

# Northwestern Medical Center

## Fiscal Year 2017 Budget Analysis

Report Date: 8/9/2016

## Northwestern Medical Center

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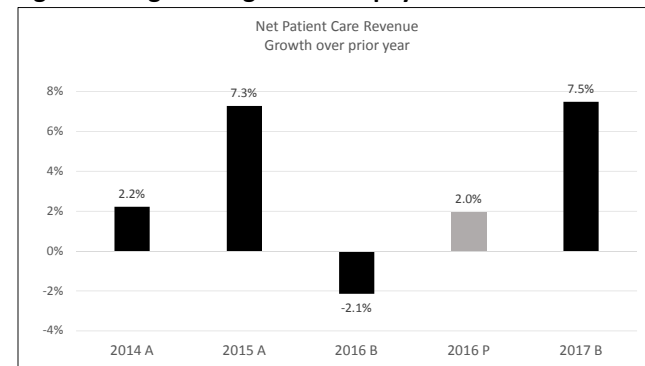
### SUMMARY OF BUDGET

|   | 2015 A                | 2016 B               | 2016 P                | 2017 B                | B16-B17 Change \$   | B16-B17 Change % | B16-B17 Change \$ All Hospitals | B16-B17 Change % All Hospitals |
|---|-----------------------|----------------------|-----------------------|-----------------------|---------------------|------------------|---------------------------------|--------------------------------|
| Gross Patient Care Revenue              | \$ 189,773,212        | \$ 180,271,472       | \$ 184,313,271        | \$ 194,610,767        | \$ 14,339,295       | 8.0%             | \$ 134,233,796                  | 2.7%                           |
| <b>Net Patient Care Revenue</b>         | <b>\$ 97,798,763</b>  | <b>\$ 95,697,390</b> | <b>\$ 99,725,077</b>  | <b>\$ 102,867,018</b> | <b>7,169,628</b>    | <b>7.5%</b>      | <b>114,454,070</b>              | <b>5.0%</b>                    |
| Other Operating Revenue                 | \$ 5,765,170          | \$ 4,186,270         | \$ 5,471,642          | \$ 5,867,838          | 1,681,568           | 40.2%            | 6,477,684                       | 4.7%                           |
| <b>Total Operating Revenue</b>          | <b>\$ 103,563,933</b> | <b>\$ 99,883,660</b> | <b>\$ 105,196,719</b> | <b>\$ 108,734,856</b> | <b>\$ 8,851,196</b> | <b>8.9%</b>      | <b>\$ 120,931,754</b>           | <b>4.9%</b>                    |
| <b>Operating Expense</b>                | <b>\$ 93,499,518</b>  | <b>\$ 97,797,560</b> | <b>\$ 101,347,753</b> | <b>\$ 105,228,595</b> | <b>\$ 7,431,035</b> | <b>7.6%</b>      | <b>\$ 119,502,747</b>           | <b>5.0%</b>                    |
| <b>Net Operating Income</b>             | <b>\$ 10,064,415</b>  | <b>\$ 2,086,100</b>  | <b>\$ 3,848,966</b>   | <b>\$ 3,506,261</b>   | <b>\$ 1,420,161</b> | <b>68.1%</b>     | <b>\$ 1,429,007</b>             | <b>2.1%</b>                    |
| <b>Non Operating Revenue</b>            | <b>\$ (1,865,700)</b> | <b>\$ 542,442</b>    | <b>\$ 542,442</b>     | <b>\$ (200,480)</b>   | <b>\$ (742,922)</b> | <b>-137.0%</b>   | <b>\$ 4,835,590</b>             | <b>15.7%</b>                   |
| <b>Excess (Deficit) of Rev over Exp</b> | <b>\$ 8,198,715</b>   | <b>\$ 2,628,542</b>  | <b>\$ 4,391,408</b>   | <b>\$ 3,305,781</b>   | <b>\$ 677,239</b>   | <b>25.8%</b>     | <b>\$ 6,264,597</b>             | <b>6.2%</b>                    |
| <b>Operating Margin %</b>               | <b>9.7%</b>           | <b>2.1%</b>          | <b>3.7%</b>           | <b>3.2%</b>           |                     |                  |                                 |                                |
| <b>Total Margin %</b>                   | <b>8.1%</b>           | <b>2.6%</b>          | <b>4.2%</b>           | <b>3.0%</b>           |                     |                  |                                 |                                |

The hospital has prepared a budget with a \$7.2 million increase in net patient revenues (NPR) (7.5%). Over \$5.7 million of the NPR increase is related to prior period hospital utilization and physician practice increases experienced during the period 2014 - 2016. The GMCB reduced rates 8% in 2016 recognizing some of that increase.

The hospital has a rate increase of 2.9%, which will also raise about \$1.8 million. The increase in NPR will support an operating margin % increase from 2.1% to 3.2%.

Page 3 and 4 explain the hospital NPR increase by operations (utilization, rates, etc) and the budget to budget change for each payer.



Note: The 2016 Budget and Projected increase are measured from Actual 2015.

