

January 31, 2022

Attn: Patrick Rooney, Director of Health Systems Finance
Green Mountain Care Board
144 Main Street
Montpelier, VT 05602

Re: Actual FY21 Results

Dear Mr. Rooney,

Pursuant to requirements put forth by the State of Vermont, this letter serves as the narrative relative to Mt. Ascutney Hospital and Health Center's financial results for FY2021.

Executive Summary

FY2021 was a challenging year marked with uncertainty, but ended remarkably well with a net operating gain of approximately \$6.1M. The fiscal year started off with low volumes as patients started trickling back in, but quickly increased as pent-up demand for delayed services became apparent. As hospitals nationwide enact emergency staffing measures and cut services, we have largely maintained our staffing levels and continue to offer comprehensive healthcare without short-term reductions in services outside of staffing shortages due to COVID impact. We have continued to be on the forefront of COVID community care, implementing vaccination clinics and a drive through state sponsored testing facility on campus. We have maintained a COVID-based outpatient clinic and have increased our ability to take urgent (not emergent) walk in patients within our normal department structures. We continue to be the D-HH system post-ICU recovery unit of choice due to our high quality of care and specialized COVID inpatient wing. We accepted patients from throughout the D-HH service area, received patients from our own service area, and continue to take in referrals from out of state. Additionally, with restrictions in other Inpatient Rehabilitation units and hospitals, we have been consistently admitting and treating patients from well outside our traditional service area for this line of business. Recovery efforts were prioritized and our referral mechanisms in the service area and within the D-HH system continued to provide a strong clinical and financial foundation. As a result, gross revenues for the year increased 14.1%. Additionally, we had significant numbers of patients from other local hospitals migrate to our facility as other hospitals struggled in various ways.

Participation in the OneCare Vermont (OCV) continued to play a role in our financial reporting and performance. OCV Medicare and Medicaid program risk levels were reduced to zero due to the pandemic, which helped greatly in a year marked by uncertainty. This contributed significantly to our operating margin. Unfortunately, due to of FPP payment methodology, our potential FY2020 Medicare Advanced Payments (MAP) were reduced by more than 50% as compared to other like facilities. The effect of the accounting of the FPP payments (budget and actual) for CY2019 and CY2020 and the risk reserve activities associated with the periods, has had an adverse effect on our ability to justify the retention of the Provider Relief Funds received during the pandemic from the Federal Government. We have reserved for more than half of those funds to be returned to HHS. Our independent auditors and legal counsel have upheld this position in FY2021 and into FY2022.

The payer mix for the year came in close to budget, with small shifts in government and commercial payers. A 0.5% increase in Medicare was experienced, and a 0.4% increase in Medicaid business. This was similar to our experience last year and reflects the ongoing trend of the increasing proportion of governmental payers and our aging patient population. As a result of our recovery efforts and conservative budgeting, NPR/FPP experienced an 11% increase over budget. Due to our strong

performance, we were able to reduce prices in Radiology and Laboratory services, and reduced our approved GMCB approved price increase from 4.6% to 2.8%, a 39% decrease. Other operating revenue came in favorably at 28% over budget due to additional 340B vendor relationships. As such we experienced a 12% increase in total operating revenue. Expenses increased 2% from budget, due to supply costs and increased volumes, contract staffing, insurance premiums, and a negative claims experience in our self-insured population. Significant non-operating gains were realized due to the favorable investment climate and increased integration with the D-HH system.

Gross Patient Service Revenue

Total gross patient revenue was up from budget \$15.3M, or 14%. Actual overall percentage change in charges were 2.8%, despite the 4.6% GMCB approved for FY2021. This represents a 39% decrease in the overall change in charge. The offset is due to a series of price reduction in radiology services. Outpatient and Inpatient Acute drove much of the gain, while Providers, Inpatient Rehabilitation, and Swing volumes/revenues came in shy of the target. Inpatient acuity increased significantly due to limited services at other area facilities and our acceptance of COVID-positive patients in the facility. These patients offset the decreased volume and revenue of Swing patients. COVID necessitated an altering of D-HH's referral patterns and much of the other unfavorable variances were associated with reduced volumes due to the shifting management of the patients in our health system during the pandemic.

