

Copley Hospital

Fiscal Year 2019 Budget Analysis

Report Date: 7/30/2018

QUESTIONS

1. Have the hospital's projections for FY2018 changed?
2. Bad Debt is increasing while Free Care is decreasing; please explain the factors contributing to those changes, including policy changes if any.
3. Please explain the calculation of the estimated value of a 1% rate/price increase; the hospital's estimate varies from the GMCB staff estimate.
4. Please provide more specificity about what is included in Other Operating Expense for FY2017 Actuals, FY2018 Budget FY2018 Projections, and FY2019 Budget, and explain the variation from year to year.
5. Please explain factors related to the high and increasing FTEs per Adjusted Occupied Bed, and describe the hospital's response to the results for that metric.
6. Has Copley considered the Women's Center as a potential Medication Assisted Treatment provider for women with substance use disorder?
7. Adolescent Well Care Visits and ED Growth Rate for Mental Health and Substance Abuse-Related Visits are two of the measures in Vermont's All-Payer ACO Model Agreement. The Morrisville health service area appears to have performance for those two measures that is below state averages (higher rates are better for Adolescent Well Care Visits, and lower rates may be better for the ED Growth Rate measure. Are there any specific efforts to improve rates for those measures at the hospital (potentially in conjunction with community partners)? If so, please describe.

Fiscal Year 2019 Budget Analysis										
Copley Hospital										
INCOME STATEMENT	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2019B - 2018B	2018B - 2018P	2018B - 2019B	2018P - 2019B
							\$ Chg	% Chg	% Chg	% Chg
Revenues										
Gross Patient Care Revenue	109,268,829	109,806,787	109,770,216	113,713,725	105,627,754	118,462,942	4,749,217	-7.1%	4.2%	12.2%
Disproportionate Share Payments	696,562	502,588	988,678	758,102	758,102	458,368	(299,734)	0.0%	-39.5%	-39.5%
Bad Debt	(1,891,472)	(1,386,799)	(1,428,812)	(1,591,990)	(1,584,417)	(1,776,945)	(184,955)	-0.5%	11.6%	12.2%
Free Care	(770,278)	(821,151)	(690,040)	(795,996)	(528,139)	(592,317)	203,679	-33.7%	-25.6%	12.2%
Deductions from Revenue	(43,839,205)	(45,297,101)	(43,656,076)	(44,059,310)	(37,828,051)	(44,514,072)	(454,762)	-14.1%	1.0%	17.7%
Graduate Medical Education	0	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Net Patient Care Revenue	63,464,436	62,804,324	64,983,966	68,024,531	66,445,249	72,037,976	4,013,445	-2.3%	5.9%	8.4%
Fixed Prospective Payments & Reserves	0	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Net Patient Care Revenue & Fixed Payments & Reserves	63,464,436	62,804,324	64,983,966	68,024,531	66,445,249	72,037,976	4,013,445	-2.3%	5.9%	8.4%
Other Operating Revenue	1,409,081	1,423,139	1,418,426	1,348,615	1,257,843	1,188,760	(159,855)	-6.7%	-11.9%	-5.5%
Total Operating Revenue	64,873,517	64,227,463	66,402,392	69,373,146	67,703,092	73,226,736	3,853,590	-2.4%	5.6%	8.2%
Expenses										
Salaries Non MD	21,067,433	22,282,275	22,931,684	23,635,205	23,511,018	24,502,484	867,279	-0.5%	3.7%	4.2%
Fringe Benefits Non MD	5,214,353	5,111,465	5,128,668	5,576,778	5,446,951	5,874,107	297,329	-2.3%	5.3%	7.8%
Fringe Benefits MD	568,177	612,050	761,667	652,595	607,554	654,055	1,460	-6.9%	0.2%	7.7%
Physician Fees, Salaries, Contracts	8,001,717	8,493,874	8,990,189	9,547,525	9,450,159	9,411,145	(136,380)	-1.0%	-1.4%	-0.4%
Health Care Provider Tax	3,578,061	3,794,131	3,747,213	4,015,272	3,852,434	3,882,632	(132,640)	-4.1%	-3.3%	0.8%
Depreciation & Amortization	2,412,024	2,488,049	2,384,022	2,972,162	2,963,575	3,161,595	189,433	-0.3%	6.4%	6.7%
Interest - Long Term & Short Term	36,804	32,541	26,868	116,013	117,501	111,325	(4,688)	1.3%	-4.0%	-5.3%
Other Operating Expense	19,991,991	21,497,999	22,810,027	22,781,103	23,960,598	24,143,482	1,362,379	5.2%	6.0%	0.8%
Total Operating Expense	60,870,560	64,312,384	66,780,338	69,296,653	69,909,790	71,740,825	2,444,172	0.9%	3.5%	2.6%
Net Operating Income (Loss)	4,002,957	(84,921)	(377,946)	76,493	(2,206,698)	1,485,911	1,409,418	-2984.8%	1842.5%	-167.3%
Non-Operating Revenue	649,315	262,636	3,054,057	370,900	378,067	376,900	6,000	1.9%	1.6%	-0.3%
Excess (Deficit) of Rev Over Exp	4,652,272	177,715	2,676,111	447,393	(1,828,631)	1,862,811	1,415,418	-508.7%	316.4%	-201.9%
Benchmarks-Hospital										
Operating Margin%	6.2%	-0.1%	-0.6%	0.1%	-3.3%	2.0%				
Total Margin %	7.1%	0.3%	3.9%	0.6%	-2.7%	2.5%				
Cost per Adjusted Admission	11,057	12,008	12,803	13,590	13,273	13,900				
<p>OBSERVATIONS: Copley is budgeting a 5.9% NPR & FPP increase for FY2019 over FY2018 Budget and an 8.4% increase over FY2018 Projections. The increase is primarily the result of a requested rate increase of 7.9%, resulting in an NPR increase of \$3.1 million with a reduction in utilization of \$1 million. Copley's projected Operating Margins are well below budget levels and it appears that the hospital is trying to recoup those losses in FY2019. Copley has stated that the budget includes \$800,000 in cost savings but that the rate increase is still needed to cover increased costs and realize an operating margin of 2%. Copley's FY2019 budget for labor-related costs is \$40.4 million, which is 3.7% higher than FY2018 Projections.</p>										

