# ***Southwestern Vermont Medical Center***
# ***Operating Budget***
# ***Fiscal Year 2018***

## ***Overview***

Southwestern Vermont Medical Center's (hereafter "SVMC" or "Medical Center") Operating Budget for Fiscal Year (hereafter "FY") 2018 has a planned operating gain of approximately $6.3 million or an operating margin of approximately 3.87%. The excess of revenues over expenses including non-operating activities is $7.0 million. Table #1 provides the high level comparative summary statement of operations.

*Table #1 – Comparative Summary Statement of Operations*

| | ***FY 2016 Actual*** | ***FY 2017 Projected*** | ***FY 2017 Budget*** | ***FY 2018 Budget*** |
|---|---|---|---|---|
| Net patient service revenues | $151,922,754 | $151,057,048 | $152,362,260 | $159,497,504 |
| Other operating revenues | 2,730,803 | 4,021,923 | 2,811,549 | 3,963,786 |
| *Total operating revenues* | *154,653,557* | *155,078,971* | *155,173,809* | *163,461,290* |
| *Operating expenses* | *149,354,747* | *150,612,245* | *150,544,820* | *157,132,913* |
| *Operating gain* | *5,298,810* | *4,466,726* | *4,628,989* | *6,328,377* |
| Non-operating activities-net | 618,918 | 1,690,257 | 605,000 | 685,862 |
| ***Excess revenues over expenses*** | ***$5,917,728*** | ***$6,156,983*** | ***$5,233,989*** | ***$7,014,239*** |

The Net Patient Service Revenue growth is over $7.1 million or a 4.7% increase over FY 2017's approved budget. This increase is a combination of a requested effective rate increase "…of no more than 2.85%…." as outlined in the April 28th letter from the Green Mountain Care Board (hereafter "GMCB"), and increases in volumes above the FY 2017 budget. The higher volumes are mainly in the Medical Center's Cancer Center services, orthopedic services and from the neighboring states of Massachusetts and New York. Additionally, the continued efforts to improve the access to primary care and enhancing specialty services are provided in the budget.

Table # 2 on the following page is a comparative summary statement of cash flows for the FY 2018 budget. Included on the statement are the material drivers of Medical Center's cash flows.

The FY 2018 Operating Budget will generate a positive gain from operations of over $6.3 million. After the cash needs, including capital purchases, of the organization the expected cash balance will only increase slightly over $750,000 which represents less than two days cash on hand.

*Table #2 – Comparative "high level" Statement of Cash Flows*

| | FY 2016 Actual | FY 2017 Projected | FY 2017 Budget | FY 2018 Budget |
|---|---|---|---|---|
| *Operating gain* | *$5,298,810* | *$4,466,726* | *$4,628,989* | *$6,328,377* |
| *Add: Non-cash activities* | | | | |
| Non-operating gains | 618,918 | 1,690,257 | 605,000 | 685,862 |
| Depreciation expense | 5,550,510 | 5,925,878 | 6,104,254 | 6,531,292 |
| Pension credit | (810,856) | (810,856) | (600,000) | (250,000) |
| *Subtotal* | *10,657,382* | *11,272,005* | *10,738,243* | *13,295,531* |
| *Other operating activities* | *3,801,304* | *(1,898,096)* | *296,672* | *(1,891,058)* |
| *Cash provided by operations and non-cash activities* | *14,458,686* | *9,373,909* | *11,034,915* | *11,404,473* |
| *Less: Investing and financing* | | | | |
| Capital purchases | (11,322,181) | (12,500,000) | (12,500,000) | (7,250,000) |
| Pension plan funding | (3,900,000) | (4,200,000) | (3,900,000) | (4,200,000) |
| Long term debt payments | (508,300) | (448,392) | (441,552) | (456,561) |
| *Cash used for investing and financing activities* | *(15,730,481)* | *(17,148,392)* | *(16,841,552)* | *(10,648,392)* |
| ***Net increase (decrease) in cash and equivalents*** | ***($1,271,795)*** | ***($7,774,483)*** | ***($5,806,637)*** | ***$756,081*** |

The past two years the Medical Center has invested in itself from cash reserves and investment earnings from its parent organization. The Medical Center reports 41.6 day's cash on hand, however, the Medical Center's and its parent organization consolidated day's cash on hand and investments are projected to be approximately 172 days.

