Mt. Ascutney Hospital
and Health Center
Dartmouth-Hitchcock

January 31, 2020

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

Re: Actual FY19 Results

Dear Mr. Looney,

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 FY2019.

Executive Summary

As of July 1, 2014, the hospital became an affiliate of Dartmouth-Hitchcock Health (D-HH). Under the 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 financial 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) Ongoing integration of care management and supporting software has been a system initiative to insure lower costs to the regional system, to improve patient satisfaction and to improve quality.
c) Pharmacy management, 340b program benefits, and group purchasing have been leveraged to provide cost reductions, to improve quality, and have provided revenue to offset the negative margins associated with patient care.
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 and "right-sizing" our staffing complement.
e) In-process and ongoing efforts in the areas of medical staff credentialing, telehealth support in our emergency room, telepsychiatry, clinical provider sharing, group purchasing, group capital equipment purchasing, IT infrastructure 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 2019 ended with a net operating loss of approximately $43K. The year had a positive variance in gross revenue, due to improved referral mechanisms (care management integration) within the region and within the D-HH system. We have been able to support the regional effort to insure that patients from the Springfield Hospital service areas have been able to access necessary services as Springfield works through their current situation.

Participation in the OneCare Vermont (OCV) Medicaid and Medicare programs is the most significant negative factor affecting reimbursement and administrative costs. Due to the lack of information at time of budgeting, Medicare Fixed Prospective Payment (FPP), Medicare program risk reserves, and Medicare

program expenses were not budgeted. Additionally, the scope of attributed lives and the associated cost of care doubled from estimates provided to MAHHC at the time of contracting. This resulted in a roughly 14% increase in Deductions from Revenue in FY19. This was partially, but not fully, offset by the FPP from OCV during the fiscal year and a receivable had to be built to recognize the shortfall. Our cost reporting estimate for year-end was also affected because CMS could not produce an accurate PS&R reflecting our total Medicare reimbursement and statistical experience. We were forced to take what we believe to be a conservative position on this estimate which runs through deductions and was unfavorable for the year. The payer mix for FY19 showed a migration to governmental programs from commercial payers. A 2% increase in Medicare was experienced, and a 2% decrease in commercial business. This was similar to our experience last year, and 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 of OCV program participation and the ever-aging demographic, NPR realized a 0.6% decrease compared to budget. Other operating revenue came in at budgeted expectations.

Despite a 1.7% increase in gross revenue, expenses decreased 0.5% from budget, due to effective expense management and positive improved experience in our self-insured population.

Significant non-operating losses were realized, even with gains in fundraising contributions, to the tune of $2M. The non-operating loss is related to the pension plan obligation valuation resulting from changes in interest rates, the applied discount rates, market returns, and actuarial changes. We continue to take steps to close out our pension obligation in collaboration with D-HH.

Gross Patient Service Revenue

Total gross patient revenue was up from budget $1.7M, or 1.7%. Inpatient Acute and Outpatient service lines carried the gains, while Inpatient Rehab and Swing came in just shy of the target, and Physician revenues fell below expected targets.

Acute days were ahead of prior year by 4%, while Swing days were down 3%. As compared to budget, Acute days were well ahead of budget and Swing days fell slightly short. Net gross revenue was up $82K on the combined unit.

Rehabilitation days were about 2% below expectations for the year, and the related gross revenue was about 1% below target as well. The 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 of several years ago. Higher acuity patients are cared for here as our facility is CARF certified and recognized as a center for excellence.

Outpatient revenues were about 4% above budget. Operating Room cases were behind budget due to the unexpected loss of a specialty provider, but were 4% over prior year cases as other specialty provider practices were more established. The Emergency Room also saw greater visits compared to the budget and prior year, partially driven by a migration of patients from neighboring Springfield Hospital. Therapies (Physical, Occupational, Speech, and Respiratory) visits both came in above budget and prior year, as did Radiology and Laboratory.

Physician revenues fell short of budget overall, Primary Care was significantly behind budget. 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. However, there was a 14% increase in Primary Care visits from prior year, which shows significant improvement in

year over year performance. Inpatient physician activity was above expectations, driven by the strength in Inpatient days for Acute. Specialty and ER provider visits were also well ahead of budget.

