February 19, 2024

Attn: Ms. Alena Berube, Director of Health Systems Finance
Green Mountain Care Board
144 Main Street
Montpelier, VT 05602

Re: Actual FY23 Results

Dear Ms. Berube,

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 FY2023.

Executive Summary

FY2023 ended on positive note, with a net operating gain of approximately $1.4M, due to largely to favorable third-party settlements and recognition of COVID relief funding that had been previously received and reserved. The fiscal year started off with weaker volumes as referral patterns shifted and labor force issues persisted. Despite this, we continued to focus on community care, COVID-related and otherwise. We maintained vaccination clinics, and continued to grow our facility based Walk-In Clinic by expanding hours. We continued to be the DH system post-acute recovery unit of choice due to our high quality of care. We accepted patients from throughout the DH service area, received patients from our own service area, and took in referrals from outside of our service area. Additionally, with limitation at other Inpatient Rehabilitation units and hospitals, we have been consistently admitting and treating patients from outside our traditional service area for this line of business.

Participation in the OneCare Vermont (OCV) continued to play a role in our financial performance. OCV Medicare and Medicaid program risk levels were eliminated during the pandemic, which helped buoy a year marked by uncertainty. Due to our prior history and experience, we budgeted conservatively for Fixed Prospective Payment (FPP) and Population Health Payments (PHM) based on information received from OCV during our budget development process. Final risk settlements for FY22 and preliminary FY23 show favorable risk settlements, which necessitated the elimination of the recorded liability and the recognition of the receivable, driving a positive variance.

The payer mix for the year came with significant shifts in government and commercial payers. A significant decrease in Medicaid was experienced, as well as a decrease in BCBS. These decreases were offset by an increase in Medicare as a percentage of business. This reflects the ongoing trend of an increasing proportion of Medicare as our aging patient population continues to grow. It also reflects the effect of the Medicaid re-determination process for Vermont over the last six months of our fiscal year. NPR/FPP experienced a 0.8% decrease under budget.

Other operating revenue came in favorably at 9.0% over budget largely due to the recognition of COVID relief funds. These gains were offset by decreased 340B revenues, as the pharmaceutical manufacturers succeeded in their efforts to reduce the benefit of the 340B program. We experienced a 0.6% increase in total operating revenue. Expenses remained flat with a 0.2% variance from budget, despite significant contract/traveler staffing and wage pressures. Significant non-operating gains were realized due to the favorable investment climate and a favorable variance in donation/contributions.

Gross Patient Service Revenue

Total gross patient revenue was under budget $6.7M, or 4.9%. Actual overall percentage change in charges was 4.7%, equal to the GMCB rate request limit approved for FY2023. Inpatient, Outpatient services and Physician services drove much of the loss, while Inpatient Rehabilitation, and Swing volumes/revenues performed favorable to budget.

Acute days were behind budget by 34.7% and revenue behind budget 36.8%. Swing days were up 6% and revenue over budget 6.5%. Gross revenue for the combination of these service lines was down $2.8M.

Rehabilitation days were about 1.8% above expectations for the year, and the related gross revenue was about 1% above target. Although we experienced disruptions due to COVID, the rehabilitation facility still has a well-established reputation and we took many patients from outside our traditional service area. Our facility is CARF-certified and recognized as a center for excellence.

Outpatient revenues were about 2.7% below budget. Infusion volumes were down 5%. Pharmacy revenues were under budget 15%, largely from the drop in infusion volumes. Due to our relatively small patient population, a few high acuity infusion patients can drastically affect pharmacy revenue and expense. Provider turnover, sickness, and staffing issues affected surgical volumes, with operating room cases finishing 7.2% behind budget.

The Emergency Room saw greater visits compared to the budget and prior year, partially driven by ongoing migration from neighboring service areas and COVID-related volumes. To help reduce the ongoing influx of emergency visits and to mitigate the impact of primary care provider impact, we launched a facility based Walk-In Clinic at the main hospital campus designed to divert non-emergency ED visits to a more cost-effective setting. Surprisingly, as we expanded non-emergent access, the emergency room picked up new volumes to replace what the Walk-In clinic had received. The Walk-In also improved same day access for our primary care patients and helped mitigate the impact of the unexpected volume and boarders in the ED. Total Outpatient therapy volumes finished slightly ahead of budget despite staffing issues. Radiology experienced slight increases over budgeted volumes, while Laboratory experienced a slight decrease.

Provider revenues fell short of budget overall, again, due largely to provider turnover, illness, and vacancies. Positive clinic volumes were experienced in Ophthalmology, Rheumatology, and Podiatry. Hospital-based visits overall experienced a negative budget volume variance due to the overall decline in acute days and change in the mix of acute versus swing beds stays. Swing patients require less care and therefore less provider visits. Positive volume was experienced in the ED, which helped offset the decrease in overall hospital-based provider visits.

Net Patient Service Revenue

Total gross patient care revenues were under budget by 4.9% and net patient revenues were under budget by 0.8%, which includes DSH payments and ACO FPP. The favorable performance is attributable to a recognition of favorable ACO risk settlements, a favorable Medicare Cost Report settlement, and a positive shift in payer mix which reduced deductions. Medicaid (reimbursed far less than cost) as a percent of business decreased, with Medicare (reimbursed at close to cost) picked up the difference. This shift led to a positive impact on deductions from revenue. Favorable levels of bad debt and charity care expenses as compared to budget also helped improve net patient service revenue.