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**RATE AND NET PATIENT REVENUE INCREASE**

**Rate is the average change in price for services provided.**

|  | 2013 Approved | 2014 Approved | 2015 Approved | 2016 Approved | 2017 Submitted |
|--|---------------|---------------|---------------|---------------|----------------|
| Weighted Average rate for all hospitals  | 7.9%          | 5.2%          | 6.8%          | 4.4%          | 2.2%           |
| Northwestern Medical Center Rate Request | 2.9%          | 3.9%          | 6.4%          | -8.0%         | 2.9%           |
| Hospital Inpatient                       |               |               |               |               | 3.5%           |
| Hospital Outpatient                      |               |               |               |               | 3.6%           |
| Outpatient Physician                     |               |               |               |               | 0.0%           |
| Chronic/SNF                              |               |               |               |               | 0.0%           |
| Swing                                    |               |               |               |               | 0.0%           |
| Other                                    |               |               |               |               | 0.0%           |

The 2.9% rate increase is achieved by 3.5% increase budgeted for inpatient and 3.6% for outpatient services. No increase is budgeted for physician services.

The rate increase will generate \$1.8 million of the \$7.2 million NPR increase. The balance of the increase will be realized from higher utilization (\$2.6) and the acquisition of physician services (\$3.1). The utilization increase is related to inpatient services while the physician acquisitions include both expanded and new service disciplines over the last few years.

Other changes such as the improvement seen in bad debt and free care is offset by other reimbursement reductions, such as a \$845,000 reduction that has been budgeted for Medicaid and changes in reimbursement experienced in 2016.

| Net Patient Revenue change         | 2016 Approved | 2017 Submitted | B16-B17 Change | B16-B17 Change  |
|------------------------------------|---------------|----------------|----------------|---|
| NPR changes due to:                | \$ 95,697,390 | \$ 102,867,018 | \$ 7,169,628   | 7.5%  |
| Commercial Ask Negotiations        |               |                | \$ -           |   |
| Rate request                       |               |                | \$ 1,752,477   | <b>2.9% Rate to be requested from commercial insurers</b>                 |
| Utilization                        |               |                | \$ 2,607,299   | <b>Increase in inpatient admissions, ER visits, Diagnostic procedures</b> |
| Other major program change         |               |                | \$ -           |   |
| Physician Acquisition or reduction |               |                | \$ 3,106,808   | <b>Pediatrics, providers previously part-time are budgeted full-time</b>  |
| Free care                          |               |                | \$ 65,944      | <b>A reduction in the relative share budgeted in 2016.</b>                |
| Bad debt                           |               |                | \$ 1,328,015   | <b>A reduction in the relative share budgeted in 2016.</b>                |
| Dispro share change                |               |                | \$ 422,314     | <b>Change determined by DVHA</b>  |
| Other NPR changes                  |               |                | \$ (1,268,229) | <b>Reimbursement shifts among payers</b>                                  |
| Other NPR changes                  |               |                | \$ (845,000)   | <b>Medicaid reimbursement reduction</b>                                   |
| Total NPR changes                  |               |                | \$ 7,169,628   |   |

