

THE
University of Vermont
MEDICAL CENTER

Via E-mail & Regular Mail

Office of the General Counsel

February 28, 2017

Donna Jerry
Senior Health Policy Analyst
Green Mountain Care Board
89 Main Street
Montpelier, Vermont 05620

Re: Docket No. GMCB-001-17con, Proposed Replacement of Electronic Health Record

Dear Donna:

As we discussed, enclosed please find the summary of assumptions document for the UVM Health Network Financial Forecasts. Hard copies are in the mail.

If you have any questions or require additional information, please do not hesitate to contact me.

Thank you for your assistance.

Very truly yours,



Steven J. Klein, Esq.
Director, Legal Affairs & Assistant General Counsel

cc: Office of Health Care Advocate (by email only)

Financial Forecasts FY 2016 – FY 2025
Summary of Assumptions

FY2016

- FY 2016 actual operating results

FY2017

- Based on budget, updated with margin target objectives

FY2018 – FY2025

- **Net Patient Service Revenue**
 - Fixed 3.5% increase from year to year to prepare for population health / all-payer model
- **Other Revenue**
 - Assumed a growth rate equal to expense inflation a year
- **Salary & Other Expense each year:**
 - Staff salaries 3.0%
 - MD salaries 2.0%
 - Benefits – shifts with salaries, assumed same % of salaries as FY2017
 - Med/surg supplies 3.0%
 - Pharmaceutical supplies 5.0%
 - Other supplies 2.0%
 - Purchased services 1.0%
 - Insurance + utilities 2.5%
 - Lease + rental 2.0%
- **Other Major Items:**
 - Assumes 3.0% annual return on investments
 - Includes additional pension funding 2016 – 2020
 - Annual philanthropy – \$5 million year
 - Additional debt:
 - 2017: \$89 million to fund Miller Building
 - 2017: \$20 million to fund South Burlington conversion of leases to owned sites
 - 2017: \$50 million to added to cash balance
 - 2021: \$16 million to possibly fund Medical Office Building
- **Capital**
 - FY 2016 – FY 2020
 - UVMHC: current capital plan \$545 million
 - UVMHN (includes UVMHC): current capital plan \$721 million

- FY 2021 – FY 2025: estimated annual capital spend for FY 2021 and increased by 3% each year
 - UVMHC: \$377 million
 - UVMHN (includes UVMHC): \$605 million
- **Miller Building**
 - Includes all interest & principal payments from the \$89 million financing
 - Includes additional operating expenses from business plan / CON
 - Includes philanthropy dollars not already collected
- **Epic Assumptions:**

6-Year Summary of Epic Costs & Funds Flow					
	Total University of Vermont Health Network (UVMHN)	University of Vermont Medical Center (UVMHC)	Central Vermont Medical Center (CVMC)	Porter Medical Center (Porter)	Champlain Valley Physicians Hospital (CVPH)
Total Capital Costs ¹	\$109,254,817	\$109,254,817	\$0	\$0	\$0
Total Operating Costs ²	\$85,889,541	\$85,889,541	\$0	\$0	\$0
Subscription Fees ³	\$0	(\$30,744,948)	\$9,403,958	\$4,734,147	\$16,606,843
Total System & Staffing Offsets ⁴	(\$43,451,154)	(\$27,101,902)	(\$4,322,229)	(\$2,748,998)	(\$9,278,024)
Total Net Capital & Operating Cost of Epic Implementation	\$151,693,203	\$137,297,507	\$5,081,729	\$1,985,148	\$7,328,819
Footnotes:					
1 UVMHC as the licensee has all the capital costs. Amount shown does not include capitalized interest.					
2 UVMHC as the Epic licensee will be allocated all operating costs.					
3 The UVMHN hospitals reimburse UVMHC for their share of the operating costs.					
4 Staffing & system offset savings generated from Epic implementation.					

- For fiscal years 2023 – 2025, increased total operating expense by 3.0% a year
- Model includes all depreciation expense
- **FTE Growth:**
 - Historical average growth rate has ranged between 1.0%-2.0%
 - Model assumes 0.6% growth rate for FY 2018 – FY 2020
 - Model assumes 1.0% growth rate for FY 2021 – FY 2025

- **Established minimum margin target thresholds by year to maintain “A” credit rating:**

	<u>UVMHN</u>	<u>UVMCM</u>	<u>CVCM</u>	<u>PMC</u>	<u>CPI</u>
Minimum Margin Thresholds by Year:					
FY 2016 Actual	3.84%	6.27%	1.05%	2.22%	-1.30%
FY 2017 Proj	2.64%	4.02%	1.12%	0.46%	0.02%
FY 2018 Proj	2.26%	2.97%	1.48%	0.63%	1.01%
FY 2019 Proj	2.75%	3.23%	2.06%	1.50%	1.97%
FY 2020 Proj	3.35%	3.59%	3.02%	2.51%	3.02%
FY 2021 Proj	3.52%	3.84%	3.05%	2.43%	3.05%
FY 2022 Proj	3.54%	3.84%	3.06%	2.73%	3.09%
FY 2023 Proj	3.53%	3.78%	3.10%	2.73%	3.20%
FY 2024 Proj	3.42%	3.65%	3.26%	2.46%	3.06%
FY 2025 Proj	3.52%	3.89%	2.99%	2.37%	2.95%

- **Operational efficiencies & improvements necessary to achieve margin targets:**

	<u>UVMHN</u>	<u>UVMCM</u>	<u>CVCM</u>	<u>PMC</u>	<u>CPI</u>
Total Margin Initiative Improvement Objectives by FY 2023	\$110,500,000	\$75,000,000	\$9,000,000	\$6,500,000	\$20,000,000
Initiative Improvement Objectives by FY2018	\$21,000,000	\$12,500,000	\$2,500,000	\$2,000,000	\$4,000,000
Initiative Improvement Objectives by FY2019	\$25,000,000	\$17,500,000	\$2,500,000	\$1,000,000	\$4,000,000
Initiative Improvement Objectives by FY2020	\$20,500,000	\$15,000,000	\$1,500,000	\$1,000,000	\$3,000,000
Initiative Improvement Objectives by FY2021	\$14,500,000	\$10,000,000	\$500,000	\$1,000,000	\$3,000,000
Initiative Improvement Objectives by FY2022	\$15,500,000	\$10,000,000	\$1,500,000	\$1,000,000	\$3,000,000
Initiative Improvement Objectives by FY2023	\$14,000,000	\$10,000,000	\$500,000	\$500,000	\$3,000,000

- **Margin improvement objective:**
 - Averages ~1.1% of total expense for years FY 2018 – FY 2020
 - Averages ~0.7% of total expense for years FY 2021 – FY 2023

Note: All projections and estimates will be updated and reviewed on an annual basis. Management’s focus and responsibility will be on achieving minimum operating margin targets as listed above by year. With each update, assumptions will be modified and appropriate actions will be taken to maintaining an “A” credit rating.