Dartmouth Health

Mt. Ascutney Hospital
and Health Center

February 7, 2023

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

Re: Actual FY22 Results

Dear Ms. Lindberg,

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 FY2022.

Executive Summary

FY2022 was a year marked by hope and resilience, as the COVID pandemic began to subside, and the focus shifted to the stabilization of healthcare delivery, reform, and financial recovery. The year ended on target with a net operating gain of approximately $1.1M. The fiscal year started off with strong volumes as as pent-up demand from the pandemic continued. With the strong volumes came a wave of inflation, and continued labor force concerns. Despite all of this, we continued to be on the forefront of community care, COVID-related and otherwise. We maintained vaccination clinics, state sponsored testing, a COVID-based outpatient clinic and introduced a facility based Walk-In Clinic. We continued as the D-HH system post-acute recovery unit of choice due to our high quality of care and specialized COVID unit. 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. Additionally, with restrictions in other Inpatient Rehabilitation units and hospitals, we have been consistently admitting and treating patients from well outside our traditional service area for this line of business. 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. As a result, gross revenues for the year increased 2.85%. Additionally, we had many patients from other local hospitals migrate to our facility as other hospitals struggled in various ways.

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. The final OCV budget, received after the budget process reflected a 30% increase from prior estimates.

The payer mix for the year came with significant shifts in government and commercial payers. A 0.4% increase in Medicare was experienced, and a 21.3% increase in Medicaid business, largely at the expense of Blue Cross business, which was down 14.1%. This was similar to our experience in the prior year and reflected the ongoing trend of an increasing proportion of governmental payers and our aging patient population. As a result of our recovery efforts, NPR/FPP experienced a 4.9% increase over budget. Other operating revenue came in unfavorably at 20% under budget due to decreased 340B vendor revenue, as the pharmaceutical industry succeeded in their efforts to reduce the benefit of the 340B program. Despite these setbacks, we experienced a 3.2% increase in total operating revenue. Expenses increased 3.2% from budget, due to medical supply inflation, high priced infusion drugs, increased volumes, contract staffing, utilities, and provider tax. Significant non-operating losses were realized due to the unfavorable investment climate.

Gross Patient Service Revenue

Total gross patient revenue was up from budget $3.5M, or 2.8%. Actual overall percentage change in charges was 2.2%, 37% lower than the 3.5% GMCB rate request limit approved for FY2022. Outpatient services and Inpatient Swing services drove much of the gain, while Providers, Inpatient Rehabilitation, and Acute volumes/revenues came in shy of the target. Inpatient Swing services increased due, in part, to service limitations at other facilities and higher patient "acuity", despite a decrease in days. These patients partially offset the decreased volume and revenue of the acute inpatients. COVID altered D-HH's referral processes and much of the other unfavorable variances were associated with reduced volumes due to the shifting management of the patients in our health system during the pandemic and ensuing recovery.

Acute days were behind prior year by 20%, while Swing days were up 25%. As compared to budget, Acute days were well behind budget and Swing days were behind as well. Gross revenue for the combination of these service lines was down $574K. Swing increases reflects the increased acuity in patients as evidence by the increased demand for therapies, diagnostics, and surgeries.

Rehabilitation days were about 6% below expectations for the year, and the related gross revenue was about 3% below 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 8% above budget. Infusion volumes were up 20%. Pharmacy revenues were over budget 15%, largely from the infusion volumes and associated high priced chemotherapy drugs. 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 12% 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. This also improved same day access for our patients and helped mitigate the impact of unexpected volume (COVID-related and otherwise) and boarders in the ED. Outpatient Occupational Therapy visits came in above budget and prior year, while Physical Therapy visits fell short of both. Therapy volume variances were largely staffing related issues. Radiology experienced significant increases in both year over year and budgeted volumes, while Laboratory experienced increases in budgeted volumes but remained flat year to year for actual. These were all related to successful recovery efforts and system availability.

Provider revenues fell short of budget overall, again, due largely to provider turnover, illness, and vacancies. Positive clinic volumes were experienced in Oncology, Neurology, and Podiatry. The increase in Oncology visits was significant and drove outpatient pharmacy and infusion revenues. Hospital-based visits generally experienced a positive budget volume variance thanks to the increase in ER visits. Hospitalist visits suffered a bit due to the overall decline in acute days.

Net Patient Service Revenue

Total gross patient care revenues were over budget by 2.5% and net patient revenues were over budget by 3.5%, which includes DSH payments. Net patient revenues including ACO FPP/PHM/Reserves were over budget by 4.9%. The favorable performance is attributable to the elimination of ACO risk reserves, a supplemental DSH payment, a favorable Medicare Cost Report settlement, pent-up demand related to

COVID and to strong recovery efforts to improve safe access to care. The increase in gross revenues due to utilization were offset by the unfavorable shift in the payer mix, with a major uptick in Medicaid business noted. The increase in governmental payers came at the expense of Blue Cross Blue Shield affecting our net revenue percentage. Favorable levels of bad debt and charity care expenses as compared to budget improved net patient service revenue. Another smaller variance, affecting free care and bad debt was the HRSA program that compensated hospitals for uninsured patients receiving COVID-related services. These services were reimbursed at a Medicare-like rate.