**Northwestern Medical Center**

| NET PAYER REVENUE CHANGE  |                                     | Projection           |                      |                      | B16-B17<br>\$Change | B16-B17 %<br>change | NPR From Rate      | NPR From All<br>Other |
|---------------------------|-------------------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|--------------------|-----------------------|
|                           |                                     | FY2016               | FY2016               | FY2017               |                     |                     |                    |                       |
| <b>All Payers</b>         | <b>Gross Revenue</b>                | \$180,271,472        | \$184,313,271        | \$194,610,766        | \$14,339,294        | 8.0%                |                    |                       |
|                           | Allowances                          | (\$79,351,293)       | (\$81,498,658)       | (\$88,337,233)       | (\$8,985,940)       | 11.3%               |                    |                       |
|                           | Bad Debt                            | (\$5,045,412)        | (\$3,065,130)        | (\$3,717,397)        | \$1,328,015         | -26.3%              |                    |                       |
|                           | Free Care                           | (\$1,621,948)        | (\$1,468,977)        | (\$1,556,004)        | \$65,944            | -4.1%               |                    |                       |
|                           | Disproportionate Share Payments     | \$1,444,571          | \$1,444,571          | \$1,866,885          | \$422,314           | 29.2%               |                    |                       |
|                           | Graduate Medical Education Payments | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | <b>Net Payer Revenue</b>            | <b>\$95,697,390</b>  | <b>\$99,725,077</b>  | <b>\$102,867,017</b> | <b>\$7,169,627</b>  | <b>7.5%</b>         | <b>\$1,752,477</b> | <b>\$5,417,150</b>    |
| <b>Commercial</b>         | <b>Gross Revenue</b>                | \$74,880,564         | \$73,819,982         | \$79,419,693         | \$4,539,129         | 6.1%                |                    |                       |
|                           | Allowances                          | (\$21,213,340)       | (\$21,134,950)       | (\$25,252,476)       | (\$4,039,136)       | 19.0%               |                    |                       |
|                           | Bad Debt                            | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Free Care                           | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Disproportionate Share Payments     | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Graduate Medical Education Payments | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | <b>Net Payer Revenue</b>            | <b>\$53,667,224</b>  | <b>\$52,685,032</b>  | <b>\$54,167,217</b>  | <b>\$499,993</b>    | <b>0.9%</b>         | <b>\$1,752,477</b> | <b>-\$1,252,484</b>   |
| <b>Medicaid</b>           | <b>Gross Revenue</b>                | \$40,389,953         | \$43,794,288         | \$47,390,132         | \$7,000,179         | 17.3%               |                    |                       |
|                           | Allowances                          | (\$22,244,703)       | (\$26,314,329)       | (\$28,265,157)       | (\$6,020,454)       | 27.1%               |                    |                       |
|                           | Bad Debt                            | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Free Care                           | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Disproportionate Share Payments     | \$1,444,571          | \$1,444,571          | \$1,866,885          | \$422,314           | 29.2%               |                    |                       |
|                           | Graduate Medical Education Payments | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | <b>Net Payer Revenue</b>            | <b>\$19,589,821</b>  | <b>\$18,924,530</b>  | <b>\$20,991,860</b>  | <b>\$1,402,039</b>  | <b>7.2%</b>         | <b>\$0</b>         | <b>\$1,402,039</b>    |
| <b>Medicare</b>           | <b>Gross Revenue</b>                | \$65,000,955         | \$66,699,001         | \$67,800,941         | \$2,799,986         | 4.3%                |                    |                       |
|                           | Allowances                          | (\$35,893,250)       | (\$34,049,379)       | (\$34,819,600)       | \$1,073,650         | -3.0%               |                    |                       |
|                           | Bad Debt                            | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Free Care                           | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Disproportionate Share Payments     | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | Graduate Medical Education Payments | \$0                  | \$0                  | \$0                  | \$0                 | 0.0%                |                    |                       |
|                           | <b>Net Payer Revenue</b>            | <b>\$29,107,705</b>  | <b>\$32,649,622</b>  | <b>\$32,981,341</b>  | <b>\$3,873,636</b>  | <b>13.3%</b>        | <b>\$0</b>         | <b>\$3,873,636</b>    |
| <b>Bad Debt/Free Care</b> | <b>Gross Revenue</b>                |                      |                      |                      | \$0                 | 0.0%                |                    |                       |
|                           | Allowances                          |                      |                      |                      | \$0                 | 0.0%                |                    |                       |
|                           | Bad Debt                            | (\$5,045,412)        | (\$3,065,130)        | (\$3,717,397)        | \$1,328,015         | -26.3%              |                    |                       |
|                           | Free Care                           | (\$1,621,948)        | (\$1,468,977)        | (\$1,556,004)        | \$65,944            | -4.1%               |                    |                       |
|                           | Disproportionate Share Payments     |                      |                      |                      | \$0                 | 0.0%                |                    |                       |
|                           | Graduate Medical Education Payments |                      |                      |                      | \$0                 | 0.0%                |                    |                       |
|                           | <b>Net Payer Revenue</b>            | <b>(\$6,667,360)</b> | <b>(\$4,534,107)</b> | <b>(\$5,273,401)</b> | <b>\$1,393,959</b>  | <b>-20.9%</b>       | <b>\$0</b>         | <b>\$1,393,959</b>    |

This schedule shows the NPR increase by each major payer, including those receiving care as bad debt or free care. The schedule identifies the NPR increase related to rates separate from all other increases.

The Commercial revenues reflect the planned rate increase dollars for 2017. The negative \$1.3 million is reimbursement changes in utilization offset by additional physician services.

The hospital will NOT receive any new funds because of their rate increase. The increase of \$1.4 million is physician services.

Utilization is also increasing, and at a higher reimbursed rate compared to 2016.

The hospital will explain the change in NPR for each payer as part of its budget presentation, including bad debt/free care changes.

Page 3 describes the 2017 NPR increase by major operational changes (rates, utilization, etc).

1) The hospital's net patient revenues (NPR) are increasing 7.5% over 2016 budget. The primary reasons for the increase is increased rates, physician transfer/acquisitions, and additional hospital utilization.

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a) Physician acquisitions are \$3.1 million of the \$7.2 million increase. This includes both new FTEs and twelve distinct physician disciplines.

How does the hospital determine the appropriate physician need for the service area? What are your longer term plans for adding additional physician disciplines? Define how the hospital determines a "fully developed practice" (page 10 of the narrative)?

b) The physician NPR is budgeted to increase \$3.1 million made up of Medicaid and Commercial revenues. Why aren't Medicare revenues budgeted?

c) The increase includes \$2.6 million in utilization. Acute admissions are at their highest level since at least 2000 and there has been a 2.6% annual growth since 2011. The narrative notes that this is related to the age of the population.

Provide a summary schedule that shows the types of changes in admissions and how the age of patients is impacting the change.

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c) Explain your NPR changes at the budget hearing using the payer schedule (page 4) provided in the staff's analysis. The GMCB is interested in understanding the changes occurring from budget to budget by payer.