NPR/FPP	Total	% over/under
FY 23 Approved Budget	$ 65,869,470	
Utilization	(3,506,181)	
Reimbursement/Payer Mix	1,765,873	
Bad Debt/Free Care	551,705	
Changes in DSH	(115,700)	
Change in ACO Reserves	959,444	
Changes in ACO Payments	(171,787)	
FY 23 Actual Results	$ 65,352,824	-0.8%

Other Operating Revenue

Other operating revenue in FY23 was $4.5M, which came over budget by $903K, 25% over budget. This is largely due to the recognition of $1.3M in COVID relief funds explained in greater detail below. The ongoing reliance on non-patient revenues is an ongoing concern for the future. Of particular concern is the 340B program. In 2023 the 340b program experienced a 62% reduction in revenue against budget.

COVID Relief Funds

Our independent auditors have approved the recognition of additional COVID Provider Relief Funds, not previously recognized, in other operating revenues. This recognition was centered around two issues, additional COVID-related expenses from the prior year-end and the accounting and payment process of OCV in CY2019. The budgeting and payment impact of the Medicare FPP payments in 2019 required us to report our COVID-related activities, revenues, and expenses in using a non-standard methodology with HRSA. This non-standard reporting method is allowed but will assuredly be audited by HRSA. Previously, the amount recognized had been reserved by MAHHC. This position was validated by a Washington law firm and our audit firm. We met with HRSA directors on a number of occasions, provided alternative and additional reporting in order to explain this matter, and have provided external legal input to HRSA in order to justify what we have recognized on our financial statements.

Expense

Total expenses were about 0.2% above budget for FY2023.

Throughout the pandemic and the subsequent recovery phase, hospital management worked aggressively to control expenses where possible to mitigate the higher cost and complexity required to operate. Salary expenses were below budget, due to a shortfall in FTE's as compared to budget. Salary expenses were replaced by contracted labor expenses, which were significantly elevated as compared to pre-pandemic pricing. Some of the decrease in FTE had been shifted to contracted positions through DH. In FY2023, we were carrying approximately 4 FTE's directly associated with COVID activities (door screeners, etc.), down from 6.5 FTE's in FY2022. During the last year, wage pressures, staffing levels, and other market issues forced us to make market adjustments (increases) to retain and recruit clinical and other essential staff. These changes have trickled into FY2024 and will likely continue at some level for the foreseeable future. Despite this, we continue to be challenged by a shrinking/aging workforce, volume-driven staffing needs, and a diminishing traveler pool for nursing and other clinical positions. As a border hospital, much of our competition for employees comes from New Hampshire hospitals who do not have regulatory oversight relative to price increases, expense management, etc. The labor market shifts dramatically when neighboring hospitals in N.H. make significant compensation changes that we cannot ignore with our mission to provide necessary services to our community. Another aspect of our competition with N.H. providers is the fact that they do not have a state income tax to contend with.

Potential employees will receive will receive greater take home pay for the same gross hourly wage in N.H. This means that in order to offer the same take home pay, we must offer a higher hourly wage. Contracted labor and additional COVID-related costs were well managed, and they are decreasing. Employee benefits fell short of budgeted expectations, due to fewer FTE's (vacant positions) resulting in fewer employees enrolled in the program and lower utilization.

Medical and surgical supplies, as well as drugs, decreased primarily due to the negative variance in volumes, particularly in the infusion area. Non-mission critical expenses were managed tightly, such as marketing and special IT projects. Utility and maintenance expenses decreased. Depreciation was lower than budgeted as capital projects were postponed due to bandwidth and supply chain issues.

Expenses	Amount	% over/under
FY 23 Approved Budget	$ 68,284,201	
Salaries	(3,143,275)	
Fringe Benefits	(655,844)	
Physician Contracts	685,099	
Contract Staffing	4,041,989	
Supplies & Drugs	42,394	
Facilities	(284,150)	
IT Related	13,212	
Health Reform Programs	(65,408)	
Depreciation	(245,961)	
Interest	(16,487)	
Health Care Provider Tax	(19,834)	
Insurance	(123,767)	
Misc	(38,157)	
Cost Savings	(194,094)	
Other	161,905	
FY 23 Actual Results	$ 68,441,823	0.2%

Profit and Loss

Overall operating margin was slightly above budgeted expectations at 2%, or $1.3M. Despite lingering impact from the pandemic, post-pandemic inflation rates, staffing issues and continued participation in healthcare reform, we managed to produce our budgeted bottom line.

Non-Operating gains were strong due to positive investment market conditions. With the successful onboarding of an experienced Development leader, contributions came in above budget at $370K. $992K in system/inter-company offset transactions for services/staff received from DH were recorded as a net asset transferred from DH. It is important to note that this is an accounting exercise and no funding changed hands. The total margin for FY23 was 7.8%, or $5.5M.

Respectfully submitted,

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