

January 31, 2019

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

Re: Actual FY18 Results

Dear Ms. Jones,

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 FY2018.

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.

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) 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 as a percentage of revenue compared to budget.
- b) 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.
- c) Pharmacy management, 340b program benefits, and group purchasing have been utilized to provide reductions of cost within the group purchasing, have improved quality, and have provided cost avoidance relative to staffing.
- d) 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.
- e) In-process and ongoing efforts in the areas of medical staff credentialing, telehealth, telepsychiatry, clinical provider sharing, group purchasing, capital equipment purchasing, and staff education are in various stages of implementation with various levels of savings. The guiding principles are "same service at lower costs" or "better service at the same price"

FY 2018 ended with a net operating gain of approximately \$1.1 MM. The year began with a strong 1st quarter; results exceeded budget/expectations for the 1st quarter. The 2nd, 3rd, and 4th quarters all experienced some fluctuation in monthly performance, but overall each quarter contributed a positive, growing operational margin to end the year with a favorable to budget in operating margin. This was due to measured expense management and a steady increase in Emergency Room visits and admissions in the inpatient areas, as well as strong volumes in ancillary services.

The payer mix for the year showed a migration to governmental programs from commercial payers. A significant increase in Medicare was experienced, and a marked decrease in Blue Cross business, contributing a negative \$595K variance to the overall positive NPR surplus over budget. This was



contrary to our experience last year, but is typical compared to the long-term trend of a consistent increase of governmental payers in the payer mix, our aging patient population, and Medicaid expansion efforts. As a result, deductions from revenue were over the original estimates. Favorable GPSR also contributed to the variance in deductions. Additionally, the higher volume in swing and acute areas drive higher deduction levels as these are generally services with a high concentration of governmental payer. Participation in the OneCare Vermont Medicaid Next Generation (OCVMNG) share risk program was also a factor in higher deduction amounts as the service revenue from our attributed patients are fully deducted as contractual allowance. We received \$733K in fixed prospective payments in 2018 to care for said patients.

Other operating revenue was above budgeted expectations, buoyed by Medicaid Meaningful Use payments (\$290K), purchasing discounts (\$100K), and sales of services (\$85K) revenues.

Gross Patient Service Revenue

In general, all patient care businesses were above target this year. Acute, Outpatient, Swing, and Rehabilitation service lines experienced exceptional volumes.

Acute and Swing days were ahead of prior year, which reflects a smoothing and relatively consistent level of admissions over prior years. As compared to budget, Acute days were well ahead of budget, and Swing days slightly exceeding budget. Net gross revenue was up over \$1.6M on the combined unit.

Rehabilitation days were about 2% above expectations for the year, and the related gross revenue was about 6% above target as well. The renovated rehabilitation facility has a well-established referral pattern and the ability to take care of more patients due to the private rooms created in the renovation. Higher acuity patients are cared for here as our facility is CARF certified and recognized as a center for excellence.

Outpatient revenues were about 5% above budget. Operating Room cases were behind budget due to the unexpected loss of a specialty provider, but were 6% over prior year cases as other specialty provider practices were more established. The Emergency Room also saw greater visits against the budget and prior year, as did Radiology and Laboratory. The latter two ancillary services are primarily driven by physician volumes to be discussed later. Therapies (Physical and Occupational) visits both came in above budget and prior year.

Physician revenues were marginally over budget overall, however, Primary Care was significantly behind budget and prior year. This is due to the turnover of Primary Care providers, leaving the hospital and/or the area. The hospital replaced these physicians with Mid-level providers and locum tenens, however, it takes time to hire and get a new provider trained and up and running, which had a negative impact on the ability to see patients. Inpatient physician activity was above expectations, driven by the strength in Inpatient days for Acute and Swing.

Net Patient Service Revenue

Total gross revenues were over budget by 5% and net patient revenue was over budget by 3%. Throughout the year, contractual allowances exceeded expectations by a greater proportion, resulting in a variance of 7%. The degradation of net patient service revenue as compared to gross revenue is attributed to lower commercial and Medicaid reimbursement (\$270K) and an unfavorable variance in payer mix (\$325K), for a combined total of \$595K. Certain commercial insurers that have percentage of charge (POC) reimbursement arrangements, limit recognition of annual hospital rate increases. The decrease in

POC reimbursement juxtaposed to the increased revenue, drives an increase in contractual adjustments and a decrease in net patient service revenue.