2) The hospital has budgeted an increase of 60 FTEs over 2016 budget. Most if not all of the FTEs are being added to support physician expansion and additions. The cost for the FTEs, on average, is over \$4.6 million. This is much higher than the added physician revenues. Provide a schedule showing the total number of FTEs for the hospital separate from those supporting physicians. Show this for the years 2015 through 2017.

3) The hospital narrative (page 10, 14) says that there are a number of ongoing recruitments and has budgeted for "locum providers" to provide coverage in the meantime. Is it the hospital's practice to budget for both "locums" and physician FTEs? How many and how are these recorded in the hospital's budget?

4) The hospital is requesting a 2.9% rate increase. This rate will generate an estimated \$1.752 million in NPR dollars and has the effect of increasing the operating margin (surplus) % from 2.1% in 2016 to 3.2% in 2017. In light of the strong financial health of the hospital and the size of the NPR budget increase, what is the impact if the margin remains at 2.1%?

5) Bad debt is projected to be lower than budget in 2016, going from \$5.0 million to \$3.1 million. However, FY 2017 is budgeted to be higher than projected 2016 by \$700,000. What is the basis for increasing the bad debt?

ANALYSIS AND QUESTIONS

- 6) The hospital has moved reference lab dollars from NPR to other operating. Explain why these are no longer considered NPR funds? Who makes this decision?
- 7) Describe the hospital's efforts with local mental health and other providers to strengthen community health services. Describe any successes and identify limitations of those efforts.
- 8) Are the FY 16 projections for net revenues, expenditures, and surplus as reported still valid? If not, describe any material changes.
- 9) Non-operating revenues show a loss budgeted for 2017 related to a subsidiary organization. What is the basis for budgeting a loss? Is the loss a subsidy?
- 10) The hospital is budgeting an increase from \$1.093 million to \$1.184 (+8%) million for their Population Health Model. Describe the outcome measures used to evaluate the program.
- 11) Salaries and benefits per FTE, at \$76,474, show a 0.4% increase over budget 2016. However, projected 2016 shows a value of \$78,107. Explain what is happening here.

| Northwestern Medical Center                                  |        |        |        |        |        | Vt<br>Median | Northeast<br>CAH       | Other<br>Non-<br>Profit | 100 - 199<br>Beds | All<br>Teaching |
|--|--------|--------|--------|--------|--------|--------------|------------------------|-------------------------|-------------------|-----------------|
| KEY INDICATORS   | 2014 A | 2015 A | 2016 B | 2016 P | 2017 B | 2017 B       | U.S. Benchmarks FY2014 |                         |                   |                 |
| <b>Net Patient Revenue Change</b>                            | 2.2%   | 7.3%   | -2.1%  |        | 7.5%   |              |                        |                         |                   |                 |
| <b>Overall Rates</b>   | 4%     | 6%     | -8%    |        | 2.9%   |              |                        |                         |                   |                 |
| <b>Utilization</b>   |        |        |        |        |        |              |                        |                         |                   |                 |
| Total Average Daily Census                                   | 25     | 25     | 24     | 24     | 25     | 23.2         | -                      | 80                      | 72                | 192             |
| Adjusted Admissions  | 9,664  | 10,599 | 10,368 | 11,891 | 11,657 | 8,261        | -                      | -                       | -                 | -               |
| <b>Capital</b>   |        |        |        |        |        |              |                        |                         |                   |                 |
| Age of Plant   | 9.5    | 9.9    | 13.3   | 10.6   | 11.1   | 12.0         | 11.3                   | 11.3                    | 11.2              | 11.2            |
| Long Term Debt to Capitalization                             | 15.2%  | 13.6%  | 12.8%  | 23.2%  | 22.1%  | 26.9%        | 27.1%                  | 31.2%                   | 23.5%             | 30.6%           |
| Debt Service Coverage Ratio                                  | 9.5    | 11.7   | 5.0    | 7.1    | 7.2    | 4.2          | 4.4                    | 2.8                     | 3.0               | 5.0             |
| <b>Revenue</b>   |        |        |        |        |        |              |                        |                         |                   |                 |
| Bad Debt %   | 3.0%   | 2.2%   | 2.8%   | 1.7%   | 1.9%   | 1.6%         | 5.6%                   | 5.5%                    | 6.7%              | 4.1%            |
| Free Care %  | 0.7%   | 0.7%   | 0.9%   | 0.8%   | 0.8%   | 0.7%         | -                      | -                       | -                 | -               |
| Operating Margin %   | 7.9%   | 9.7%   | 2.1%   | 3.7%   | 3.2%   | 1.9%         | -2.4%                  | 0.7%                    | 2.8%              | 3.0%            |
| Total Margin %   | 11.2%  | 8.1%   | 2.6%   | 4.2%   | 3.0%   | 3.2%         | 3.2%                   | 3.7%                    | 5.7%              | 5.6%            |
| <b>Productivity &amp; Staffing</b>                           |        |        |        |        |        |              |                        |                         |                   |                 |
| Overhead Expense w/ fringe, as a % of<br>Total Operating Exp | 25.2%  | 26.3%  | 26.2%  | 26.1%  | 25.3%  | 26.1%        | -                      | -                       | -                 | -               |
| <b>Cost &amp; Revenue Unit of Measure</b>                    |        |        |        |        |        |              |                        |                         |                   |                 |
| Cost per Adjusted Admission                                  | 9,092  | 8,822  | 9,433  | 8,523  | 9,027  | 10,264       | -                      | 7,557                   | 7,453             | 7,645           |
| <b>Liquidity</b>   |        |        |        |        |        |              |                        |                         |                   |                 |
| Current Ratio  | 7.0    | 7.8    | 9.6    | 10.7   | 8.9    | 2.9          | 1.4                    | 2.3                     | 1.7               | 1.8             |
| Days Cash on Hand  | 371    | 374    | 352    | 350    | 279    | 129          | 99                     | 74                      | 75                | 110             |
| <b>Payer</b>   |        |        |        |        |        |              |                        |                         |                   |                 |
| Medicare Gross as % of Tot Gross Rev                         | 36%    | 37%    | 36%    | 36%    | 35%    | 41%          | -                      | -                       | -                 | -               |
| Medicaid Gross as % of Tot Gross Rev                         | 22%    | 23%    | 22%    | 24%    | 24%    | 19%          | -                      | -                       | -                 | -               |
| Comm/self Gross as % of Tot Gross Rev                        | 42%    | 40%    | 42%    | 40%    | 41%    | 36%          | -                      | -                       | -                 | -               |
| Medicare % of Net Rev (incl DSH)                             | 31%    | 32%    | 31%    | 33%    | 33%    | 35%          | -                      | -                       | -                 | -               |
| Medicaid % of Net Rev (incl DSH)                             | 17%    | 17%    | 19%    | 18%    | 19%    | 12%          | -                      | -                       | -                 | -               |
| Comm/self % of Net Rev (incl DSH)                            | 52%    | 52%    | 50%    | 49%    | 48%    | 50%          | -                      | -                       | -                 | -               |