Acute days were ahead of prior year by 3%, while Swing days were down 7%. As compared to budget, Acute days were well ahead of budget and Swing days fell well behind. Net gross revenue was up \$1.1M on the combined unit. Acute increases reflects the addition of COVID-positive patients but also an increase of inpatient surgical patients. The increase in surgical patients was modest and did not reflect the addition of any new surgical service lines, in fact we lost our urologist midway through 2021.

Rehabilitation days were about 9% below expectations for the year, and the related gross revenue was about 9% below target as well. Although we experienced disruptions due to COVID, the rehabilitation facility still has a well-established referral pattern and we took many patients from outside our traditional service area. Our facility is CARF-certified and recognized as a center for excellence.

Outpatient revenues were about 32% above budget. Operating Room cases were 1% behind budget. This is a significant achievement, as budgeted surgical volumes included case projections for an additional Ophthalmologist that did not materialize. Revised patient movement processes for patient safety (COVID-related) and the reluctance of patients to receive elective services also contributed significantly. These were offset by pent up demand from FY2020's postponed elective surgeries, as well as a higher acuity inpatient population.

The Emergency Room also saw greater visits compared to the budget and prior year, partially driven by ongoing migration from neighboring service areas and COVID-related volumes. Therapies (Physical and Occupational) visits came in above budget and prior year. Radiology and Laboratory experienced significant increases in both year over year and budgeted volumes. These are all related to successful recovery efforts and pent up demand.

Provider revenues fell short of budget overall, again, and due largely to provider vacancies. Positive clinic volumes were experienced in Surgery, Podiatry, and Psychiatry. Successful recruitment of additional psychiatrists has helped bolster volumes. This has been continuously highlighted as a critical need by our Community Health Needs Assessment. Hospital-based visits generally experienced a positive budget volume variance due solely to the increase in ER visits. Hospitalist visits suffered a bit due to the overall decline in days.

Net Patient Service Revenue

Total gross patient care revenues were over budget by 14% and net patient revenues were over budget by 11%. The favorable performance is attributable to the elimination of ACO risk reserves, pent up demand related to COVID and to strong recovery efforts to improve safe access to care. The increase in gross revenues due to utilization were offset by an increase in contractual allowances due to prior period cost report settlements, The slight shift in the payer mix, and by the elimination of the OCV program risk. There was a small increase in governmental payers at the expense of Blue Cross Blue Shield lowering our net revenue percentage. Favorable levels of bad debt and charity care relative to budget improved net patient service revenue, due in part to the HRSA program that compensated hospitals for uninsured patients receiving COVID-related services. These services were reimbursed at a Medicare-like rate.

Despite a tumultuous year, NPSR as a percentage of gross patient care revenue came in at 50%, a 1.5 percentage point improvement compared to budget.

NPR/FPP	Total	% over/under
FY 21 Approved Budget	\$ 56,211,391	
Utilization	5,302,807	
Reimbursement/Payer Mix	(263,482)	
Bad Debt/Free Care	117,513	
Cost Report Reserves	(683,942)	
Changes ACO Reform/Reserves	1,463,280	
Changes in DSH	184,605	
FY 21 Actual Results	\$ 62,332,172	10.9%

Other Operating Revenue

Other operating revenue in FY21 was \$4.9M, which significantly exceeded the budget by \$1.1M. This is largely owing to an increase in 340B revenue (\$713K), due to the successful addition of a 340B vendor relationship. The remaining variance comes from COVID related grant funding (\$218K) and state immunization clinics (\$193K). Decreased grant related funding partially offset the increase, as community programs and spending faced issues related to the pandemic. Growing reliance on non-patient revenues is a concern for the future.

