Mt. Ascutney Hospital
and Health Center
Dartmouth-Hitchcock

February 25, 2021

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

Re: Actual FY20 Results

Dear Mr. Rooney,

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 FY2020.

Executive Summary

Despite a tumultuous year, FY 2020 ended with a net operating gain of approximately $538K. The fiscal year started off with strong volumes, but was quickly derailed by the COVID-19 pandemic. We are proud of our performance during this pandemic; we did not layoff or furlough employees, nor did we have need to apply for the Health Care Stabilization grant funding. We were one of the first organizations in the state to stand up a testing center and a COVID-19 Respiratory Clinic. We have become the D-HH system post-ICU recovery unit of choice due to our high quality of care and specialized COVID-19 inpatient wing. We accepted patients from throughout the D-HH service area, received patients from our own service area, and took in referrals from out of state. As a result, gross revenues for the year only fell 3.3%. Recovery efforts were prioritized and our referral mechanisms in the service area and within the D-HH system continued to provide a strong clinical and financial foundation.

Participation in the OneCare Vermont (OCV) continued to play a leading role in our financial reporting, performance, and COVID-19 funding. Major complications arose from participation in the AIPBP program which put the financial stability of our organization at risk. These issues resulted in our withdrawal from the fixed prospective payment (FPP) component, which resulted in significant budget variations. Fortunately, OCV Medicare and Medicaid program risk were reduced to zero due to the pandemic, which helped buoy a financially strenuous year. Because of the FPP payment methodology, our Medicare Advanced Funding was reduced by more than 50% as compared to other like facilities. Great efforts were made last spring and summer to right size our advance through OCV, GMCB, our legislators, special congressional committees and lobbyists. This was to no avail. Thankfully, our successful recovery efforts mitigated the need for these funds. The effect of the accounting of the FPP payments (budget and actual) for CY19 and CY20 and the risk reserve activities associated with the periods, has had an adverse effect on our ability to justify the retention of the Provider Relief Funds received during the pandemic from the Federal Government. This delayed our year-end significantly and we have reserved for more than half of those funds to be returned to HHS. At this point we have no assurance from the many iterations of guidance that we will be able to retain any of the Provider Relief Funds.

The payer mix for the year came in close to budget, with small shifts in government and commercial payers. A 1% increase in Medicare was experienced, and a 1% decrease in Medicaid business. This was similar to our experience last year and is typical with the ongoing trend of increase in governmental payers in the payer mix and our aging patient population. As a result of the COVID-19 crisis, NPR realized a 7.2% decrease compared to budget. This reflects the decrease in gross patient services revenue offset by gains from pandemic risk mitigation for OCV. Other operating revenue came in at 108% due to federal COVID-19 stimulus funding (the net result of receipts versus returns). As we experienced a 0.5%

decrease in total operating revenue, expenses decreased 1.5% from budget, due to expense management and positive claims experience in our self-insured population. Throughout all this, we finished termination of our pension plan, significantly mitigating risk and costs for the future while securing the promise made for our employees. Significant non-operating gains were realized due to an extremely favorable investment climate and recognition of the risk gain on the pension plan termination.

Gross Patient Service Revenue

Total gross patient revenue was down from budget $3.5M, or 3.4%. Actual overall percentage change in charges was 3.2%, the GMCB approved rate for FY2020 budget. Inpatient Acute carried the gains, while Outpatient and Rehab came in a few points shy of the target, and Swing and Physician revenues fell double digit percentage points below expected targets. Nearly all of the unfavorable variance was associated with reduced volumes due to the pandemic. Elective procedures were reduced and/or eliminated for a time. Many patients were reluctant to return to health care facilities during the pandemic. Accommodations and protocols to insure patient and staff safety also reduced capacity.

Acute days were ahead of prior year by 13%, while Swing days were down 16%. As compared to budget, Acute days were well ahead of budget and Swing days fell well behind. Net gross revenue was down $47K on the combined unit. Acute increases reflects the COVID positive patients we took care of as well as increased inpatient surgical patients.

Rehabilitation days were about 3% below expectations for the year, and the related gross revenue was about 3% below 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. That said, we experienced a temporary slump due to COVID-19.

Outpatient revenues were about 1% below budget. Operating Room cases were 15% behind budget due to the suspension of elective surgeries. The Emergency Room also saw greater visits compared to the budget and prior year, partially driven by ongoing migration from neighboring service areas. Therapies (Physical, Speech, and Respiratory) visits all came in below budget and prior year, as did Radiology and Laboratory. These are all related to the temporary COVID-19 shutdown on elective services, but were offset by the successful recovery efforts.

Physician revenues fell significantly short of budget overall, again, due to the stoppage of non-critical outpatient services. Recovery efforts were slower, as our older patient population were hesitant to return to the hospital setting for patient care. Positive volumes were experienced in Podiatry and Psychiatry. A podiatrist retirement from a neighboring service area drove significant volume to our clinic. An unexpected benefit of the pandemic was experienced; a psychiatrist was recruited because of their desire to leave larger urban areas. Hospital based visits generally experienced a positive budget volume variance due to the increase in patient acuity, inpatient days, and ER visits.

