MT. ASCUTNEY HOSPITAL
AND HEALTH CENTER

A Dartmouth-Hitchcock Affiliate

January 31, 2018

Attn: Mr. Andy Pallito, Director of Health Systems Finance
Green Mountain Care Board
144 Main Street
Montpelier, VT 05602

Re: Actual FY17 Results

Dear Mr. Pallito,

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 FY2017.

Executive Summary

As of July 1, 2014 the hospital became an affiliate of Dartmouth-Hitchcock Health (D-HH). Under the new structure, D-HH is the sole corporate member of the organization. The affiliation provides for closer coordination of care for patients and provides a framework for population based health management between the organizations and in the region.

During this fiscal year, Mt. Ascutney Hospital and Health Center collaborated with D-HH (and its subsidiaries) with several finance transactions and clinical initiatives.

a.) Effective July 1, 2016, the hospital became a member of the Dartmouth-Hitchcock Obligated Group (D-HOG). At that time, the hospital refinanced existing bonds and bank financed debt with Mary Hitchcock Memorial Hospital (also a member of D-HOG). This debt consolidation and structure allowed Mt. Ascutney Hospital to achieve approximately $150K in interest expense savings, annually. This Obligated Group requires all members to be jointly and severally liable for the group's debt.

b.) Last year, the hospital was able to move into the D-H Captive Insurance Program along with other affiliates which is estimated to provide savings and inflation avoidance of approximately $72K on an annual basis. The hospital is also participating in the group purchase of stop loss insurance. This was accomplished via a shadow captive for our self-funded health insurance plan, along with other members of the D-HH affiliation. This provided $30k in savings in FY2017.

c.) Human Resource initiatives in the area of recruiting (provider and staff), "traveler" services, adoption of common benefits and support software platforms, pension actuarial services, and others. Overall, we have seen a reduction of operating costs.

d.) Care Management and supporting software is effectively integrated to insure lower costs to the regional system and better patient satisfaction and quality and little cost.

e.) Pharmacy management, 340B analysis, and group purchasing have been implemented with reductions of cost within the group purchasing, have improved quality, and have provided cost avoidance relative to staffing.

f.) Regional Laboratory and Radiology Services have provided better quality, improved management, and reduced duplicate testing for the region at little or no cost while reducing the cost in our "reference laboratory" testing.

g.) In-process and Ongoing efforts in the areas of Medical Staff Credentialing, Telehealth, Tele-psychiatry, Clinical Provider sharing, Group Purchasing, Capital Equipment Purchasing, and Staff Education are in various stages of implementation. The guiding principles are "same service at lower costs" or "better services at the same price".

FY 2017 ended with a net operating gain of approximately $1.4MM. The year began with the first quarter performing as expected relative to operating margin. As the year progressed, volumes increased slightly and the organization continued to gain ground through the 2nd and 3rd quarters. This was primarily due to strong expense management, improving volumes and a favorable payer mix. While MAHHC began the year with vacancies in primary care and some surgical specialties, management was able to improve the provider staffing in those areas. This helped with patient demand and with outpatient ancillary volumes. Inpatient volumes finished slightly ahead of expectations for the year, the clinic volumes improved as the year progressed, as did Operating Room and Ancillary volumes. Emergency Room volumes were off slightly. The FY17 Payer Mix was unexpectedly positive and contrary to prior years. Medicare volumes were up as a percentage, Medicaid was down, and commercials were close to budgeted levels. This change in the payer mix and unfavorable volumes also improved the expected settlement estimates for the cost report. As a result, deductions from revenue were significantly under the original estimates.

Other operating revenue was above budgeted expectations, buoyed by maturation of the 340b program ($210K), stronger programs ($230K) and sale of services ($160K) revenue.

Revenues

Overall, Acute revenue was well above target, while all other lines of patient care businesses were below target.

Acute and Swing days were ahead of prior year, which reflects a relatively consistent level of admissions over prior years. As compared to budget, Acute was well ahead of budget, and Swing days slightly exceeding budget. Revenue was down about $90K on the combined unit, due to a lower level of patient acuity. Payer mix improved and shifted dollars from Medicaid to Commercial and Medicare. This resulted in a favorable net revenue change. There were more inpatient surgeries than expected.

Rehabilitation days were about 1% below expectations for the year, and the related gross revenue was about 1% below target as well. The recently renovated rehabilitation facility has had a steady referral pattern and we are able to take care of more patients due to the private rooms created in the renovation.

Outpatient revenues were about 3% under budgeted. Operating Room cases were behind budget and prior year, but improved as provider staffing improved. The Emergency Room also saw fewer visits against the budget and prior year, as did Radiology and Laboratory. The latter two ancillary services are driven by physician clinic volumes to be discussed later. Outpatient Therapies (Physical and Occupational) visits both came in below budget and prior year.