This budget was prepared utilizing the current reimbursement models. The Medical Center's management is still evaluating if the Medical Center will be entering the "risk model" effective January 1, 2018. Management will be presenting in September to its Board of Trustee's its recommendation. This budget was prepared using known information and trends through May 31, 2017.

Developing this budget the Medical Center evaluated its overall mission, utilized its Community Needs Assessment, evaluated the changing healthcare landscape and planned to assure that high quality patient care can be sustained at SVMC today and in the future. Operating costs for health reform and innovation initiatives were included in the budget.

OneCare participation fees of $850,000 for FY 2018 are included. The Hospital also provided an additional $190,000 for a contract with the local mental health care provider, United Counseling Services (hereafter "UCS) in Bennington to provide increased coverage to address the mental health needs of inpatient, observation and emergency room patients. SVMC is also working with UCS to provide services to the drug addicted patients in the community through a program called the Intensive Medication Assisted Treatment Program (IMAT). In the budget $145,000 has been included for this program.

The Medical Center also developed a telemedicine program that provides physician support in the emergency room, for neurology service and intensive care through Dartmouth Hitchcock. The costs of approximately $250,000 has been included in the budget for this program.

In addition, there are costs included in the budget related to the Hospital's Community Needs Assessment which includes many other initiatives in the community. Included is the continued financial support to the local free clinic, wellness and community building initiatives.

Below are summary points of material interest included in the budget:

*<u>Revenue—Rate/Price</u>*

- The effective charge / rate increase of 2.85% is being requested;
- Included in the budget is an increase in Medicare reimbursement for FY 2018;
- <u>No</u> Medicaid reimbursement increase has been budgeted for FY 2018;
- Vermont Disproportionate Share Payments (hereafter "DSH") are budgeted at $1,043,610 or an increase from FY 2017's amount by $316,457;
- Slight increase in indigent care;

*<u>Revenue—Volumes/Services</u>*

- Cancer Center volume increase, resulting in revenue increases in drugs sold and radiation therapy;
- The budget anticipates additional orthopedic volume from mainly Massachusetts and New York with a projection to reduce the out migration of orthopedic services from the Hospitals' primary service area;

- The budget includes increased volume in primary care practices in the Medical Center's service area as well as from New York and Massachusetts due to changes primary care providers in those regions;
- Enhancements to selected specialty services;

*Operating expenses*

- A 3% salary increase was included, effective May 2018, plus 1% market adjustment factor was included;
- Full Time Employee Equivalents (hereafter "FTE's") of 752 are 4.4 FTE's *lower* than FY 2017's budget;
- The pharmacy drug costs are budgeted to increase by approximately $2.8 million or 24.2%, budget to budget, due to the increased volume and higher cost of oncology drugs;
- Lower utility costs due to the new central boiler plant;

*Other Highlights*

- The FY 2018 capital budget and investments is $7,250,000
- This proposed budget *does not* include revenue or expenses for Dental Services included in the pending Certificate of Need filed with the GMCB;

The following pages of this document will provide greater details to the highlights outlined above.

***Gross/Net Patient Service Revenues***

Total gross charges in the FY 2018 budget are increasing by $25,960,335 or approximately 8.0%. The charge master effective increase of 2.85% represents approximately $9.7 million, with the remaining part of the increase will be due to cost of drugs sold, cancer services, and increases in orthopedic services, out of state patient's volumes as well as others.

The total increase in charges of nearly $26 million will only realize the Medical Center $7.1 million in expected realizable revenues or what is defined as Net Patient Service Revenues (hereafter "NPSR").

The NPSR increase in FY 2018 over the FY 2017 budget is $7,135,244 or an increase of 4.7%. Table #3 on the following page lists the major rate/price and volume/service changes to the NPSR in the FY 2018 budget compared to FY 2017's budget.

