June 30, 2019

Attn: Ms. Susan Barrett, J.D. Executive Director
Green Mountain Care Board
89 Main Street, Third Floor, City Center
Montpelier, Vermont 05620

Re: Budget 2020 Narrative

Dear Ms. Barrett,

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

Executive Summary:

Mt Ascutney Hospital and Health Center (MAHHC), for the first time in recent history, is budgeting a 1% operating margin. MAHHC continues with its integration efforts into Dartmouth-Hitchcock Health (D-HH). Administrative, clinical, and other areas are reviewed and analyzed on an ongoing basis to determine whether programs should be changed, consolidated with D-HH or should remain the same. While many changes have been implemented over the last few years, there continues to be a steady stream of opportunity for further consideration. The organization is working on D-HH regional and strategic planning, service line 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 D-HH Network. Despite the intermittently disruptive changes, 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 few years, we are still experiencing volumes variances in some Outpatient services. Additionally, while our efforts to bring stability of staffing to our Primary Care have made progress, the efforts have not yet resulted in a dependable or predictable trend. The recruitment and retention of primary care doctors to rural Vermont has remained difficult. We are also dealing with significant environmental changes, increased participation in OneCare VT (OCV) and changes in our patient base due to performances of other area facilities. We expect to under-perform our break-even, budgeted 2019 margin and finish the year at a $400,000 loss on operations. This is primarily due to our participation in the Medicare and Commercial ACO programs which were not budgeted. Our total margin is anticipated to finish at $600,000. Our operating margin for 2020 will be approximately $600,000.

Payment and Delivery Reforms:

MAHHC is currently contracted with OneCare Vermont for Medicaid, Medicare, and Blue Cross Blue Shield during FY19 through the end of CY19. We are not committed to continuing all of these contracts in FY20. The maximum upside and downside risk is $1,975,000 for all three programs. Our Board of Trustees and senior leadership at Dartmouth-Hitchcock Health and MAHHC have significant concerns over the extent of that downside risk for a critical access hospital. This downside risk, as well as the expected loss of 1 million dollars from our cost report due to the inability to include attributed lives/costs, may make ongoing participation in the OCV Medicare program untenable. This risk is accounted for in the financials by including it in our Deductions from Contractual Allowances model in the P&L which flows into the Third-Party Settlements account on the Balance Sheet as a liability. The hospital will manage financial risk by continuing to provide team-based care and by focusing on Complex Care Coordination for at-risk patients. We have hired an analyst to manage the ACO information and

financial transactions. Provider financial incentives do not have a negative impact on patient care at MAHHC because we do not have any such arrangements in force. We expect to receive a total of $520,692 in Other Reform Payments. We are not currently contracted with OneCare Vermont self-insured program, due to bandwidth and uncertainty with our current commitments.

MAHHC is increasing the allocation of resources to population health programs. We are adding a second full time Social Worker in our Community Health Team department. Budgets for population health management and community health initiatives have increased substantially, at roughly $525K. This includes the following departments: Community Health Team, Blueprint Spoke Team, Prevention Education & Promotion, Grants, Programs, and Windsor Community Health Clinic.

Reconciliation:

The following table reconciles the variations between the FY19 approved budget and the FY19 full year projection.

Net Patient Service Revenue			Other Revenue			Expenses			Non-Operating Revenues and Expenses		
	$	%		$	%		$	%		$	%
FY19 Approved Budget	$ 51,195,770		FY19 Approved Budget	$ 3,659,789		FY19 Approved Budget	$ 54,837,975		FY19 Approved Budget	$ 861,000	
Gross Revenue	1,000,000	2.0%	Grant Income	330,000	9.0%	Physician: Contracting Reclass	(1,200,000)	-2.2%	Donations	200,000	23.2%
Deductions from Rev	(4,600,000)	-9.0%	Cafeteria	25,000	0.7%	Other Expense: Reclass Above	1,200,000	2.2%	Sale of Investments	110,000	12.8%
FPP	5,500,000	10.7%	PHM Reclass	(195,000)	-5.3%	Purchased Labor	270,000	0.5%	Restricted Asset Release	(150,000)	-17.4%
Reserves for FPP	(1,250,000)	-2.4%	Sale of Fixed Assets	(70,000)	-1.9%	Salaries	500,000	0.9%	Rounding	(20,197)	-2.3%
Reform Payments	195,000	0.4%	340B	185,000	5.1%	Fringe Benefits	225,000	0.4%			
Bad Debt/Free Care	(415,000)	-0.8%	Other	(60,000)	-1.6%	Interest	(15,000)	0.0%			
Changes in DSH	40,000	0.1%	Rounding	515	0.0%	Depreciation	100,000	0.2%			
Rounding	(26,519)	-0.1%				Rounding	(3,016)	0.0%			
FY19 Projections	$ 51,639,251	0.9%	FY19 Projections	$ 3,875,304	5.9%	FY19 Projections	$ 55,914,959	2.0%	FY19 Projections	$ 1,000,803	16.2%