Fiscal Year 2019 Budget Analysis Copley Hospital

NET PAYER REVENUE CHANGE - PAYERS		FY2018B	FY2018P	FY2019B	2018B - 2018P % Chg	2018B - 2019B % Chg	2018P - 2019B % Chg	Change due to Rate	Change due to Non-Rate Items
All Payers	Gross Patient Care Revenue	\$113,713,725	\$105,627,754	\$118,462,942	-7.1%	4.2%	12.2%		
	Contractual Allowances	(\$44,059,310)	(\$37,828,051)	(\$44,514,072)	-14.1%	1.0%	17.7%		
	Bad Debt	(\$1,591,990)	(\$1,584,417)	(\$1,776,945)	-0.5%	11.6%	12.2%		
	Free Care	(\$795,996)	(\$528,139)	(\$592,317)	-33.7%	-25.6%	12.2%		
	Graduate Medical Education Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Disproportionate Share Payments	\$758,102	\$758,102	\$458,368	0.0%	-39.5%	-39.5%		
	Net Payer Revenue	\$68,024,531	\$66,445,249	\$72,037,976	-2.3%	5.9%	8.4%		
	Fixed Prospective Payments & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
Net Patient Care Rev & Fixed Payments & Reserves	\$68,024,531	\$66,445,249	\$72,037,976	-2.3%	5.9%	8.4%	\$3,104,535	\$908,910	
Commercial	Gross Patient Care Revenue	\$52,848,236	\$52,840,646	\$59,147,192	0.0%	11.9%	11.9%		
	Contractual Allowances	(\$11,637,348)	(\$11,340,630)	(\$12,944,904)	-2.5%	11.2%	14.1%		
	Bad Debt	(\$1,330,748)	(\$1,381,468)	(\$1,549,335)	3.8%	16.4%	12.2%		
	Free Care	(\$507,580)	(\$324,383)	(\$363,802)	-36.1%	-28.3%	12.2%		
	Net Payer Revenue	\$39,372,560	\$39,794,165	\$44,289,151	1.1%	12.5%	11.3%		
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Total Net Payer Revenue & Fixed Prospective Payment	\$39,372,560	\$39,794,165	\$44,289,151	1.1%	12.5%	11.3%	\$3,104,535	\$1,812,056
Medicaid	Gross Patient Care Revenue	\$18,789,221	\$14,911,350	\$16,427,418	-20.6%	-12.6%	10.2%		
	Contractual Allowances	(\$12,090,384)	(\$9,349,649)	(\$10,676,024)	-22.7%	-11.7%	14.2%		
	Bad Debt	(\$53,979)	(\$39,451)	(\$44,245)	-26.9%	-18.0%	12.2%		
	Free Care	(\$2,579)	(\$3,247)	(\$3,642)	25.9%	41.2%	12.2%		
	Graduate Medical Education Payments	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Net Payer Revenue	\$6,642,279	\$5,519,003	\$5,703,507	-16.9%	-14.1%	3.3%		
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
Total Net Payer Revenue & Fixed Prospective Payment	\$6,642,279	\$5,519,003	\$5,703,507	-16.9%	-14.1%	3.3%	\$0	(\$938,772)	
Medicare	Gross Patient Care Revenue	\$42,076,268	\$37,875,758	\$42,888,332	-10.0%	1.9%	13.2%		
	Contractual Allowances	(\$20,331,578)	(\$17,137,772)	(\$20,893,144)	-15.7%	2.8%	21.9%		
	Bad Debt	(\$207,263)	(\$163,498)	(\$183,365)	-21.1%	-11.5%	12.2%		
	Free Care	(\$285,837)	(\$200,509)	(\$224,873)	-29.9%	-21.3%	12.2%		
	Net Payer Revenue	\$21,251,590	\$20,373,979	\$21,586,950	-4.1%	1.6%	6.0%		
	Fixed Prospective Payment & Reserves	\$0	\$0	\$0	#DIV/0!	#DIV/0!	#DIV/0!		
	Total Net Payer Revenue & Fixed Prospective Payment	\$21,251,590	\$20,373,979	\$21,586,950	-4.1%	1.6%	6.0%	\$0	\$335,360
Disproportionate Share Payments	\$758,102	\$758,102	\$458,368	0.0%	-39.5%	-39.5%		(\$299,734)	
NPR to Gross Commercial (no dsh)	74.5%	75.3%	74.9%						
NPR to Gross Medicaid (no dsh)	35.4%	37.0%	34.7%						
NPR to Gross Medicare (no dsh)	50.5%	53.8%	50.3%						
NPR to Gross All (no dsh)	59.2%	62.2%	60.4%						