**Northwestern Medical Center**

| <b>PROFIT &amp; LOSS STATEMENT</b> | <b>2014 A</b>         | <b>2015 A</b>         | <b>2016 B</b>         | <b>2016 P</b>         | <b>2017 B</b>         | <b>B16-B17<br/>Change</b> | <b>B16-B17<br/>Change<br/>%</b> |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------------|---------------------------------|
| <b>Revenues</b>                    |                       |                       |                       |                       |                       |                           |                                 |
| <b>Gross Patient Care Revenue</b>  | <b>\$ 174,476,221</b> | <b>\$ 189,773,212</b> | <b>\$ 180,271,472</b> | <b>\$ 184,313,271</b> | <b>\$ 194,610,767</b> | <b>\$ 14,339,295</b>      | <b>8.0%</b>                     |
| Disproportionate Share Paym        | 1,543,718             | 1,274,456             | 1,444,571             | 1,444,571             | 1,866,885             | 422,314                   | 29.2%                           |
| Bad Debt                           | (5,218,540)           | (4,119,971)           | (5,045,412)           | (3,065,130)           | (3,717,397)           | 1,328,015                 | -26.3%                          |
| Free Care                          | (1,302,980)           | (1,270,121)           | (1,621,948)           | (1,468,977)           | (1,556,004)           | 65,944                    | -4.1%                           |
| Graduate Medical Education         | -                     | -                     | -                     | -                     | -                     | -                         |                                 |
| Deductions from Revenue            | (78,333,007)          | (87,858,813)          | (79,351,293)          | (81,498,658)          | (88,337,233)          | (8,985,940)               | 11.3%                           |
| <b>Net Patient Care Revenue</b>    | <b>\$ 91,165,412</b>  | <b>\$ 97,798,763</b>  | <b>\$ 95,697,390</b>  | <b>\$ 99,725,077</b>  | <b>\$ 102,867,018</b> | <b>\$ 7,169,628</b>       | <b>7.5%</b>                     |
| <b>Year over Year Change</b>       | <b>2.2%</b>           | <b>7.3%</b>           | <b>-2.1%</b>          | <b>2%</b>             | <b>7.5%</b>           |                           |                                 |
| <b>Other Operating Revenue</b>     | <b>\$ 4,266,628</b>   | <b>\$ 5,765,170</b>   | <b>\$ 4,186,270</b>   | <b>\$ 5,471,642</b>   | <b>\$ 5,867,838</b>   | <b>\$ 1,681,568</b>       | <b>40.2%</b>                    |
| <b>Total Operating Revenue</b>     | <b>\$ 95,432,040</b>  | <b>\$ 103,563,933</b> | <b>\$ 99,883,660</b>  | <b>\$ 105,196,719</b> | <b>\$ 108,734,856</b> | <b>\$ 8,851,196</b>       | <b>8.9%</b>                     |
| <b>Operating Expense</b>           |                       |                       |                       |                       |                       |                           |                                 |
| Salaries Non MD                    | 29,531,967            | 32,085,846            | 33,673,265            | 36,206,795            | 38,369,141            | 4,695,876                 | 13.9%                           |
| Fringe Benefits Non MD             | 8,533,128             | 8,990,276             | 9,735,273             | 9,859,964             | 10,009,663            | 274,390                   | 2.8%                            |
| Fringe Benefits MD                 | 1,335,492             | 1,430,794             | 1,515,343             | 1,600,000             | 1,694,738             | 179,395                   | 11.8%                           |
| Contracts & Fringes                | 11,791,436            | 11,991,814            | 13,232,067            | 13,059,394            | 14,447,277            | 1,215,210                 | 9.2%                            |
| Health Care Provider Tax           | 5,329,587             | 5,626,996             | 5,824,008             | 5,824,008             | 5,784,039             | (39,969)                  | -0.7%                           |
| Depreciation Amortization          | 4,153,801             | 4,370,670             | 3,967,930             | 4,532,132             | 4,683,554             | 715,624                   | 18.0%                           |
| <i>Interest - Short Term</i>       | -                     | -                     | -                     | -                     | -                     | -                         |                                 |
| <i>Interest - Long Term</i>        | 532,095               | 508,602               | 529,175               | 495,050               | 500,085               | (29,090)                  | -5.5%                           |
| <i>Other Operating Expense</i>     | 26,654,411            | 28,494,520            | 29,320,499            | 29,770,410            | 29,740,098            | 419,599                   | 1.4%                            |
| <b>Total Operating Expense</b>     | <b>\$ 87,861,917</b>  | <b>\$ 93,499,518</b>  | <b>\$ 97,797,560</b>  | <b>\$ 101,347,753</b> | <b>\$ 105,228,595</b> | <b>\$ 7,431,035</b>       | <b>7.6%</b>                     |
| <b>Year over Year Change</b>       | <b>2.3%</b>           | <b>6.4%</b>           | <b>4.6%</b>           | <b>8%</b>             | <b>7.6%</b>           |                           |                                 |
| <b>Net Operating Income (Loss)</b> | <b>\$ 7,570,123</b>   | <b>\$ 10,064,415</b>  | <b>\$ 2,086,100</b>   | <b>\$ 3,848,966</b>   | <b>\$ 3,506,261</b>   | <b>\$ 1,420,161</b>       | <b>68.1%</b>                    |
| <b>Non-Operating Revenue</b>       | <b>\$ 3,456,864</b>   | <b>\$ (1,865,700)</b> | <b>\$ 542,442</b>     | <b>\$ 542,442</b>     | <b>\$ (200,480)</b>   | <b>\$ (675,507)</b>       | <b>-124.5%</b>                  |
| <b>Over Expense</b>                | <b>\$ 11,026,987</b>  | <b>\$ 8,198,715</b>   | <b>\$ 2,628,542</b>   | <b>\$ 4,391,408</b>   | <b>\$ 3,305,781</b>   | <b>\$ 677,239</b>         | <b>25.8%</b>                    |

