MT. ASCUTNEY HOSPITAL
AND HEALTH CENTER

A Dartmouth-Hitchcock Affiliate

June 30, 2017

Attn: Mr. Andy Pallito, Director of Health System Finances
Green Mountain Care Board
89 Main Street, Third Floor, City Center
Montpelier, Vermont 05620

Re: Budget 2018 Narrative

Dear Mr. Pallito,

This letter serves as the narrative required to accompany the electronic budget files which have been sent under separate cover.

Executive Summary:

2018 will be a year that looks much like our budget and actual results of FY2017. MAH continues in its process of integration into Dartmouth-Hitchcock Health (DH-H). Administrative, clinical, and other areas are reviewed and studied on an ongoing basis for change, consolidation, or to be left in current form. While many changes have been implemented over the last year, there continues to be a steady stream of opportunity for further considerations. The organization is adapting to DH-H regional planning, service allocations, and expectations of clinical and financial effectiveness and efficiency. Clinical, administrative, and technological integration are paramount to the short and long term success of the affiliation. Despite the changes and the studies, we have remained steadfast in our management of controllable expenses, minimizing the effect of uncontrollable factors, and keeping the ship steady. While the various Inpatient services and the care of our Specialty Providers have remained fairly steady and predictable over the last year, we are experiencing decreased volume in some Outpatient services, turnover in Primary Care units, uncertain environmental changes, and another leadership transition. We expect to outperform our negative, budgeted 2017 margin and expect our operating margin for 2018 will also be a $1.2m negative operating margin. It is important to note that this much of this negative margin is related to the nature of the patients that we are receiving from DH-H and DH-H provides a subsidy, below the line, to compensate for this contribution to the regional care management.

Volumes:

Most volumes are expected to be flat or close to it. Inpatient Acute, Swing Bed and Rehabilitation are all expected to remain between budget and actual FY2017 levels. Inpatient Ancillary services will follow suit. Outpatient volumes will be largely flat as well, with some small growth in Operating Room procedures, Emergency Department visits, and Cardiac Rehabilitation. Offsetting this will be reductions in Physical Therapy, Chemotherapy/Infusion, and Speech Therapy. Specialty clinics will grow slightly as we continue to replace departed providers from FY16 and FY17. Primary Care will have similar volumes but with a higher percentage of mid-level providers performing the services than previously.

Rate Increases:

Gross prices are increasing by 4.9% overall. Inpatient Room and Board for Acute Inpatient, Swing Inpatient, and Acute Rehabilitation are all increasing by 5%. Additionally, all Inpatient Ancillaries are increasing by 5%. All Outpatient charges and ancillaries are increasing by 5% as well. Physician charges are increasing by 4%.

Deductions from Revenue:

In the prior two fiscal years, Medicaid and Medicare had increased as a percentage of total revenue and we budgeted accordingly. Over the beginning of this fiscal year, Medicaid was down significantly as a percentage of total business. Medicare and Commercial have all grown. Accordingly, our contractual allowances have improved from anticipated levels. Additionally, lower volumes coupled with a higher percentage of fixed cost and the higher Medicare payer percentage has improved our expected cost report reimbursement. This gain is mitigated a bit with sequestration and variable expense offsets. Over the last few months, the payer mix has begun to look more like what was budgeted. Our budget for 2018 anticipates payer mix levels falling between the Budget and the Actual 2017 levels. No material change in Bad Debt and Charity Care is anticipated, although that could certainly change if BRCA is passed prior to 2018.

Net Patient Revenue:

As an overall percentage, Net Patient Revenue will look a lot more like Actual FY17 YTD than Budget FY17.

Other Operating Revenue:

Other operating revenue is up slightly due to improved 340B revenues, improved CHT revenues, and other contract revenues that are not related to patient care.

Expenses:

Salaries and Benefits:

We have budgeted a 3% average wage increase for our staff. There is some FTE growth in clinical areas due to the increased frequency of more complicated patients who require additional oversight (Emergency Department and all Inpatient settings), some administrative increases to address regulatory and reimbursement changes (Quality, Compliance, Analytics), and some related to volume (Cardiac Rehab). As part of our continuing integration, some key clinical and managerial positions are now contracted services from Dartmouth-Hitchcock. Their related expenses are reflected as purchased services instead of salaries. Some call costs have increased to compete with market and aid in provider recruitment.

We had expected to be budgeting for Benefits from the Dartmouth-Hitchcock platform but found that another year on the glide path was advisable. We were not able to mitigate some key differences in wages and benefits to make the transition reasonable for the organization and our staff. While we have integrated to a small degree, another year will be needed to make the transition. We have had two very positive years relative to health insurance costs for our employees. Given the likelihood of that not continuing, we budgeted according to market trend.

That, the increases in wages, the increase in FTE's, and overall inflation has dictated a material increase in Benefits Actual to Budget. The change Budget to Budget is nominal.

Depreciation and Interest:

- Depreciation is down budget to budget due to a slowdown in expected capital investment during this year. It is up from Projected 2017.
- Budget to Budget, Interest is fairly flat due to a major refinancing of our debt through the DH Obligated Group and the sale of a SWAP. It is increasing due to the lease of a new CT Scanner that will be implemented this fiscal year.

Other Expenses:

- Most Supplies and Contracted Services are increasing with 2-3% inflation factors, adjusted by volume.
- Telehealth as added to this category for FY17 at an annual cost of $55,000.
- Contracted Labor is expected to increase, partially offset by a reduction of FTE's, as a number of employees are now contracted from Dartmouth-Hitchcock.
- Insurance (Liability) will be flat from current premium rates due to favorable conditions and experience within the DH Captive Insurance Program.

Operating Margin:

Our Operating Margin will be a 2.2% loss or approximately $1.2 million. This is slightly better than the 2017 budgeted margin. A "System Allocation" payment in the same amount will be made as a net asset transfer to MAHHC from DH. This payment will occur below the line and so our Total Margin will improve. While this leaves an unfavorable Operating Margin on the books, functionally, cash, most ratios, ability to invest in infrastructure, etc. will look like we had an operating margin of breakeven.

Non-Operating Revenues:

Investment income assumptions are fairly conservative as the organization moves its assets to into DH-H's investment plan. Non-operating also revenues include 1.2 million in net asset transfers from Dartmouth Hitchcock as discussed above.

Capital budget investments:

In the coming year we expect no CONs to be filed, as most of the planned purchases are for routine replacement of equipment and plant maintenance. The CON that is active currently will be completed in FY17.

Please let us know if there are additional requests or concerns. Thank you.

Sincerely,

David C. Sanville
C.F.O./V.P. Finance