Net Patient Service Revenue

Total gross revenues were over budget by 1.7% and net patient revenue was below budget by 0.7%. The increase in gross revenues due to utilization were offset by an increase in contractual allowances. Throughout the year, contractual allowances exceeded expectations by a greater proportion, resulting in an unfavorable variance of 14%. The degradation of net patient service revenue as compared to gross revenue is attributed almost entirely to participation in the OCV Medicare. Fee-for-service (FFS) payments are reduced to zero and reported as 'shadow payments'. Much of our OCV Medicare experience was described earlier in this narrative Playing a factor in the degradation of net revenue was a shift in payer mix towards Medicare from commercial payers. Meanwhile, for the commercial revenues we do generate, 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.

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

FY 2019 Approved Budget to FY 2019 Actual Results

NPR	Total	% over/under
FY 19 Approved Budget	$ 51,195,770	
Utilization	2,990,626	
Reimbursement/Payer Mix	(8,034,606)	
Bad Debt/Free Care	(81,259)	
Changes in DSH	40,539	
FPP	5,667,632	
Reserves	(929,316)	
FY 19 Actual Results	$ 50,849,386	-0.7%

Other Operating Revenue

Other operating revenue met budget/expectations for the year. Grant ($362K) and 340B income ($253K) helped offset the decrease in Blueprint/CHT program revenue ($680K). Some of this was re-classed to NPR given the shifting of the agencies responsible for distributing Blueprint dollars to OCV and the GMCB's reporting instructions on reporting ACO reform payments. Growing reliance on non-patient revenues is a growing concern for the future.

Expense

Total expenses were about 0.5% below budget for FY 2019, due to continued focus on cost control throughout the year.

The hospital management has worked diligently to tightly control expenses that can be influenced, as related to FTEs, unnecessary overtime, and other expenses. Due to higher utilization we expected staffing and other variable expenses to adjust accordingly. We experienced an unusual year with physician engagement, as we hired on a previously contracted physician, where the trend is usually the reverse. We

are pleased to have been able to provide merit increases this year, to both reflect our appreciation for the hard work of our staff and to maintain our position in the market relative to wage levels. We were unable to provide budgeted market increases due to the uncertainty of our financial position for much of the year as we worked through the OCV issues. 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. We continue to outsource and share resources with D-HH to improve our cost structures and efficiency. This is expected to be a continued trend.

Medical and surgical supplies, as well as drugs, increased primarily due to the positive variance in volumes. This increase was offset by favorable insurance experience with our NEAH Captive partners. Efforts to improve energy efficiency have resulted in lower utilities expenses. IT savings were experienced due to our ongoing integration efforts with D-HH, as costs are spread throughout the system. Depreciation was higher than budgeted as we were able to successfully execute capital projects to improve the patient experience, quality and safety, including a new nurse call system and the re-purchase of a previously co-owned hospital space, which helped significantly reduce rent expense.

FY 2019 Approved Budget to FY 2019 Actual Results

Expenses	Amount	% over/under
FY 19 Approved Budget	$ 54,837,975	
Salaries	533,721	1.0%
Fringe Benefits	(654,471)	-1.2%
Physician Contracts	(271,022)	-0.5%
Contract Staffing	372,205	0.7%
Supplies	88,757	0.2%
Drugs	37,339	0.1%
Facilities	(143,253)	-0.3%
IT Related	(164,918)	-0.3%
Contracted Services	(191,898)	-0.3%
Depreciation	166,624	0.3%
Interest	(28,647)	-0.1%
Health Care Provider Tax	33,347	0.1%
Rent	(124,729)	-0.2%
Dues/Fees/Taxes	213,910	0.4%
Insurance	(75,550)	-0.1%
Misc Cost Savings	(62,689)	-0.1%
FY 19 Actual Results	$ 54,566,701	-0.49%

Profit and Loss

Overall operating margins were below budgeted expectations at -0.1%, or $60K. Despite healthy growth in gross patient revenue and strong expense management, the impact of our participation in OCV's health reform programs has had a negative impact on our bottom line. However, we recognize that we are making an investment in the future of our health system and our patients, and with that, we are able to end the year with essentially a break-even margin as expected. Overcoming the ACO impact with effective expense management was instrumental in our operating results.

Non-Operating loss were down compared to budget. Despite budgeted gains in fundraising contributions of $322K and positive investment returns of $418K, we experienced a non-operating loss of $2M. The non-operating loss is attributable to pension related valuations and expenses, as we close out our pension obligation and liability in collaboration with D-HH. This will protect MAHHC from future significant market risk and reduce future pension related expenses.

The overall profit margin for FY19 is -3.8%, or -$2.1M.

We are available to address any additional questions that you may have.

Respectfully submitted,

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