COVID Relief Funds

Our independent auditors have advised us to record the net gain of COVID relief funds in other operating revenues. The auditors agreed with the assessment that the Provider Relief Funds (PRF) received in fiscal year 2020 would be reserved for, within the liability section of the balance sheet. There was no change in this assessment at the end of fiscal year 2021. The amount reserved for represents approximately half of the total Provider Relief Funds received in 2020. This position was validated by a Washington law firm that has been working with us over the last year. There are three drivers that have limited our justification of all of these funds. The first is the success of our efforts to recover service lines quickly in the early phases of the pandemic. The second is the uncertain and changing interpretation of the retention calculations (and associated HRSA audit process). The last is that the audit process for HRSA includes FY2019 ACO transactions which will be entirely unclear and complicated for the auditors. We met with HRSA directors on a number of occasions, provided alternative and additional reporting in order to explain this matter, and have provided external legal input to HRSA in order to justify what we have recognized on our financial statements.

Also, MAHHC received Medicare Advance Payments (MAP). This total amount was reserved for as a liability, as it was intended to be repaid. As of September 30, 2021, approximately \$2.6m (of the original \$5.7m) was refunded to Medicare through automated recoupments from Medicare. Other COVID funding received in 2021 was recorded as revenue as it directly offset expenses in the related period. These amounts were approximately \$410k for fiscal year 2021, as mentioned above.

Expense

Total expenses were about 2% above budget for FY2021, due to keen focus on cost controls due to the pandemic, staffing issues, and associated uncertainties.

Throughout the pandemic, hospital management worked aggressively to control expenses where appropriate despite the higher cost to operate in the pandemic. Salary expenses were below budget, but offset by contracted staffing with ever-increasing rates. FTE's have increased 3% year over year, yet remain well short of budget. Currently, we are carrying approximately 9 extra FTE's directly associated with COVID activities (door screeners, walk-in clinic staff, testing site/vaccination staff etc.). During the last year, wage pressures, staffing levels, and other market issues forced us to implement a new minimum wage level and to make multiple market adjustments (increases) to many clinical and essential staff. These changes have continued into 2022 and show no sign of abatement due to critical workforce shortages throughout the region. As a border hospital, we compete with NH hospitals and larger employers that do not have to balance wage/expense growth with revenue caps. . The labor market shifts dramatically when neighboring hospitals in NH make significant compensation changes that we cannot ignore and expect to provide needed services. Contracted labor and additional COVID-related costs were well managed, but they are consistently increasing. The hospital has had the benefit of D-HH system support in many areas but even that comes at a cost. This is expected to be a continued trend with no end in sight. Employee benefits exceeded budgeted expectations, as high utilization was experienced, due in part to the pent up demand from FY2020.

Medical and surgical supplies, as well as drugs, increased primarily due to the positive variance in volumes, particularly in the infusion and laboratory spaces, as well as inflationary growth that we have not seen in some time. Insurance premiums were unexpectedly and substantially increased from budgeted and prior year levels, as insurance companies aim to control their own risk levels in the current business climate and have actuarially recognized the effect of COVID on operations. Depreciation was lower than budgeted as capital projects were postponed due to bandwidth to implement during COVID and supply chain issues.

Bridges - FY 2021 Approved Budget to FY 2021 Actual Results

Expenses	Amount	% over/under
FY 21 Approved Budget	\$ 59,828,546	
Salaries	(66,084)	
Fringe Benefits	876,423	
Physician Contracts	270,594	
Contract Staffing	463,431	
Supplies	(102,414)	
Drugs	286,801	
Facilities	2,037	
IT Related	(276,836)	
Depreciation	(223,358)	
Interest	(25,302)	
Health Care Provider Tax	(22,641)	
Purchased Services	114,483	
Other	(82,910)	
FY 21 Actual Results	\$ 61,042,770	2.0%

Profit and Loss

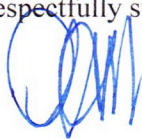
Overall operating margins were above budgeted expectations at 9.1%, or \$6.1M. Despite a pandemic, staffing testing and vaccination centers, continued participation in healthcare reforms, and price reductions, we managed to produce a significant bottom line.

Non-Operating income was exceptional due to excellent investment performance. Budgeted gains in fundraising contributions of \$217K and positive investment returns of \$3.2M. Additionally, \$143K in system shared savings allocations were recorded as a net asset transferred from D-HH.

The overall profit margin for FY21 is 15%, or \$10.2M.

I am available to address any additional questions that you may have.

Respectfully submitted,



David C. Sanville
Chief Financial Officer
Mt Ascutney Hospital and Health Center