NPSR came in above budget by 0.9%, other revenues were 5.9% over budget, expenses up 2%, and non-operating revenues and expenses came in 16.2% initial budget estimates.

Budget-to-Budget Growth:

Net Patient Revenues

The budgeted FY20 NPR/FPP increase over the approved FY 2019 budget is 7.4% and 6.1% over FY19 projections.

Per your question, we have not changed the FY19 budget, and therefore no effect to the FY20 proposed budget was made as a result of that. Additionally, cost savings initiatives proposed in the FY20 budget include our participation in the managed population models as developed by OCV.

Medicare reimbursement adjustments include an unfavorable $380K FY16 cost report audit (will be an ongoing concern) adjustment for swing beds. The most significant adjustment to Medicare reimbursement is the participation in the OCV Medicare program. As a reminder, data and modeling information was not available from OneCare prior to the development of our budget. Major changes in this area are the total fixed prospective payments of $7.6M to offset the impact of shadow payments. Additionally, $1.6 million dollars in risk reserve are being recognized. There is also a cost report loss of $1m, relating to the effect of ACO participation, recognized in the budget for 2020.

Medicaid net revenues are slightly affected by rate increases as charges are paid based on a fee schedule. There will likely be a slight increase in these fee schedules. Utilization is expected to increase and the impact to NPSR is expected to be positive. Our performance in the prior year's Medicaid ACO program ended with us beating the expense targets for domestic claims, but having to write a check for non-domestic claims for attributed lives. Our

family wellness program that includes an embedded clinical LCSW have experienced high levels of Medicaid participation compared to alternative payers, increasing payer utilization.

Commercial payer net revenues are largely impacted by rate changes, and the impact of the participation in OCV's commercial program. Deductions from Revenues estimates are impacted in the same way as our Medicare and Medicaid lines of business, whereby the FPP's offset the shadow payments to clarify revenue recognition.

Increases in Bad Debt and Free Care further degrade Net Payer revenue. As mentioned previously, volumes organization wide are expected to increase, which helps offset the net decrease in commercial payer net revenues. Reform payments from OCV are marginal but help offset the decrease as well. Year-to-date results for the commercial ACO business is too immature to trend.

Other Operating Revenues

There are anticipated revenues of $785K related to the hospital's 340B program, a growth of $125K, or 18% budget to budget. There are no anticipated revenues for meaningful use. Grant income is expected to increase $260K, or 48%, from FY19 budgeted levels to $800K. Cafeteria revenues are budgeted to increase 12.5% budget to budget, to $135K.

Expenses

Budget FY19 to Budget FY20

Total expenses are anticipated to grow 5.2% from current budgeted levels. Human resources, healthcare reform and population health management, volumes, and hospital improvement initiatives make up the majority of this increase.

New positions, salary increases, and replacing contract labor with employed labor represent the majority of changes from budget to budget. New positions are largely focused in patient care roles, in the clinic, emergency room, physical therapy, respiratory therapy, pharmacy, laboratory, radiology, and physician practice support departments. Some of these increases relate to replacing contracted labor, some are associated with replacement costs for filling open positions, some relate to volume, and a few are related to material changes in clinical programs (Respiratory Therapy). Salary increases are attributed to a 1.0% market increase and a 2.0% merit increase, down 0.5 percentage points from FY19 budgeted increase. Also contributing to salary increases are a change in provider employment arrangements, where we are replacing contracted physicians with employed physicians. We are also budgeted to hire a part-time Chief Medical Officer. With these factors at play, fringe benefits are up commensurately. We have been experiencing an improved ability to fill open positions this fiscal year, and as such, expect our contracted labor to decrease as we fill our rosters with employed staff.