OBSERVATIONS: Copley's NPR increase is primarily due to a Commercial rate increase (7.9%). Utilization increases are budgeted for Commercial, with decreases in utilization for Medicare and Medicaid. Bad Debt is increasing but Free Care is decreasing. Compared to FY2018 Projections, the hospital is budgeting less favorable reimbursement from all payers; compared to the FY2018 Budget, reimbursements are about the same. Disproportionate Share Payments show a reduction of \$299,734.

QUESTIONS: Bad Debt is increasing while Free Care is decreasing; please explain the factors contributing to those changes.

Copley Hospital

RATE AND NET PATIENT REVENUE INCREASE

Rate is the average change in price for services provided.

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Weighted Average Approved Rate (all hospitals)	6.82%	4.37%	1.67%	2.04%	
Weighted Average Submitted Rate (all hospitals)	6.82%	4.40%	2.21%	2.34%	3.12%
Copley Hospital Approved Rate	0.00%	-4.00%	-3.70%	-3.40%	
Copley Hospital Submitted Rate	0.00%	-3.00%	0.00%	0.00%	7.90%

Hospital Inpatient Gross Revenue	8.7%
Hospital Outpatient Gross Revenue	7.5%
Physician Outpatient Gross Revenue	6.0%
Chronic/SNF Gross Revenue	0.0%
Swing Gross Revenue	14.6%

Net Patient Revenue Change Due to Rate Request		
	Commercial	\$ 3,104,535
	Medicaid	\$ -
	Medicare	\$ -
	Disproportionate Share	\$ -
	Total Change Due to Rate Request	\$ 3,104,535

Value of 1% Rate - Calculated by GMCB	\$ 392,979
Value of 1% Rate - Calculated by Copley	\$ 425,883
Variance	\$ (32,904)

OBSERVATIONS: Copley has requested a rate/price increase of 7.90%. The 7.90% will result in increased NPR of \$3.1 million. A portion of the requested rate/price increase is expected to cover decreases in utilization, DSH, and Bad Debt.

For Copley, every 1% increase in rate/price is worth approximately \$392,979 in NPR. This estimate calculated by GMCB staff does not match the estimated value of a 1% increase calculated by the hospital. There is a variance of \$(32,904).

QUESTIONS: Please explain the calculation of the estimated value of a 1% rate/price increase; the hospital's estimate varies from the GMCB staff estimate.

