About the VCU Medical Center

• **VCU Health Science Schools**
  – Allied Health Professions
  – Dentistry
  – Medicine
  – Nursing
  – Pharmacy

• **VCU Health System**
  – MCV Hospitals
  – Children’s Hospital of Richmond
  – MCV Physicians
  – Virginia Premier Health Plan

• More than 15 affiliated centers and institutes, including the VCU Massey Cancer Center, Virginia’s first NCI-designated cancer center, and a Center for Translational Science Award (CTSA)
Almost half of patients seen at VCU Health System are Medicaid or Uninsured.

Source of Patients by Payer, VCU Health System, 2011-2012
The VCU Health System has become the primary health care system for the City of Richmond

Over 700 beds have left the City of Richmond since 1980
Recent surges in patient care volumes for vulnerable populations have strained capacity...

12.4% Increase in Medicaid and Indigent/Self Pay volume over the past 5 years

Source: Decision Support System data
Safety Net Mission: The VCU Health System has the highest proportion of under- and un-insured patients in the Commonwealth

% Medicaid & Uninsured

Source: FY 2011 VHI state discharge database
Expansion of the capacity of the VCU Health System has led to remarkable growth

Graphs showing:
- Adj Discharges
- Surgeries
- Clinic Visits
- HMO Member Months
S.W. Virginia expansion in July 2012

- New Medicaid populations planned to be added into Medicaid Managed Care in January 2014
- Virginia Premier is ranked 31st Medical Health Plan in the Nation by US News and World Report; Best in Virginia

Virginia Medicaid HMO Enrollment

Total Enrollment in Health Plans: 625,069 - 65.1% of all Medicaid Eligible (960,543)
Since 2003, the VCU Health System has generated favorable margins and repaired its balance sheet.
Key Financial Ratios
VCUHS has continued to strengthen over the last five years

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<tbody>
<tr>
<td>Operating Margin</td>
<td>0.05%</td>
<td>6.7%</td>
<td>6.5%</td>
<td>5.6%</td>
<td>4.5%</td>
<td>7.9%</td>
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<tr>
<td>Total Margin</td>
<td>0.6%</td>
<td>7.9%</td>
<td>3.9%</td>
<td>2.6%</td>
<td>6.7%</td>
<td>9.1%</td>
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<tr>
<td>Return on Assets</td>
<td>1.1%</td>
<td>9.2%</td>
<td>4.4%</td>
<td>3.2%</td>
<td>8.7%</td>
<td>10.7%</td>
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<tr>
<td>Debt Service Coverage</td>
<td>2.6</td>
<td>12.5</td>
<td>8.4</td>
<td>7.4</td>
<td>9.7</td>
<td>13.6</td>
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<tr>
<th>BALANCE SHEET</th>
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<tbody>
<tr>
<td>Current Ratio</td>
<td>1.5</td>
<td>1.8</td>
<td>2.3</td>
<td>3.1</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>58.8</td>
<td>149.5</td>
<td>140.7</td>
<td>128.6</td>
<td>138.0</td>
<td>188.2</td>
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<tr>
<td>Average Age of Plant</td>
<td>9.7</td>
<td>5.6</td>
<td>6.2</td>
<td>6.1</td>
<td>6.8</td>
<td>7.5</td>
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Bond Rating Agencies have affirmed VCUHS’ strong financial position

The financial strength of VCUHS has allowed it to remain Independent, with no capital contributions from the Commonwealth

- In FY’12, Standard & Poor's Ratings Services revised its outlook last year for VCUHS from A+ to AA- rating on VCUHS bonds.

“We believe the VCU Health System’s fundamental business and operating characteristics, combined with its strong financial profile is indicative of a 'AA' category rating.”

A-1 rating with positive outlook

"Strong management team with good focus on strategic development, operational improvement and financial strength…"
Virginia Coordinated Care (VCC) Program

- Established in 2000 to coordinate care for the uninsured in the Greater Richmond and Tri-Cities areas
- Provided “medical homes” to patients who qualify for the Indigent Care program
- Partnered with 50 community-based physicians to improve access to care
- Recognized as a national model for managing care for uninsured patients
VCC Program has demonstrated utilization reductions...