Participation in the OCVMNG shared risk program has also had an adverse effect on contractual allowances, as the entirety of OCVMNG patients' revenue is written off as a capitated contractual allowance. Net reimbursement from Medicaid was budgeted at 29.5%, but fell to 25% due to the reimbursement ramifications of OCVMNG. This is offset by the fixed prospective payments we received in 2018, totaling \$733K. This amount was not budgeted due to the lack of information available at the time.

Unfavorable levels of bad debt and charity care relative to budget further degraded net patient service revenue as a percentage of gross revenue.

Table 1:
FY 2018 Approved Budget to Actuals

NPR	Total	% over/under
FY 18 Approved Budget	\$ 48,682,309	
Utilization	2,766,130	
Reimbursement/Payer Mix	(595,972)	
Bad Debt/Free Care	(776,527)	
Fixed Prospective Payments	732,703	
FY 18 Actuals	\$ 50,808,643	4.37%

Other Operating Revenue

Other operating revenue was above budget/ expectations for the year by about 10%. Medicaid Meaningful Use payments (\$290K), purchase discounts (\$100K), and sale of services (\$85K) revenues were favorably over budget and contributed to the positive variance. Growing reliance on non-patient revenues is a concern for the future.

Expense

Total expenses were about 1% above budget for FY 2018, due to continued focus on cost control throughout the year, as well as some positive breaks.

The hospital management has worked diligently to tightly control expenses that can be influenced, as related to FTEs, unnecessary overtime, and other expenses. We are pleased to have been able to provide market and merit increases this year, to both reflect our appreciation for the hard work of our staff, and to keep up with the increasingly competitive health care labor market. Market pressures are necessitating increased hiring packages to potential new hires, as well as sign-on and retention bonuses. Much of our competition comes from N.H. hospitals who do not have regulatory oversight relative to price increases, expense management, etc. Non-MD contracted labor and discretionary items were tightly managed, however, they are increasing from year to year, as the hospital continues to outsource and share resources with D-HH. This is expected to be a continued trend, as more managers share duties between the organizations.

'Other Expenses' decreased due to higher than anticipated rebates on purchases, changing bank services, and legal fee savings, resulting in \$85K of cost avoidance. Favorable insurance experience with our NEAH Captive partners played a positive role as well. Efforts to improve energy efficiency have resulted

in lower utilities expenses. Decreased pharmaceutical expenses can be attributed to a single patient who was previously receiving very expensive treatments who no longer lives in the area. Depreciation was less than budgeted as certain assets became fully depreciated and others written off. Medical and surgical supplies increased primarily due to the hospital wide positive variance in volumes.

Table 2:
FY 2018 Approved Budget to Actuals

Expenses	Amount	% over/under
FY 18 Approved Budget	\$ 52,939,112	
Salaries: All Other Staff	275,716	1.5%
Salaries: Physician	109,267	2.4%
Salaries: MLPs (Mid Level Providers)	168,068	14.0%
Purchased Services / Consulting / Travelers	908,550	10.5%
Misc Salaries	(60,359)	-100.0%
Staff Fringe	5,729	0.1%
Other Expenses	(260,522)	-20.0%
Medical and Surgical Supplies	158,575	14.4%
Pharmaceuticals	(102,534)	-5.4%
Other Supplies	(13,976)	-1.8%
Equipment / Software / Other Maintenance	(118,737)	-16.8%
Lease and Rental	(80,938)	-10.1%
Utilities	(44,026)	-6.2%
Insurance	(175,203)	-23.8%
Depreciation - Building & Fixed	(4,418)	-0.4%
Depreciation - Major Movable	(217,994)	-20.6%
Interest - Long Term Borrowings	(45,465)	-16.7%
Medicaid Provider Tax	(37,035)	-2.1%
Nonsalary Marketing Expense	47,481	22.3%
FY 18 Actuals	\$ 53,451,291	1.0%

Profit and Loss

Overall operating margins were 1.9%, above the budgeted loss of 2.4%. Favorable variances in volumes and other operating income, as well as strong expense management led us to post a positive margin.

Non-Operating gains were down compared to budget. The system allocation support from DH-H did not materialize due to our performance, but the loss of funding was mitigated by significant gains in the performance of our investment holdings. Investments in FY18 health care reform activities did not vary from the budget. The hospital experienced a total margin of 5.5% in FY18.

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