MEMORANDUM

To: Green Mountain Care Board
From: Rick Vincent, SVP/CFO UVMMC and UVMMG
Date: January 30, 2017
Subject: Hospital Budget Submission Worksheets - Fiscal Year 2016 Actuals

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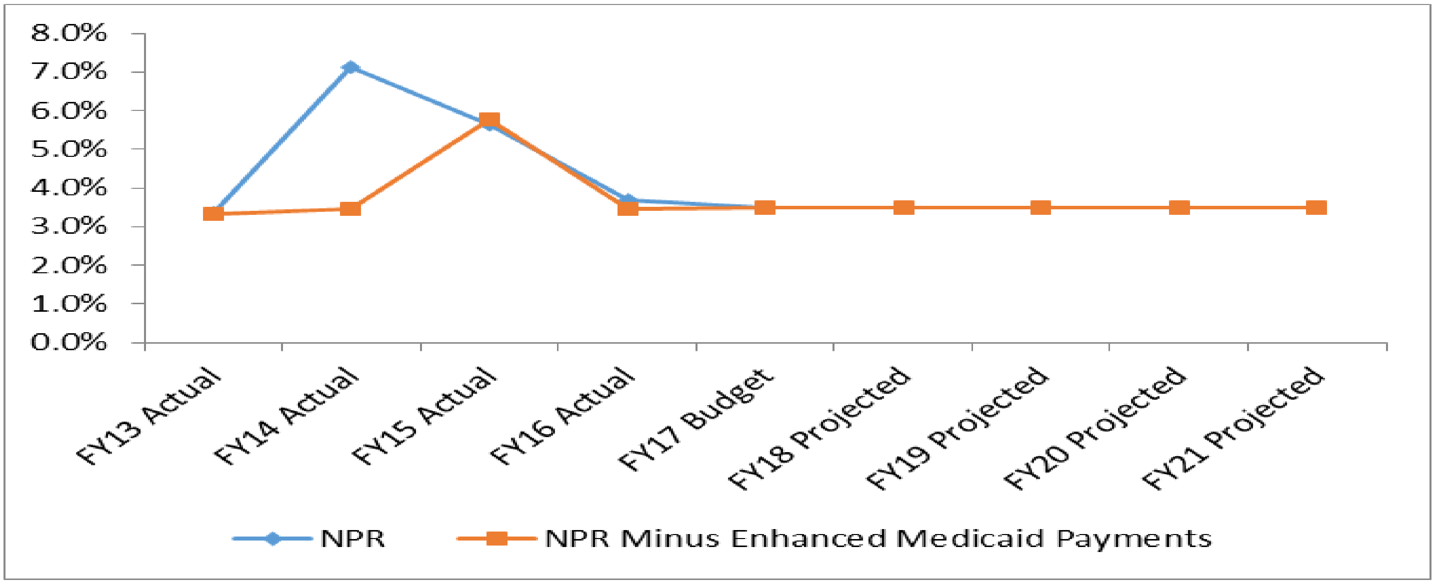
The University of Vermont Medical Center is pleased to present its report on fiscal year 2016 actual results.

Operating Revenues

The FY 2016 Total Operating Revenues were favorable by $23.1 million or 1.9% when compared to the FY 2016 Budget. A small negative variance in Other Revenue offset the $25.4 million, 2.2% favorable variance in Net Patient Care Revenue. The largest contributor to this favorability ($27.1M) was the carryover from FY15 of the increased number of volume/patients served from our increased primary, substance abuse and mental health treatment capacity, and the expansion of the Medicaid program. Adding to the favorability was lower than planned bad debt and charity ($7.8M), and offsetting this favorability was the change we made to the recording of our self-funded health plan ($9.5M). In line with how other Vermont hospitals record this activity, the UVM Medical Center began recording the services it provides to its employees at the actual cost of those services, not at the contract rate it has with its plan administrator. This eliminated unnecessary revenue and expense inflation in our budget. From an operating margin perspective this nets to zero.

Compared to FY 2015, our Net Patient Care Revenue grew by $41.2 million or 3.5%. The largest contributor to this increase was again the carryover from FY 2015 ($27.1M), which is now part of the ongoing population we serve. This is the amount we addressed in our FY 2017 budget. We decreased our historic commercial rate increase ($17.5M) and we made additional community investments ($9.5M).

The graph below highlights the uniqueness of FY 2015. When you adjust for the Enhanced Medicaid Payments that became part of our Net Patient Care Revenue in FY 2014, our Net Patient Care Revenue had been growing by roughly 3.5% per year, that was our growth rate from FY15 to FY16, and we project that will be our growth rate the next several years.



Our commercial rate increase ($23.0M) and the integration of the Associates in Orthopedic Surgery practice in April ($4.4M) also contributed to the increase from FY 2015 to FY 2016. Offsetting these increases was a higher amount of bad debt and charity ($3.8M), and the change in the recording of our self-funded health plan ($9.5M).

Operating Expenses

Total Operating Expense from the FY 2016 budget to FY 2016 actual was favorable by $3.4 million or 0.3%. This result was a mix of both favorable and unfavorable variances to budget. Salaries were unfavorable $3 million due to higher than planned nursing FTEs caused by high inpatient volumes. Fringe Benefits were favorable $16 million due to lower self-funded health plan utilization, and the change in how we record this activity mentioned above in the revenue section. Medical Surgical Supplies and Pharmaceuticals were unfavorable $7 million due to the higher than planned volume and inflationary increases. Utilities were favorable $2 million due to lower energy costs. Depreciation was favorable $3 million due to a lower capital spend and Interest Expense was favorable $5 million due to a delay in the inpatient bed replacement bond offering.

Non-Operating Revenue

Non-Operating Revenues were unfavorable to budget, primarily due to the liability we recorded related to the lump sum offering we made this year to our terminated fully vested pension plan participants.

Health Care Reform Investments

The UVM Medical Center's FY 2016 budget included incremental investments in health reform totaling $6.4 million. Those investments fall primarily into the "system of care" or "shifting expenditures away from acute care" investment categories, and included:

- Continued IT investments that support systemness, population health improvement, and the appropriate use of resources;
- Enhanced systems support by the Jeffords Institute for Quality & Operational Effectiveness and administrative leadership;
- Investments in community partners to improve the health of our population;
- Investments in enhanced access to primary care, mental health care and substance abuse care; and
- Continued investments in our OneCare Vermont infrastructure.

As we have outlined in our budget narrative submissions and discussed at our budget hearings, we remain committed to shifting our delivery system away from today's fee-for-service system to one that pays based on the value of the care being delivered. Our major efforts are focused on enhancing care and containing expenses through the development of our network of hospitals, and our participation in OneCare Vermont. With the support of OneCare Vermont, the State of Vermont, the GMCB and CMS signed an All-Payer ACO Model Agreement in FY 2016. The first component of the new payment program, the Vermont Medicaid Next Generation ACO agreement between DVHA and OneCare Vermont, is launching this year.