Investments in health reform programs, community health, and population health management (on top of new positions and salary increases at approximately $105K) are about $420K. As mentioned above, resources are being increased to the following group of departments: Community Health Team, Blueprint Spoke Team, Prevention Education & Promotion, Grants, Programs, and Windsor Community Health Clinic.

Supplies are expected to grow as volume growth is anticipated, however our partnership with D-HH, NEAH, and other group purchasing organizations have helped us manage our costs significantly. Drugs costs are anticipated to decrease as we refine our formulary.

Depreciation is anticipated to increase 0.8% budget over budget due to upgrades of major equipment infrastructure that includes a nurse call system, facility-wide telemetry system, mammography machine, and Operating Room software/equipment. Other drivers include major building improvement initiatives such as a new generator, major rooftop repairs, and rooftop HVAC units replacement.

Interest expense continues to decrease as our debt levels decline. Provider Tax is expected to increase, reflecting the growth in volumes and revenues experienced year over year.

We have recently renovated existing property and acquired a condominium to house some on-call positions and contracted labor. By investing in housing, we were able to secure positions to cover round-the-clock respiratory care and improve off-hour radiology coverage. The improved respiratory coverage is enabling us to offer greater levels of service and allow us to accept more patients with acute respiratory issues previous managed at out of state facilities. Decreasing housing costs for travelers is also a major factor in our decision-making, as we are able to cut housing charges significantly for those contracted individuals.

Per your question, we have not changed the FY19 budget, and therefore no effect to the FY20 proposed budget was made as a result of that.

Projected FY19 to Budget FY20

Total expenses are anticipated to grow 3.2% from current budgeted levels. Similar to the budget to budget variances: Human resources, healthcare reform and population health management, volumes, and hospital improvement initiatives make up the majority of this increase.

New positions were added during the fiscal year to manage and improve patient care and experience, including the laboratory, radiology, respiratory therapy, physical therapy, and physician clinics. This contributed to driving salaries and benefits up 3.6% and 5.5% respectively. Salary creep due to replacement costs is another major factor. As the employment market becomes increasingly competitive, we have to offer higher starting salaries, provide sign-on bonuses, and other financial incentives. Our proximity to a major academic medical center and other local, unregulated NH hospitals cause significant wage and benefit pressure. Physician Fees Salaries Contracts and Fringes are lower with the retirement and departure of several providers.

Medical supplies and pharmaceuticals have increased 13% over projections as inflation and inpatient, oncology, and physician practices and rehab volumes are all expected to increase.

Depreciation is expected to increase 15% due to an increase in our capital budget.

Interest expense continues to decrease as our debt levels decline. Provider Tax is expected to increase, reflecting the growth in volumes and revenues experienced year over year.

We have recently renovated existing property and acquired a condo to house some on-call positions and contracted labor. By investing in housing, we were able to secure positions to cover round-the-clock respiratory care, enabling us to offer greater levels and thereby able to accept more patients with acute respiratory diagnoses. Coverage of radiology was also improved for improved coverage and higher employee satisfaction. Decreasing housing costs for travelers is also a major factor in our decision-making, as we are able to cut hospitality charges significantly for those individuals.

Other

Mt Ascutney Hospital and Health Center has a strong culture of expense management. We continuously look for additional opportunities to collaborate with D-H to save money on medical supplies and medical equipment, through the Group Purchasing Organization (GPO) and in conjunction with inter-facility initiatives in technology for medical equipment and information technology infrastructure.

Bad Debt:

Bad debt expense in FY17 was $1,726,000 and FY18 was $1,542,000. We utilize a vendor, eManagement Associates (E.M.A.), for our self-pay statements. These statements are “Patient Friendly” according to the HFMA standards. We send our bad debt accounts to E.M.A. and Levi Associates. E.M.A. utilizes a patient friendly bill, and sends several communications in advance of a 120-day notice (when it’s at bad debt status). Both Levi and EMA handle post 120-day collections. Both strongly adhere to the FDCPA and are not communicated during the medical encounter; we use easily understandable language and avoid technical terminology as much as possible and communication is designed with the patients and family members in mind.