*Table #3 – FY 2018 NPSR major changes compared to FY 2017 NPSR Budget*

| **Rate/Price changes** | **Amount** | **% of FY 2017 NPSR** |
|---|---|---|
| Charge/rate increase to be realized *(effective rate 2.85%)* | $2,473,001 | 1.62% |
| Medicare proposed rate increase | 440,000 | 0.29% |
| Increase in Medicaid DSH payments | 316,457 | 0.21% |
| Increase indigent care *(bad debt and charity care)* | (298,334) | -0.20% |
| *Subtotal rate/price changes* | *2,931,124* | *1.92%* |
| | | |
| **Volume/Service changes** | | |
| Medical Oncology services | 2,323,000 | 1.52% |
| Radiation Oncology services | 1,509,000 | 0.99% |
| Expanded primary care | 1,084,000 | 0.71% |
| Orthopedics – Inpatient and outpatient services | 920,000 | 0.61% |
| Enhancement to practices | 531,000 | 0.35% |
| Emergency room services | 516,000 | 0.34% |
| Endoscopy volumes | (322,000) | -0.21% |
| Discontinued Allergy practice | (699,000) | -0.46% |
| Other volume and payer mix changes | (1,657,880) | -1.09% |
| *Subtotal volume/service changes* | *4,204,120* | *2.78%* |
| | | |
| ***Total change in net patient service revenues*** | ***$7,135,244*** | ***4.70%*** |

*Rate/price changes*

Charge master increase

Realization of the charge increase of 2.85% is dependent on commercial insurance, Blue Cross and managed care volumes and the mix of services. It was determined that physician professional services, drugs sold, medical surgical supplies and other categories should not be increased since the Hospital's charges in these areas are comparable with other Hospital's in the region. The charge level of these services is approximately 38% of the total charge structure of the Hospital. The remaining 62% of charges will be increased 4.6%.

Due to the Medical Centers' payer mix and contractual arrangements the charge master increase/price increase will realize nearly $2.5 million which represents a 1.62% increase in NPSR.

Increase in Medicare rates

Included in the FY 2018 budget is an increase in Medicare reimbursement for inpatient and outpatient services. The update factor used for inpatient was 2.4%. The inpatient services assumption will be effective October 1, 2017. The update factor utilized for outpatient services will be 1% effective January 1, 2018.

*Currently, there is **no** consideration included in the budget for potential changes in the Inpatient or Outpatient Prospective Payment rules or methodologies that are proposed as of this date. These items are usually finalized after submission and approval of the budget. Additionally, no consideration is included for changes, if any, for revisions to the Affordable Care Act.*

Based upon the Medicare payer mix and the methodologies proposed the Medicare increase is approximately $440,000 or .29% increase of NPSR.

Increase in Medicaid DSH payments

Medicaid DSH payments will increase by $316,457 in FY 2018. This represents a .21% increase of NPSR. Table #4 below shows the Medicaid DSH payments from FY 2014 to the FY 2018 budget amount. As the table demonstrates Medicaid DSH payments over a four year period has been reduced by $1.5 million yet Medicaid revenues remained approximately the same.

*Table #4 – FY 2014–FY 2018 budget Medicaid DSH and VT Medicaid Revenues*

| **Year** | ***DSH Receipts*** | ***VT M'caid Revenues*** |
|---|---|---|
| FY 2014 | $2,642,412 | $15,162,647 |
| FY 2015 | 2,645,546 | 16,947,138 |
| FY 2016 | 1,627,431 | 17,375,592 |
| FY 2017 | 727,314 | 14,790,161 |
| FY 2018 budget | 1,043,610 | 15,412,695 |

Increase in indigent care (Decrease in NPSR)

Total indigent care will increase by nearly $300,000 when comparing FY 2018's budget to FY 2017's budget.

FY 2017 charity care budget was $1.6 million and the projected amount is approximately $462,000 more than budget. The current increased activity is a result of changes to the charity care program that expanded eligibility and increased discounts. Discounts start at the Medicaid payment levels for patients who meet eligibility criteria and increase. The projected FY 2018 levels will be approximately $2.1 million or an increase of approximately $500,000 over FY 2017's budget.

The FY 2017 projected bad debt expense is under budget by approximately $394,000 through May 31, 2017. In FY 2017, management anticipated to see a reduction in the provision for bad debt partially due to the changes in the charity care policy that should encourage patients to apply for charity care that might otherwise ended up in the bad debt cycle. In addition, increased efforts to collect deductibles and coinsurance at the time of service should further reduce the number of accounts that end up in the bad debt cycle. In FY 2018 bad debt is budgeted to decrease by approximately $200,000.

The total rate/price changes included in the budget, in total amounts to approximately $2.9 million, which represents a 1.92% increase over FY 2017's NPSR.