Bad debt and free care are estimated to have lower costs and/or cases.

Other operating revenue includes \$1.5 million reclassified reference lab revenue, \$1.3 million in grants, and \$0.4 million of 340B pharmacy funds.

Non Md and Physician Salaries and Fringe make up some of the large increases in expenses. Depreciation/Amortization, has grown due to their recent investments in buildings, equipment and information systems.

Non-Operating Income reports an expected investment income loss. Investment income is offset by the planned loss of their subsidiary - Northwestern Occupational Health.



| Northwestern Medical Center                 |           |           |           |           |           |                |
|---|-----------|-----------|-----------|-----------|-----------|----------------|
| UTILIZATION & STAFFING                      | 2014 A    | 2015 A    | 2016 B    | 2016 P    | 2017 B    | B16-B17 Change |
| <b>UTILIZATION</b>                          |           |           |           |           |           |                |
| Adjusted Admissions                         | 9,664     | 10,599    | 10,368    | 11,891    | 11,657    | 12.4%          |
| Acute Admissions                            | 2,386     | 2,468     | 2,289     | 2,588     | 2,630     | 14.9%          |
| Acute Average Length Of Stay                | 3.3       | 3.1       | 3.2       | 3.0       | 3.1       | -4.0%          |
| Operating Room Procedure                    | 2,902     | 3,112     | 2,927     | 3,010     | 2,836     | -3.1%          |
| Laboratory Tests                            | 336,310   | 346,240   | 345,792   | 350,156   | 382,711   | 10.7%          |
| Emergency Room Visits                       | 26,019    | 25,937    | 24,410    | 26,767    | 27,358    | 12.1%          |
| Cat Scan, Radiology - Diagnostic Procedures | 34,334    | 32,945    | 34,425    | 39,407    | 39,128    | 13.7%          |
| Magnetic Resonance Image Exams              | 2,581     | 2,655     | 2,546     | 2,678     | 2,631     | 3.3%           |
| Physician Office Visits                     | 63,788    | 71,570    | 80,036    | 76,250    | 87,329    | 9.1%           |
| Clinics Visits                              | 7,307     | 6,300     | 6,958     | 0         | 0         | -100.0%        |
| <b>STAFFING</b>                             |           |           |           |           |           |                |
| Non-MD FTEs                                 | 524       | 544       | 570       | 590       | 633       | 63.0           |
| Travelers                                   | 4         | 5         | 3         | 3         | 0         | -2.5           |
| Residents & Fellows                         | 0         | 0         | 0         | 0         | 0         | 0.0            |
| Mid Level Providers                         | 0         | 0         | 0         | 0         | 0         | 0.0            |
| Physician FTEs                              | 29        | 28        | 30        | 32        | 37        | 7.6            |
| Total MD and Non MD FTEs                    | 557       | 577       | 602       | 624       | 670       | 68.1           |
| Salary & Benefits per FTE - Non-MD          | \$ 72,646 | \$ 75,510 | \$ 76,206 | \$ 78,107 | \$ 76,474 | 0.4%           |
| FTEs Per Adjusted Occupied Bed              | 6.0       | 6.0       | 6.2       | 6.0       | 6.4       | 2.9%           |
| FTEs per 100 Adj Discharges                 | 5.4       | 5.1       | 5.5       | 5.0       | 5.4       | -1.2%          |
| <b>Comparative Benchmarks</b>               |           |           |           |           |           |                |