Emergency Department Visits

<table>
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<tr>
<th>Year 1</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
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<tbody>
<tr>
<td>One Yr Enrollment</td>
<td>Multiple Year Enrollment</td>
<td>Continuously Enrolled</td>
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38% reduction

Inpatient Hospitalizations

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<tr>
<th>Year 1</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 1</th>
<th>Year 2</th>
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45% reduction

...and substantial cost reductions...

VCC Population
Average Cost/Year
(2000 – 2007)

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<thead>
<tr>
<th>Year 1</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
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<tbody>
<tr>
<td>$6,833</td>
<td>$7,604</td>
<td>$5,768</td>
<td>$4,726</td>
<td>$8,899</td>
<td>$6,106</td>
<td>$4,569</td>
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VCC Population Risk Stratification

Medical Home for VCC Enrollees
Co Located: Practice/HS
Multi-disciplinary Care Team

Risk Stratification

Navigator Level 1
Maintenance/Intake
Stable, intermittent care needs.

Navigator Level 2
Chronic
Moderate illness burden. Physical as well as mental health issues.

Navigator Level 3
Complex
At highest health risk. High utilizers of expensive services and at risk for using more.
Overview of Market Reforms

2011–2013
The Prelude

- Provider Payment
  - Hospital readmissions and VBP* program
  - Increase in primary care reimbursement

- Innovation and Funding
  - Establish CMMI*
  - ACO demonstrations

- Coverage Expansion
  - Dependent coverage <26

- Compliance
  - Publish charges
  - Post assistance policies
  - Conduct community health assessments

2014–2017
Market Expansion

- Coverage expansion
  - Medicaid to 133% of FPL
  - Mandate on individuals/employers (>50)
  - Elimination of pre-existing conditions for adults

- Exchanges and Health Plans
  - Creation of health insurance exchanges

- Provider Payment
  - Disproportionate share hospital (DSH) payment reductions

- Employer/Purchaser
  - Tax penalties on employers (50+) for insurance coverage

2018+
Regulation and Restructuring

- Coverage expansion
  - Increase in drug discounts and subsidies for brand name drugs for Seniors

- Provider Payment
  - Excise tax on “Cadillac” insurance plans

*VBP=Value Based Purchasing; CMMI=Center for Medicare and Medicaid Innovation.

Peabody, J. The Post-Reform Quality and Performance Imperative for AMC’s, Sg2 webinar, June 15, 2010
Current U.S. Coverage

Current U.S. Health Insurance Coverage
- Private: 53%
- Medicaid: 14%
- Medicare: 12%
- Self-pay: 5%
- Uninsured: 16%

Current U.S. Nonelderly Uninsured by FPL
- Eligible for Subsidies in Exchange: 22%
- Eligible for Medicaid Expansion: 35%
- Under 100% FPL: 5%
- 100%-133% FPL: 10%
- 134%-300% FPL: 30%
- Over 400% FPL: 5%

Pricing Pressures, Federal-State Budget Reductions, and Medical Inflation Result in Multiple Views Of The Future…

Gap of $121.2M

Identify state and federal "bridge funding"

Includes investment income

Requires $35m in cost reductions/revenue enhancements*

Requires $55m in cost reductions/revenue enhancements*

Requires $80m in cost reductions/revenue enhancements*

*Based on reaching Optimum projections
Summary

• The VCU Health System is the largest safety net in the Commonwealth of Virginia.

• Approximately 45 percent of inpatients at VCUHS are either Medicaid or uninsured.

• In 2000, the health system used its Medicaid HMO to establish an administrative infrastructure to manage a large, uninsured population: the Virginia Coordinate Care Program (VCC).

• The VCC has reduced the costs of caring for this population and decompressed the Medical Center – at its own expense, without any federal or state support for this program – and the benefits accrue to government sponsors.

• Nonetheless, revenue increases from pricing in the next 4-5 years, and scheduled reductions in safety net funding, are projected to increase only 2.0% to 3.0% annually from blended payer mix.

• Going forward, substantial cost reductions will be necessary to sustain operating margins and balance sheet.