Operating Margin and Total Margin:

FY20 Operating and Total Margins are 1.1% and 2.5% respectively. FY19 budgeted Operating and Total Margins were 0% and 1.7% respectively. FY19 projected Operating and Total Margins were -0.8% and 1.2%, respectively.

This is significantly better than the 2019-budgeted and projected levels. This represents a milestone of fiscal responsibility at Mt Ascutney Hospital. Also, it is important to note that the expectations from our internal board and the D-HH board were to produce a 1.0% operating margin.

Charge Request:

The budgeted overall rate/price increase for FY20 is 3.2%. Inpatient Room and Board for Acute Inpatient and Acute Inpatient Rehabilitation are increasing 4%. Swing Bed Room and Board is increasing 0%. Additionally, all Inpatient and Swing ancillaries are increasing by 4.0%. All Outpatient charges and ancillaries are increasing by 4.0% as well. Physician charges are increasing by 3.0%. Pharmaceutical charges are priced at cost plus and therefore no price increases are applied to pharmaceuticals.

Volumes drive staffing levels and variable expense. Inflation factors, wage increases, etc. are added to expense. Changes in payer mix, payer contracts, governmental reimbursement, and the impact on our CAH cost report are studied and added. These factors are entered into our budget model to calculate current pricing with the projected volume. Our gain or loss on operations is determined and we increase our prices until we reach the desired margin. We have had a fairly predictable utilization in “inpatient” lines of business. Expectations from our internal Board and the D-HH Board are to produce a 1.0% operating margin. Therefore, as previously described we determined a rate/price increase of 3.2%. Please note it is illegal to have different prices for different payers.

Rate increases primarily apply to commercial insurers. Medicare reimburses us on a cost basis, and Medicaid pays based on a fee schedule. Inflationary increases in costs and in Medicaid reimbursement are minimal. The only payers that pays a percentage of charge are commercial insurers.

The cost shift is a natural occurrence in the current healthcare reimbursement landscape. Due to the fact that Medicare settles on cost less 1% and Medicaid reimburses far less than that, and the demand for increased technology, quality, and reform placed on Hospitals in Vermont, the burden is shifted to commercial insurers, employers, and patients to foot the shortfall. As DSH funds get cut at the state level and governmental reimbursements increase below inflation, we have to increase rates to remain viable. We also do not have control and do not design programs to influence what type of payer-insured patient walks in the door. We accept most, if not all, popular and advertised medical insurances. We provide community-based care.

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, mechanical systems, and plant maintenance. Significant items include a nurse call system, telemetry system, mammography machine, bone density machine, hematology analyzer, ophthalmology laser, anesthesia machines, IT switches, security system additions, building drainage, a tractor, generator replacement, roof repair, and parking lot repairs. As expected, increased capital purchases increase depreciation for purchased items and costs to finance.

Technical Concerns:

We appreciate the opportunity to comment on technical and reporting issues. While there are relatively minor technical problems, the reporting burden for submitting the budget to the Green Mountain Care Board is rigorous and we estimate that this year’s requirement has cost us an additional 30 person-hours beyond last year’s efforts. For small organizations, this significant burden does not improve care, access or quality. Much of the required narrative and data is repetitive year-to-year, and has seemingly not improved the Vermont healthcare system.

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

APPENDIX V

PARTICIPATION IN HEALTH REFORM

Complete the following table if the hospital is participating in one or more of the OneCare Vermont programs. If the hospital is not participating with OneCare, please indicate in the

OneCare Program	Participating in Program in CY 2020? (Yes/No)	Budgeted Number of Attributed Lives (monthly average for CY 2020)	Budgeted Amount of FPP (monthly average for CY 2020)	Budgeted Maximum Upside/Downside Risk for CY 2020)
Medicaid	Yes	1418	$ 78,231	$ 100,000
Medicare	Yes	2113	$ 653,642	$ 1,700,000
BCBSVT	Yes	738	$ 121,295	$ 175,000
Self-Insured	No			
TOTAL			$ 853,167	$ 1,975,000

