Capital:			
Depreciation	61,646,012	65,728,690	78,541,652
Amortization			
Other	-32,351,010	29,303,384	-3,303,400
Long Term Debt Proceeds	0	0	0
Total Sources of Cash	**107,727,401**	**158,674,601**	**152,089,938**
Uses of Cash:			
Change in Working Capital, Excluding Current Portion of Debt	-58,629,404	45,524,290	-17,740,044
Additions to Property, Plant & Equipment, net	146,823,174	103,976,157	109,943,177
Long Term Debt Principal Repayments	4,189,877	15,501,088	24,309,806
Total Uses of Cash	**92,383,647**	**165,001,536**	**116,512,938**
Cash Provided (Used)	15,343,754	(6,326,934)	35,577,000
Cash Balance, beginning of period	768,508,702	783,852,456	777,525,521
Cash Balance, end of period	**783,852,456**	**777,525,522**	**813,102,521**
Summary of Cash and Investments			
Operating Cash	174,047,860	180,061,835	200,563,931
Board Designated Assets	609,804,596	597,463,687	612,538,590
Total	**783,852,456**	**777,525,521**	**813,102,521**
Days Cash on Hand	184.23	173.21	175.64

UVM Health Network Balance Sheet

	UVMHN		
	FY18 Actual	Projected as of Jul-2019	FY20 Budget
SUMMARY BALANCE SHEET			
TOTAL CURRENT ASSETS	471,641,314	478,387,766	493,698,867
FUNDED DEPRECIATION	609,804,596	597,463,687	612,538,590
ESCROWED BOND FUNDS	78,718,943	85,483,952	85,837,576
OTHER	6,322,911	-	-
TOTAL BOARD DESIGNATED ASSETS	694,846,450	682,947,639	698,376,166
PROPERTY, PLANT, AND EQUIPMENT			
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	671,511,926	709,759,393	741,160,918
OTHER LONG-TERM ASSETS	79,154,013	72,832,945	73,360,420
TOTAL ASSETS	**1,917,153,703**	**1,943,927,744**	**2,006,596,370**
TOTAL CURRENT LIABILITIES	276,359,430	229,930,314	243,554,954
TOTAL LONG-TERM DEBT	496,282,682	482,418,898	457,033,500
OTHER NONCURRENT LIABILITIES	43,192,490	61,909,566	61,486,592
TOTAL LIABILITIES	**815,834,602**	**774,258,778**	**762,075,046**
FUND BALANCE	1,101,319,100	1,169,668,966	1,244,521,325
TOTAL LIABILITIES AND FUND BALANCE	**1,917,153,702**	**1,943,927,744**	**2,006,596,371**