*Volume/Service changes*

Medical Oncology

The number of Medical Oncology patients, visits per patient and costs of pharmaceuticals have increased dramatically over the past years. Cancer care has rapidly evolved over the past few years and SVMC recognizes that some new treatments are very expensive. However, the efficacy and outcomes of these treatments have been well documented in the evidence-based literature to be superior compared to former treatments. SVMC carefully selects each cancer treatment to adhere to the National Comprehensive Cancer Network Guidelines. In addition, the treatment regimens for many patients are reviewed by the tumor board including providers from Dartmouth-Hitchcock's nationally recognized Norris Cotton Cancer Center. To further ensure appropriate adherence to guidelines, SVMC's Cancer Center is accredited by the American College of Surgeons which carefully reviews 10% of treatment regiments for adherence to best practice. Together these measures ensure SVMC is providing the most appropriate treatment with the best value for patients.

There are three drivers to the increase in Medical Oncology Services at the Medical Center. The first is the increase in unique patients. Unique patients have increased over 4% per year since FY 2014. Second is the average visits where a patient receives pharmaceuticals has increased from 8.1 to 9.3 or a 15% increase. Finally, the actual cost of the pharmaceuticals have increased by over 30% since 2014 resulting in the NPSR to increase.

The gross charges will increase nearly $5 million and the NPSR will increase over $2.3 million when comparing budget to budget. The cost of drugs sold, which most is related to the Cancer Center service, will increase by $2.7 million in FY 2018.

Radiation Therapy

In FY 2016, the Medical Center installed a new Linear Accerarator. As a result of the new technology SVMC is enabling SVMC patients not to seek services at other locations. The increase in the Medical Oncology service has led to additional Radiation Therapy, volumes as well. The volumes and revenues are increasing when compared to the FY 2017's budget.

The number of unique patients being treated has increased 21% over actual FY 2016 in FY 2017, and the FY 2017 budget only showed a slight increase over FY 2016. Additionally, visits have only showed a 12% increase. This is due to the improved technology and less visits per treatment episode, according to the Radiation Oncologist at SVMC.

The gross charges will increase by approximately $3.3 million and the NPSR will increase by approximately $1.5 million, if the payer mix of patients remains the same as projected when comparing budget to budget.

Expanded access to primary care services

Northshire Practice in June of 2017 the practice launched a same day appointment clinic staffed with associate providers and physicians, similar to the Express Care practice in Bennington. The FY 2018 budget reflects a fully staffed practice with expanded hours in the practice and projects 8,300 additional patient encounters. The increase in visit volume will generate additional gross charge volume of $1,289,000 and approximately $520,000 of collectable NPSR over the FY 2017 budget;

Pownal Primary Care Clinic in FY 2018, an associate provider and a part-time physician will be added to the practice. The addition of providers will help to provide needed primary care in our service area. The increase in visit volume will generate additional gross charge volume of approximately $338,000 and approximately $176,000 of collectable revenues over the FY 2017 budget. At the Pownal Clinic out of state volumes are increasing.

In several of SVMC's other primary care sites changes to improve access are occurring. The models in each site are moving to more associate providers providing direct patient care with physician supervision instead of the physician only model. This allows more access and utilizes the physician time more effectively.

Overall, all the primary care sites will see an increase in visits and collectible revenues. In total management is expecting to increase over the FY 2017 budget by nearly $1.1 million in NPSR.

<u>Orthopedics services</u>

SVMC Orthopedics over the past years SVMC has identified a need to replace providers who have retired or otherwise left the service area. In the FY 2017 budget management included over $2 million of additional revenues for three providers joining the practice from Massachusetts effective January 1, 2017. In the FY 2018 budget these providers will continue to ramp up the orthopedic volumes for 12 months and reduce the out migration of orthopedic services to other Hospitals.

Based upon the demand in the Bennington, Northern Massachusetts and Eastern New York service areas, SVMC is anticipating employing 7.2 providers, 3 associate providers and 4.2 MD’s. The addition of providers and volume expected to generate additional revenues of over $900,000 above the $2 million included in the FY 2017 budget.

Later in this document the effect of the out of state volumes and revenues will be discussed.

<u>Enhanced services</u>

In the FY 2018 operating budget management is adding additional resources to improve a number services.

SVMC Dermatology is planning to add an associate provider in fiscal year 2018. Currently, there is a six month wait for an appointment. The addition of an associate provider is expected to generate approximately $510,000 in gross revenues and $304,000 in collectable revenues when compared to the FY 2017 budget.