Source

APPENDIX VI

Table 1:
NPR Bridges - FY 2019 Approved Budget to FY 2020 Proposed Budget

NPR	Total	% over/under	Medicare	Medicaid-VT	Medicaid-OOS	Commercial-Maj	Comm - Self/Sml	Workers Comp	DSH
FY 19 Approved Budget	$ 51,195,770		$ 28,600,256	$ 1,517,056	$ 345,987	$ 20,432,471	$ -	$ -	$ 300,000
Commercial Rate	1,376,000	3%				1,376,000			
Utilization	4,830,293	9%	2,920,929	759,355	300,517	849,493			
Payer Mix	(1,002,764)	-2%	384,693	(182,151)	(46,581)	(1,158,726)			
Reimbursement	(8,649,397)	-17%	(7,283,057)	919,513	235,143	(2,520,996)			
Bad Debt/Free Care	(173,237)	0%		-	-	(173,237)			
Reform Payments	520,692	1%	254,945	208,187	-	57,560			
Changes in DSH	40,000	0%		-	-				40,000
Other (FPP)	8,844,960	17%	7,630,478	143,512	-	1,070,970			
Other (ACO Reserves)	(1,975,000)	-4%	(1,700,000)	(100,000)	-	(175,000)			
FY 20 Budget	$ 55,007,317	7.4%	$ 30,808,244	$ 3,265,472	$ 835,066	$ 19,758,535	$ -	$ -	$ 340,000

Table 2:
FY 2019 Approved Expenses to Budget FY 2020

Expenses	Amount	% over/under
FY 19 Approved Budget	$ 54,837,975	
New Positions	666,000	1.2%
Salaries	995,000	1.8%
Fringe	592,000	1.1%
Physician Contracts	(485,000)	-0.9%
Contract Staffing	(123,000)	-0.2%
Supplies	133,000	0.2%
Drugs	(91,000)	-0.2%
Facilities	6,000	0.0%
IT Related	78,000	0.1%
Health Reform Programs	417,000	0.8%
Depreciation	437,000	0.8%
Interest	(23,000)	0.0%
Health Care Provider Tax	250,000	0.5%
OnCall Housing	19,000	0.0%
Other (rounding)	(46)	0.0%
FY20 Budget	$ 57,708,929	5.2%

APPENDIX VIII

CHARGE REQUEST

Projected Change in NPR Due to Change in Charge and Contractual Allowances, in %						
Category of Service	Requested Change in Charge from FY19B to FY20B, in %	Projected Change in Total NPR	Projected Change in Commercial Payer NPR	Projected Change in Self-Pay/Other NPR	Projected Change in Medicaid NPR	Projected Change in Medicare NPR
Hospital Inpatient	4.0%	1.0%	3.80%	0.00%	0.00%	0%
Hospital Outpatient	4.0%	1.9%	3.40%	0.00%	0.00%	0%
Professional Services	3.0%	1.4%	3.00%	0.00%	0.00%	0%
Primary Care	3.0%	1.4%	3.00%	0.00%	0.00%	0%
Specialty Care	3.0%	1.4%	3.00%	0.00%	0.00%	0%
Skilled Nursing Facility				0.00%	0.00%	0%
Other (Rehab)	4.0%	1.8%	3.90%	0.00%		
Other (Swing)	1.6%	0.3%	3.00%	0.00%	0.00%	0%
Overall Change in Charge Across All Categories	3.2%	1.6%	3.1%	0.00%	0.00%	0%

APPENDIX IX

SALARY INFORMATION

Provide Headcount & Box 5 Wages from 2018 W2s				
Salary Range	Total # of Staff	Total Salaries (includes incentives, bonuses, severance, CTO, etc.)	% of Total Staff in this Salary Range	% of Total Salaries in this Salary Range
$0 - $199,999	528.0	$ 21,355,990	98%	88%
$200,000 - $299,999	8.0	$ 1,831,645	1%	8%
$300,000 - $499,999	3.0	$ 1,136,325	1%	5%
$500,000 - $999,999	0.0	$ -	0%	0%
$1,000,000 +	0.0	$ -	0%	0%
TOTALS	539.0	$ 24,323,959		