Physician revenues were generally under budget overall, however Primary Care was significantly behind budget and prior year. This is due to the turnover and loss of Primary Care providers, leaving the hospital and/or the area. The hospital replaced these physicians with mid-level and locum tenens providers.

Unfortunately, it takes time to hire and get the new provider trained and up and running, which had a negative impact on the ability to see patients and the revenue associated with those visits. Our affiliation with Dartmouth Hitchcock helped in the recruiting process but the physician shortfall had a significant and negative impact on the Hospital's revenues and outpatient ancillary volumes. Inpatient physician activity was above expectations, driven by the strength in Inpatient days for Acute and Swing.

Net Revenues

Total gross revenues were under budget by over 3% but net patient revenue was over budget by 1.7% At the beginning of the year, contractual allowances exceeded expectations, resulting in a negative variance. This change primarily came in the Inpatient areas, with a small number of Commercial patients occupying a bed for extended Rehab and/or surgery. During the remainder of the year, however, the payer mix changed as mentioned earlier. The percentage of Medicare and Commercial patients increased and the overall percentage of Medicaid decreased.

A major concern over the last few years and ongoing is the number of Swing (SNF and ICF level) patients that the hospital cares for. Medicaid patients, in particular, receiving these services are reimbursed at approximately $250 per day when the costs run four times this amount. Many of these patients were transferred from Dartmouth-Hitchcock as Swing patients as part of the regional care plan to put patients in the right beds, at the most appropriate level of care and cost. Because Nursing Homes on both sides of the river have reduced the percentage of Medicaid patients they accept, these patients are problematic discharges for Dartmouth-Hitchcock. Population Health and Accountable Care Organizations operate on the premise of providing the right care (level and amount of care), to the right patient at the right time, in the right place. The system benefits from transitioning these patients to a less expensive location for the same care. We accepted 500 referrals from Dartmouth-Hitchcock during the year. Most were swing bed patients and many were Medicaid patients.

The payer mix in the outpatient areas and clinics were as expected or favorable, also contributing to an improved net revenue percentage. Unfavorable levels of bad debt and charity care relative to budget offset some of the positive impact of contractual allowance shift. Finally, Medicare reimbursement adjustments, which are contractual and cash adjustments made to the prospective payment rates made by Medicare through the Medicare Cost Reporting process, contributed approximately $900K to the NPR by lowering Deductions from Revenue. Much of this was driven by a higher than expected Medicare percentage (of the payer mix) drawing additional costs and lower volumes in specific areas that raised the average cost per unit.

NPR	Amount	% over/under
FY17 Approved Budget	$ 47,744,700	
Utilization	(3,250,000)	-6.8%
Acuity	1,750,000	3.7%
Reimbursement/Payer Mix/Rate Adjustment	2,408,000	5.0%
Bad Debt/Free Care	(400,000)	-0.8%
FY Actual Results	$ 48,253,000	1.1%

Other Operating Revenues

Other operating revenue was above budget/ expectations for the year by about 20%, or about $670,000. The difference was largely the maturation of the 340b program($210K), stronger program($230K) and sale of services ($160K) revenue.

MT. ASCUTNEY HOSPITAL
AND HEALTH CENTER

A Dartmouth-Hitchcock Affiliate

Expenses

Total expenses were about 3% below budget for FY 2017, due to continued focus on cost control throughout the year, as well as some positive surprises.

Hospital management has worked diligently to tightly control expenses that are within our control, such as FTEs, unnecessary overtime, and others. Non-MD contracted labor and other discretionary items were also tightly managed, however they are increasing from year to year, due to inflation and shared resources with D-HH. This is expected to be a continued trend, as more managers share duties between the organizations. Favorable benefits played a significant positive role as well. Health insurance was a major gain due to positive utilization trends, and saved the organization close to $1M. Efforts to improve energy efficiency have resulted in lower utilities expenses. Supplies were favorable due to unfavorable volumes. Depreciation finished below budget due to under-spending relative to capital purchases.

Expenses	Amount	% over/under
FY17 Approved Budget	$ 51,856,000	
Salaries	665,000	1.3%
Fringe	(950,000)	-1.8%
Other Expenses	(300,000)	-0.6%
Purchased Services	125,000	0.2%
Interest Expense	(80,000)	-0.2%
Medical and Surgical Supplies	(500,000)	-1.0%
Utilities	(60,000)	-0.1%
Minor Equipment and Software Fees	(213,000)	-0.4%
Insurance	250,000	0.5%
Depreciation reduction	(400,000)	-0.8%
FY Actual Results	$ 50,393,000	-2.8%

Non-Operating Revenues

Non-Operating revenues were favorable primarily due to favorable returns in investments.

I and my staff are available to address any additional questions that you may have. Thank you.

Respectfully submitted,

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