SVMC Pulmonology is anticipating the addition of a .20 physician and an associate provider in 2018. Gross revenues are projected to be approximately $330,000 higher than the FY 2017 budget. Collectable NPSR is expected to increase by approximately $227,000 over the FY 2017 budget;

Emergency room volumes

In the FY 2017 budget management again reduced Emergency Room volumes due to the continued investments in primary care access and initiatives to assist patients who have been identified as high utilizers of the Emergency Room. Unfortunately, as we reduce visits by the identified high utilizers those visits are replaced by other patients needing the service, especially patients with Mental Health needs.

The FY 2018 budget is consistent with FY 2014 to FY 2017 actual visits. The budget to budget increase in visits increases NPSR by slightly over $500,000.

Endoscopy services

The FY 2017 budgeted amounts are not being met. As a result of the lower then expected actual versus budget and reviewing the demand for the service the endoscopy services volume on a budget to budget comparison is less in the FY 2018 budget than what was budgeted in FY 2017. This is a reduction of approximately $322,000 in NPSR when comparing to FY 2017's budget.

Discontinued Allergy practice

In the FY 2018 budget the Allergy practice has not been budgeted since the Medical Center continues to search for a provider for the service. The primary care practitioners continue to service the needs of the patients or refer the patients to other providers outside of the Medical Centers service area. The FY 2017 budgeted NPSR was nearly $700,000.

Other volume and payer mix changes

Included in this category of volume/service changes are many minor changes. The most significant one is the payer mix shift. In the FY 2018 budget there is the continued shift to Medicare and Medicaid payers. This shift in the FY 2018 budget is over $1.2 million in lower revenues to the Hospital

## ***Out of State NPSR***

The above explanations is the traditional way that the Hospital has discussed its changes in NPSR from budget to budget to the GMCB. In FY 2017 there has been significant changes in the landscape of the Northern Berkshire County of Massachusetts market and in the Hoosick Falls, Eastern New York market which is in SVMC's service area.

In the FY 2017 budget the Medical Center included additional volumes and revenues for the recruitment of an orthopedic group from Massachusetts. The goal was to reverse the outmigration of orthopedic services from the Bennington market. As a result of the recruitment of this group many loyal Massachusetts patients are now seeking services at the Medical Center for mainly orthopedic services but for other services as well as others.

The NPSR using the straight line method to annualize the Massachusetts volumes/NPSR shows management that volume will increase from approximately $7.9 million in FY 2016 to $9.3 million in FY 2017. The FY 2018 revenues could be as high as $11.2 million if the trend continues. The increase is mostly related to orthopedic services but there is a growing increase in revenues from SVMC's Pownal Campus from patients residing in Massachusetts due to the continued shortage of primary care in Northern Berkshire County, MA.

Second, in the Eastern New York market Glens Falls Hospital in March 2017 closed a Health Clinic in Hoosick Falls, New York approximately 12 miles from SVMC. This clinic served, over 7,000 patients. A group of physicians, working with SVMC and partnering with Dartmouth Hitchcock, opened a primary care office to address the service void left by the closed Health Clinic.

The Eastern New York service area has traditionally represented over 20% of SVMC total revenues. Since the closure of the Glens Falls Hospital clinic in March the hospital has seen an increase in patient volumes in all service lines from New York.

Utilizing recent trends the revenues from this market could increase by over $1.7 to $2.0 million above historical levels.

In the FY 2018 budget development management <u>utilized approximately the mid-point</u> for the growth in the both the Massachusetts and New York markets which is approximately $2 million, based upon information available as of May 31, 2017. Management will continue to monitor.

## ***<u>Other Operating Revenue</u>***

Other operating revenue is budgeted to increase by nearly $1.2 million in the FY 2018 budget primarily due to the continued ramp up and expansion of the 340B Retail Pharmacy Program here at SVMC. The program was initiated in FY 2017 and the Hospital has contracted with additional retail pharmacies resulting in additional revenue to the Medical Center.

***Operating Expenses***

SVMC operating expenses are budgeted to increase by $6,588,093 or 4.4% compared to FY 2017 budget.

*Salaries and wages -- non physician*

The salaries and wages are budgeted to be at FY 2017 levels. In developing the FY 2018 salary and wage budget the effect of the FY 2017 wage increases was included as well as a 3% wage increase effective May 2018 and a 1% market update factor was included. FTE's are budgeted slightly lower than FY 2017's budget.