| <b>Vermont System Averages</b>              |           |           |           |           |           |                |
| Salary & Benefits per FTE - Non-MD          | \$ 78,162 | \$ 80,704 | \$ 82,457 | \$ 83,286 | \$ 83,856 | 1.7%           |
| FTEs Per Adjusted Occupied Bed              | 5.5       | 5.7       | 5.8       | 5.8       | 6.1       | 4.5%           |
| FTEs per 100 Adj Discharges                 | 7.0       | 7.2       | 7.5       | 7.2       | 7.5       | -0.2%          |
| <b>U.S. Benchmarks</b>                      |           |           |           |           |           |                |
| <b>FTEs Per Adjusted Occupied Bed</b>       |           |           |           |           |           |                |
| Northeast Critical Access Hospital          | 0.00      | -         | -         | -         | -         |                |
| Other Non-Profit                            | 3.60      | -         | -         | -         | -         |                |
| 100 - 199 Beds                              | 3.45      | -         | -         | -         | -         |                |
| All Teaching                                | 3.45      | -         | -         | -         | -         |                |

Areas showing significant change over budget are Acute Admissions, Radiology-Diagnostic Procedures and Cat Scans, physician visits, and the ER. The hospital has been asked to explain.

The majority of the increases in Non MD FTEs are for physician services. The hospital has been asked to explain. Physician FTEs reflect the added transfer and recruitments.

Salary and fringe per FTE is lower than projected 2016. Under review.

The benchmark shows the hospital higher in relation to their Vermont peers and nationally.

**Northwestern Medical Center**

| <b>BALANCE SHEET</b>                  | <b>2014 A</b>         | <b>2015 A</b>         | <b>2016 B</b>         | <b>2016 P</b>         | <b>2017 B</b>         |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Cash & Investments                    | \$ 59,550,907         | \$ 65,660,931         | \$ 63,666,168         | \$ 64,757,741         | \$ 57,000,000         |
| Total Current Assets                  | \$ 73,526,089         | \$ 79,807,534         | \$ 75,916,168         | \$ 78,157,741         | \$ 70,300,000         |
| Board Designated Assets               | \$ 27,163,784         | \$ 26,163,167         | \$ 26,950,000         | \$ 32,950,000         | \$ 21,350,000         |
| Net, Property, Plant And Equipment    | \$ 31,332,230         | \$ 33,213,573         | \$ 35,656,522         | \$ 45,799,277         | \$ 67,609,861         |
| Other Long-Term Assets                | \$ 1,030,782          | \$ 1,257,368          | \$ 1,300,000          | \$ 1,300,000          | \$ 1,300,000          |
| <b>Total Assets</b>                   | <b>\$ 133,052,885</b> | <b>\$ 140,441,642</b> | <b>\$ 139,822,690</b> | <b>\$ 158,207,018</b> | <b>\$ 160,559,861</b> |
| Current Liabilities                   | \$ 13,841,459         | \$ 13,168,120         | \$ 10,378,384         | \$ 9,450,000          | \$ 9,547,062          |
| Long Term Liabilities                 | \$ 17,994,862         | \$ 17,075,841         | \$ 16,340,184         | \$ 34,150,000         | \$ 33,100,000         |
| Other Noncurrent Liabilities          | \$ 1,090,621          | \$ 1,332,071          | \$ 1,600,000          | \$ 1,600,000          | \$ 1,350,000          |
| Fund Balance                          | \$ 100,125,943        | \$ 108,865,610        | \$ 111,504,122        | \$ 113,007,018        | \$ 116,562,799        |
| <b>Total Liabilities and Equities</b> | <b>\$ 133,052,885</b> | <b>\$ 140,441,642</b> | <b>\$ 139,822,690</b> | <b>\$ 158,207,018</b> | <b>\$ 160,559,861</b> |