NPR/FPP	Total	% over/under
FY 22 Approved Budget	$ 59,640,912	
Utilization	1,701,008	
Reimbursement/Payer Mix	(3,167,614)	
Bad Debt/Free Care	730,810	
Changes in DSH	865,351	
FPP/OHR/Reserves	931,525	
Cost Report Settlement Impact	1,880,394	
FY 22 Actual Results	$ 62,582,387	4.9%

Other Operating Revenue

Other operating revenue in FY22 was $3.5M, which came significantly under budget by $867K. This is largely due to a decrease in 340B revenue ($613K, 48%) as explained earlier in this document. Decreased grant-related funding was also experienced as mny community programs were reduced and the pandemic-related limitations hindered our ability to complete contracted scopes of service in a timely manner. The reliance on non-patient revenues is an ongoing concern for the future. Of particular concern is the 340B program.

COVID Relief Funds

Our independent auditors have advised us to record the net gain of COVID relief funds in other operating revenues and that a portion of these funds were at risk. Accordingly, we recorded the portion of these funds that was not at risk as other operating revenues. Much of the risk was centered around the accounting and payment process of OCV. The budgeting and payment impact requires us to report our COVID-related activities, revenues, and expenses in a non-typical methodology which will certainly be audited by HRSA. It will be difficult for HRSA to translate. We received additional Provider Relief Funds during the year, but after review, this amount was fully reserved and we received no benefit relative to our margin. This position was loosely 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.

Also, MAHHC had previously received Medicare Advance Payments (MAP). This total amount was reserved for as a liability, as it was intended to be repaid. As of September 30, 2022, all of the funds have been repaid.

Expense

Total expenses were about 3.2% above budget for FY2022, largely due to volume, medical inflation, and staffing issues.

Throughout the pandemic and the subsequent recovery phase, hospital management worked aggressively to control expenses where appropriate despite the higher cost and complexity required to operate. Salary expenses were above budget, despite a shortfall in FTE compared to budget, due to significant market rate adjustments, incentive and overtime pay, locums coverage, and the Walk-In Clinic initiative. Staffing expenses were further exacerbated by contracted labor expenses, which were significantly elevated as compared to pre-pandemic pricing. FTE's have decreased 2.6% year over year, and remain well short of budget. Some of these positions have been shifted to contracted positions through D-HH. The rest of the variance is contracted labor with agencies and other for-profits. In FY2022, we were carrying approximately 6.5 extra FTE's directly associated with COVID activities (door screeners, etc.), down from 9 in FY2021. During the last year, wage pressures, staffing levels, and other market issues forced us to make market adjustments (increases) to retain clinical and essential staff. These changes have trickled into FY2023 and will likely continue at some level. Despite this, we continue to be challenged by a shrinking/aging workforce, volume-driven staffing needs, the additional responsibility of COVID-related services, and a diminishing traveler pool for nursing and other clinical positions. 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 ignore if we want to insure that we provide the necessary services to our community. Contracted labor and additional COVID-related costs were well managed, but they are increasing. This is expected to be a continued trend with no end in sight. Employee benefits fell short of budgeted expectations, as fewer employees were enrolled in the program and lower utilization was experienced.

Medical and surgical supplies, as well as drugs, increased primarily due to the positive variance in volumes, particularly in the infusion, as well as inflationary growth that we have not seen in many years. Non-mission-critical expenses were managed tightly, such as marketing and special IT projects. Utility expenses increased significantly, but were largely offset by delayed maintenance-related projects. Depreciation was lower than budgeted as capital projects were postponed due to bandwidth availability during COVID and supply chain issues.

Bridges - FY 2022 Approved Budget to FY 2022 Actual

Expenses	Amount	% over/under
FY 22 Approved Budget	$ 62,951,120	
Salaries	90,762	
Fringe Benefits	(900,657)	
Physician Contracts	(83,577)	
Contract Staffing	2,218,124	
Supplies	235,879	
Drugs	783,546	
Facilities	11,603	
IT Related	(119,945)	
Health Reform Programs	(13,933)	
Depreciation	(537,195)	
Interest	(17,184)	
Health Care Provider Tax	519,887	
Insurance	30,204	
Marketing Expenses	(73,601)	
ACO Dues	(27,083)	
Other - Misc	(103,350)	
FY 22 Actual Results	$ 64,964,599	3.2%

Profit and Loss

Overall operating margins were slightly above budgeted expectations at 1.7%, or $1.1M. Despite a lingering pandemic, inflation, staffing issues and continued participation in healthcare reform, we managed to produce our budgeted bottom line.

Non-Operating losses were exceptionally high due to the tumultuous market conditions. With the difficult economic times, and long absence of a development leader, contributions came in below budget at $147K. $907K in system/inter-company offset transactions for services/staff received from DH were recorded as a net asset transferred from D-HH It is important that this is an accounting exercise and no funding changed hands.

The overall profit margin for FY22 is -1%, or -$625K.

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