*Physician fee/salaries, contracts and fringes*

This category of expense is increasing by $2,019,729 in FY 2018 when compared to the FY 2017 approved budget. As described in the Table #5 provides some of the highlights to the changes in this classification of expense.

*Table #5 – Changes to Physician Fees/Salaries, contract and fringes*

| | |
|---|---|
| New providers, associate providers to improve access and enhance services | $1,786,467 |
| Compensation rate changes and other changes | 233,262 |
| ***Change in physician fee/salaries, contracts and fringes*** | ***$2,019,729*** |

*Table #6 -- Provider FTE's*

| | ***FY 2017 Budget*** | ***FY 2017 Projected*** | ***FY 2018 Budget*** |
|---|---|---|---|
| Physician | *72.0* | *68.7* | *74.3* |
| *Assoc. Provider* | *15.1* | *14.9* | *22.9* |
| ***Totals*** | ***87.1*** | ***83.7*** | ***97.2*** |

*Employee Benefits*

In the FY 2018 operating budget, employee benefits are targeted to increase $551,194 or approximately 4.1% over FY 2017 budget. The employee benefit expense represents approximately 29.6% of salary costs. The FY 2018 budget assumes an increase in the self-insured claims experience in the employee health insurance program. In addition, SVMC anticipates an increase in pension plan expense.

*Provider Tax*

The absolute dollar amount of the increase over FY 2017 budget is $365,735 or 4.1%. The provider tax has more than *doubled* from $4,224,089 to $9,311,076 since FY 2009.

*Depreciation and Amortization Expenses*

The depreciation and amortization expense will be budgeted at $6,531,292 or an increase of approximately $427,000 from FY 2017's budget. This is based upon a FY 2018 Capital Budget of $7.25 million, and assumption that all FY 2017 capital budget will all be acquired as planned as well as the depreciation expense on assets currently in service.

The Capital Budget of approximately $7,250,000 in FY 2018 will be funded from cash and cash generated from operations. This is a significant reduction from the FY 2016 budget of $12.5 million.

*Other Operating Expenses*

Other operating expenses in the FY 2018 operating budget are increasing by $1,778,829 or approximately 3.8%. Table # 7 -- Highlights the significant changes in other operating expenses.

*Table #7 – Significant changes to other operating expenses*

| | ***Amount*** |
|---|---|
| Pharmacy and drugs sold | $2,792,994 |
| Radiation oncology | 287,250 |
| Emergency room | 149,314 |
| Laboratory | (149,013) |
| Administration | (867,060) |
| Plant Operations | (419,177) |
| All others | (15,479) |
| ***Total increase*** | ***$1,778,829*** |

- Pharmacy and drugs sold – Medical oncology drug increases of approximately 24% mainly due to patient volumes and the increase in the cost of drugs;
- Radiation oncology – the new linear accelerator purchased in FY 16 came off warranty, the additional expense is for the cost of a service contract;
- Emergency room – SVMC is partnering with the local mental health provider, UCS, to provide expanded services to our patients resulting in additional expense for psychiatric services;
- Laboratory – the hospital was able to negotiate reduced costs of referral laboratory testing for high volume testing such as tests performed to detect tick borne diseases. Charges to patients for these tests were reduced to reflect the lower costs;
- Administration – primarily related to decrease in dues and expense related to affiliation costs and consulting costs;
- Plant operations – reflects savings related efficiency of new central boiler plant that will be online in the fall of 2017 as well saving from lower cost utility contracts for compressed natural gas and electric.

Greater detail can be provided upon request.

***<u>Proposed or Potential Certificate of Need (hereafter "CON")</u>***

SVMC currently has a pending CON application for the Dental Clinic. No revenue or costs associated with this program are included in this budget.

Management in the coming years will be evaluating significant changes to the physical plant of the Medical Center that could be over $50 million. In addition, we anticipate changes to its current information technology platform, estimates are not available at this time.

***<u>Non-operating gains and losses</u>***

The non-operating gains and losses are mainly out of the control of management. Investment earnings on the funded depreciation are driven by market and economy. No gain or loss on the interest rate swap was budgeted. The budget also includes $250,000 of contribution income.

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If there are any questions or comments please do not hesitate to contact Stephen D. Majetich, Chief Financial Officer at 802.447.5011