

August 9, 2019

Attn: Office of the Health Care Advocate
264 North Winooski Ave.
Burlington, Vermont 05401

Re: HCA FY20 Hospital Budget Follow-up Questions

Dear Health Care Advocate:

Mt. Ascutney Hospital understands the importance of participating in the Green Mountain Care Board's hospital budget process to provide part of the overall picture of Vermont's health care system and to reduce unnecessary costs for Vermonters while ensuring access to care and balancing the financial health of hospitals. For the past seven years, the Office of the Health Care Advocate (HCA) has asked hospitals questions about their budgets. Mt. Ascutney Hospital takes valuable time and resources to prepare answers to these questions, often while they are preparing for their presentation in front of the Green Mountain Care Board (GMCB).

This year and in previous years, the GMCB worked with the HCA to include their questions in the budget guidance document so that hospitals could answer HCA questions as they prepare their budget proposal. The understanding was that any follow-up questions from the HCA would respond to information in the hospital budget reports and be tailored to the individual hospital. This did not happen last year or this year. Instead, Mt. Ascutney Hospital received a letter that instead asked several questions that have already been asked through the hospital budget guidance and subsequently answered.

In the spirit of collaboration and transparency, we have answered the HCA's questions below to the best of our ability. We are happy to work with the HCA and GMCB to further streamline this process and ensure the best use of our collective resources.

1. Please provide your budgeted changes in utilization by payer and service category (e.g., inpatient, outpatient, professional).

This answer can be found in Appendix VI, Table 1

2. Commercial Charge/Rate Change and Net Patient Revenue

a. Please explain in detail how you plan to implement your commercial charge or rate change, if applicable.

Our gross charge increase will be applied against all payers. Once we are notified of the approved price increase, we will adjust the pricing of the items in our chargemaster in accord

with the approved rate increase effective 10/1/19. The effect of this can be found in Appendix VIII.

b. What is your anticipated commercial charge/rate change for each service area (e.g., inpatient, outpatient, professional)?

Our gross rate increases, if approved, will be applied to all patients and payers for that service. There are not different rate increases for different payers. Please see Appendix VIII for details.

c. What commercial utilization assumptions for each service area were used to determine how the commercial charge/rate change translates to the commercial net patient revenue change included in your budget?

We assume an increase in commercial utilization NPR of 1.5%, and have requested rate a weighted gross rate increase of 3.2% which translates to a 2.5% increase in NPR. Please see the GMCB Narrative and Appendix VI for additional information.

i. Do these utilization assumptions align with those in the Green Mountain Care Board's 2020 Vermont Health Connect rate filings? If no, please explain any differences.

Our budget was prepared and submitted prior to knowing what the Vermont Health Connect rate requests were for this year. Our budget is determined on patient need, the resources required to meet those needs, and the requirement to remain financially sustainable in order to meet those needs.

3. Pharmacy Costs

a. Please provide your budgeted medical pharmacy trend for commercial payers, separated by unit cost and utilization.

This request is extremely burdensome to produce. Overall, the average pharmaceutical cost is anticipated to increase 7-9%. The weighted increase, based on utilization, replacement products, and the like would require a detailed study.

b. Please separate any change in unit cost by expense (cost of obtaining the drug) and profit margin.

This request is also extremely burdensome to produce. It is dependent upon the payer mix, utilization, the service setting and other factors. Many drugs have fluctuating prices that occur on an ongoing basis, GPO contracts are renegotiated, drugs move to generic status, drugs are removed from the market or just replaced by newer options, and supply and demand changes constantly so we are unable to budget cost increases at the item level. Accordingly, we utilize average market increases to project cost growth. Additionally, the reimbursement is embedded within overall encounter payments and not paid at an item level by insurer. We are paid by DRG payments, per diem rates, APC rates, percent of charges, etc. It would be a major effort to calculate the changes in reimbursement against the changes of cost at any level.

c. How does the hospital determine its profit margin for each drug (e.g., flat fee, percent of cost)?

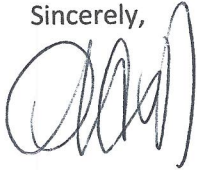
We do not calculate a profit margin for each drug for the reasons described in our response for "3.b." above.

4. How would you approach splitting your expenses into medical, administrative, and other categories?

Our expenses are delineated (split) already. We determine our internal chart of accounts based on cost reporting standards, Generally Accepted Accounting Principles, and by department function. We have mapped our internal chart of accounts and departments to that of the Adaptive accounts and departments, in accordance with the GMCB's *'Uniform Reporting Manual'* and *'Budget Submission Reporting Requirements'*.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "DS", written over the word "Sincerely,".

David C. Sanville; C.F.O.