The balance sheet shows a decline in Board Designated Funds as the hospital has recently approved CONs. The added debt is reflective of those investments and a recent re-financing designed to save interest costs.

| <b>Northwestern Medical Center</b> |               |              |                |              |                |  |
|------------------------------------|---------------|--------------|----------------|--------------|----------------|--|
| Net Increase/(Decrease) in Cash    | \$ 12,883,318 | \$ 6,110,024 | \$ (1,994,763) | \$ (903,190) | \$ (6,666,168) |  |
| Days Cash on Hand                  | 371.3         | 374.5        | 352.5          | 349.5        | 279.3          |  |
| Long Term Debt to Capitalization   | 15.2%         | 13.6%        | 12.8%          | 23.2%        | 22.1%          |  |
| Debt Service Coverage Ratio        | 9.5           | 11.7         | 5.0            | 7.1          | 7.2            |  |

The hospital's debt position compares favorable with both the Vermont hospital median and 100-199 peers. Also, the days cash on hand to "cover" this debt is also favorable and remains the highest in the state.

| <b>Comparative Benchmarks</b>    |               |                 |              |                |              |  |
|----------------------------------|---------------|-----------------|--------------|----------------|--------------|--|
| <b>Vermont System Averages</b>   |               |                 |              |                |              |  |
| Net Increase/(Decrease) in Cash  | \$ 54,485,429 | \$ (13,749,624) | \$ (778,512) | \$ (3,061,249) | \$ (680,856) |  |
| Days Cash on Hand                | 176.3         | 178.5           | 179.6        | 174.8          | 165.5        |  |
| Long Term Debt to Capitalization | 29.7%         | 27.6%           | 31.3%        | 32.0%          | 29.5%        |  |
| Debt Service Coverage Ratio      | 3.3           | 3.7             | 2.7          | 2.8            | 3.1          |  |

| <b>U.S. Benchmarks</b>                 |       |   |   |   |   |  |
|--|-------|---|---|---|---|--|
| <b>100-199 Beds</b>                    |       |   |   |   |   |  |
| Days Cash on Hand-Peers                | 74.80 | - | - | - | - |  |
| Long Term Debt to Capitalization-Peers | 24%   | - | - | - | - |  |
| Debt Service Coverage Ratio-Peers      | 3.0   | - | - | - | - |  |

## Northwestern Medical Center

| Capital Budget                              | 2014 A              | 2015 A              | 2016 B               | 2016 P               | 2017 B               | 2018 Plan           | 2019 Plan           | 2020 Plan   |
|---|---------------------|---------------------|----------------------|----------------------|----------------------|---------------------|---------------------|-------------|
| Non-Certificate of Need Capital Plans Total | \$ 5,134,958        | \$ 6,423,576        | \$ 6,159,768         | \$ 6,727,219         | \$ 9,987,013         | \$ 5,500,000        | \$ 5,500,000        | \$ -        |
| Certificate of Need Capital Plans           | \$ -                | \$ -                | \$ 15,938,181        | \$ 13,961,311        | \$ 17,885,216        | \$ 1,381,082        | \$ -                | \$ -        |
| <b>Total Capital Purchases</b>              | <b>\$ 5,134,958</b> | <b>\$ 6,423,576</b> | <b>\$ 22,097,949</b> | <b>\$ 20,688,530</b> | <b>\$ 27,872,229</b> | <b>\$ 6,881,082</b> | <b>\$ 5,500,000</b> | <b>\$ -</b> |

### Northwestern Medical Center

|                                      |        |        |        |        |        |
|--------------------------------------|--------|--------|--------|--------|--------|
| Age of Plant                         | 9.5    | 9.9    | 13.3   | 10.6   | 11.1   |
| Capital Expenditures to Depreciation | 123.6% | 147.0% | 155.2% | 148.4% | 213.2% |
| Capital Cost % of Total Expense      | 5.3%   | 5.2%   | 4.6%   | 5.0%   | 4.9%   |

### Comparative Benchmarks

#### Vermont System Averages

|                                      |       |       |       |       |        |
|--------------------------------------|-------|-------|-------|-------|--------|
| Age of Plant                         | 10.2  | 11.4  | 11.9  | 11.9  | 12.3   |
| Capital Expenditures to Depreciation | 80.6% | 97.1% | 95.1% | 96.0% | 122.8% |
| Capital Cost % of Total Expense      | 5.9%  | 5.4%  | 5.8%  | 5.6%  | 5.3%   |

#### U.S. Benchmarks

| 100-199 Beds                          |      |   |   |   |   |
|---------------------------------------|------|---|---|---|---|
| Age of Plant-Peers                    | 11.2 | - | - | - | - |
| Capital Cost % of Total Expense-Peers | 6.0% | - | - | - | - |

The hospital's capital costs are low compared to Vermont peers and the age of plant reflects this when compared to Vermont peers. Recent capital investments have the effect of lowering AOP from 13 years to 11. The CON projects are for their Master Facility Plan. The narrative provides lots of information on their capital plans.

The capital metrics also compare favorably with national peers for hospitals with 100-199 beds.

The hospital will be asked about capital plans for 2020.