Net Patient Service Revenue

Total gross patient care revenues were under budget by 3.4% and net patient revenue was below budget by 7.2%. The underperformance is attributable to the partial COVID shutdown on non-essential services in the spring of FY 2020. The decrease in gross revenues due to utilization were offset by a decrease in contractual allowances, which was buoyed by the elimination of the OCV program risk. Also playing a factor in the improvement of net revenue was the reduction in Medicaid payer mix towards Medicare. Favorable Medicare cost report settlements and the acceleration of pension related expenses further improved reimbursement. Commercial revenues were on budget, with some oscillation among payers.

Unfavorable levels of bad debt and charity care relative to budget further degraded net patient service revenue. Presumably, this was due to job loss and loss of income during the pandemic.

Despite all this, NPSR as a percentage of gross patient care revenue has improved 2.6 percentage points compared to budget.

Bridges - FY 2020 Approved Budget to FY 2020 Actual Results

NPR/FPP	Total	% over/under
FY 20 Approved Budget	$ 53,755,559	
Utilization	(4,439,062)	
Reimbursement/Payer Mix	(45,756)	
Bad Debt/Free Care	(113,889)	
Changes in DSH	106,060	
Changes in Accounting for ACO Dues	617,863	
FY 20 Actual Results	$ 49,880,775	-7.2%

Other Operating Revenue

Other operating revenue in FY20 was $6.9M, which significantly exceeded the budget by $3.9M. This is largely due to $2.5M in federal stimulus, FEMA, SHIP, FLEX and other COVID-19 related funds. In addition, positive budget variances in grant ($518K) and 340B income ($301K) helped offset the decrease in patient care revenue. Growing reliance on non-patient revenues is a concern for the future.

Our auditors have advised us to record the net gain of COVID-19 relief funds in other operating revenues.

Expense

Total expenses were about 1.5% below budget for FY 2020, due to aggressive focus on cost controls due to the pandemic.

Throughout the pandemic, hospital management worked diligently to tightly control expenses that can be influenced, as related to FTEs, unnecessary overtime, and other expenses. Due to lower utilization we expected staffing and other variable expenses to adjust accordingly. We experienced an unusual year with physician engagement, as physicians trickled from urban to rural areas. We are pleased to have been able to avoid any furloughs or layoffs of our staff, and to actually increase community employment by hiring COVID screeners. Currently, we are carrying approximately 10 extra FTE's directly associated with COVID activities. We were unable to provide Merit increases due to the financial position of the hospital due to the effect of the pandemic and the uncertainty of the second surge, etc. Staffing requirements proved challenging as COVID-19 triage and testing became a high priority, amid an existing nursing shortage. This has increased with the advent of vaccine clinics. Significant market demand for nursing staff also necessitated increased hiring packages to potential new hires, as well as sign-on and retention bonuses. As a border hospital, much of our competition comes from N.H. hospitals who do not have regulatory oversight relative to price increases, expense management, etc. The labor market shifts dramatically when neighboring hospitals in NH make significant compensation changes that we cannot compete with. 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. This has reduced employed labor costs.

Medical and surgical supplies, as well as drugs, decreased primarily due to the negative variance in volumes, particularly in the infusion space. This mitigated the ongoing inflationary growth. Continued favorable insurance experience with our NEAH Captive partners further improves the bottom line. A sustained down turn in the hospital has resulted in lower utilities expenses. IT savings were experienced due to our continued integration efforts with D-HH, as costs are spread throughout the system, as well as delayed planned replacements. Depreciation was higher than budgeted as we were able to successfully execute large capital projects before the crisis, to improve the patient experience and safety, including a new patient tracking system and mammography machine.

Bridges - FY 2020 Approved Budget to FY 2020 Actual Results

Expenses	Amount	% over/under
FY 20 Approved Budget	$ 57,057,036	
Salaries	22,567	
Fringe Benefits	(1,294,556)	
Physician Contracts	298,268	
Contract Staffing	269,553	
Supplies	(38,667)	
Drugs	(41,372)	
Facilities	(226,986)	
IT Related	(284,979)	
Depreciation	83,469	
Interest	87,063	
Health Care Provider Tax	(233,688)	
Purchased Services	306,495	
Changes in Accounting for ACO Dues	617,863	
Change in ACO Dues	(147,134)	
Other	(254,915)	
FY 20 Actual Results	$ 56,220,017	-1.5%

Profit and Loss

Overall operating margins were above budgeted expectations at 0.95%, or $538K. Despite a partial shutdown, COVID-proofing nursing units, emergency rooms, clinics, and hospital spaces, staffing testing centers, continued participation in healthcare reforms, we managed to produce a bottom line.

Non-Operating income was exceptional due to excellent investment performance and the recognition of the gain on the pension plan termination. Budgeted gains in fundraising contributions of $223K and positive investment returns of $806K, we overshadowed by a recognized gain of $4M for the closure of the pension. We have protected MAHHC from future significant market risk and reduce future pension related expenses.

The overall profit margin for FY20 is 11%, or $6.2M.

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