Fiscal Year 2019 Budget Analysis		Copley Hospital				
DASHBOARD	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B
Net Patient Care Revenue	63,464,436	62,804,324	64,983,966	68,024,531	66,445,249	72,037,976
Net Patient Care Rev & Fixed Payments & Reserves	63,464,436	62,804,324	64,983,966	68,024,531	66,445,249	72,037,976
NPR & FPP % Variance		-1.0%	3.5%	4.7%	-2.3%	8.4%
Three Year NPR & FPP CAGR* (FY16A - FY19B)						4.7%
Operating Expense	60,870,560	64,312,384	66,780,338	69,296,653	69,909,790	71,740,825
Oper Exp % Variance		5.7%	3.8%	3.8%	0.9%	2.6%
Three Year Oper. Exp. CAGR* (FY16A - FY19B)						3.7%
Revenue						
Operating Margin %	6.2%	-0.1%	-0.6%	0.1%	-3.3%	2.0%
Total Margin %	7.1%	0.3%	3.9%	0.6%	-2.7%	2.5%
Bad Debt %	1.7%	1.3%	1.3%	1.4%	1.5%	1.5%
Free Care %	0.7%	0.7%	0.6%	0.7%	0.5%	0.5%
Cost						
Cost per Adjusted Admission	11,057	12,008	12,803	13,590	13,273	13,900
Overhead Exp. as a % of Total Operating Exp.	22.2%	22.2%	21.4%	22.2%	21.8%	22.4%
Productivity & Utilization						
Acute Admissions	1,724	1,738	1,788	1,841	1,826	1,907
Adjusted Admissions	5,505	5,356	5,216	5,099	5,267	5,161
Average Length of Stay	3	3	3	3	3	3
FTEs Per Adjusted Occupied Bed	9	9	9	9	10	10
FTEs per 100 Adj Discharges	6	6	7	7	7	7
Cash						
Days Cash on Hand	108.8	81.9	84.4	79.8	62.2	66.4
Current Ratio	3.9	3.4	3.1	3.1	2.6	2.7
Capital						
Age of Plant	10.4	10.9	11.5	11.4	10.3	10.6
Long Term Debt to Capitalization	10.2%	10.3%	23.1%	20.5%	22.7%	21.1%
Debt Service Coverage Ratio	2795.5%	1093.9%	725.8%	447.1%	144.2%	784.7%
*CAGR = Compounded Annual Growth Rate						

Fiscal Year 2019 Budget Analysis **Copley Hospital**

UTILIZATION & STAFFING	FY2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2018B-2018P	2018B-2019B	2018P-2019B
UTILIZATION									
Adjusted Admissions	5,505	5,356	5,216	5,099	5,267	5,161	3.3%	1.2%	-2.0%
Acute Admissions	1,724	1,738	1,788	1,841	1,826	1,907	-0.8%	3.6%	4.4%
Acute Average Length Of Stay	2.7	2.6	2.7	2.8	2.6	2.6	-8.1%	-5.5%	2.8%
All Operating Room Procedure	1,940	2,003	2,091	2,283	2,199	2,201	-3.7%	-3.6%	0.1%
Tests	313,733	327,895	338,241	335,763	330,128	334,527	-1.7%	-0.4%	1.3%
Emergency Room Visits	12,035	16,120	12,461	13,718	12,628	12,628	-7.9%	-7.9%	0.0%
CT Scan, Radiology - Diagnostic	25,890	26,543	26,802	28,135	27,149	28,674	-3.5%	1.9%	5.6%
Exams	1,286	1,185	1,086	1,142	1,096	1,123	-4.0%	-1.7%	2.5%
Provider Work RVU	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
Physician Office Visits	27,011	28,779	27,137	26,810	19,719	22,387	-26.4%	-16.5%	13.5%
Clinics Visits	0	0	0	0	0	0	#DIV/0!	#DIV/0!	#DIV/0!
STAFFING									
FT Equivalents (Heads)	341	342	346	360	354	361	(7)	1	7
Travelers, Travelers MD	4	9	16	10	14	10	4	(1)	(4)
Residents & Fellows	0	0	0	0	0	0	0	0	0
MLPs	0	0	0	0	0	0	0	0	0
Physician FTEs	15	16	17	16	16	16	(0)	(0)	0
Total FTEs	360	367	379	387	383	387	(4)	(0)	4
Benchmarks-Hospital									
Salary per FTE - Non-MD	\$ 61,854	\$ 65,115	\$ 66,296	\$ 65,599	\$ 66,490	\$ 67,893	1.4%	3.5%	2.1%
Salary & Benefits per FTE - Non-MD	\$ 77,163	\$ 80,052	\$ 81,123	\$ 81,077	\$ 81,895	\$ 84,169	1.0%	3.8%	2.8%
FTEs Per Adjusted Occupied Bed	9	9	9	9	10	10	3.3%	4.7%	1.3%
FTEs per 100 Adj Discharges	6	6	7	7	7	7	-5.0%	-1.0%	4.2%
Benchmarks-Vermont System Averages									
Salary per FTE - Non-MD	\$ 61,326	\$ 61,326	\$ 63,250	\$ 65,422	\$ 65,917	\$ 67,055	0.8%	2.5%	1.7%
Salary & Benefits per FTE - Non-MD	\$ 80,704	\$ 80,704	\$ 81,921	\$ 85,211	\$ 84,856	\$ 86,361	-0.4%	1.3%	1.8%
FTEs Per Adjusted Occupied Bed	6	6	6	6	6	6	2.7%	2.0%	-0.7%
FTEs per 100 Adj Discharges	7	7	7	7	8	8	6.2%	5.0%	-1.1%

OBSERVATIONS: Adjusted Admissions are budgeted to increase slightly over FY2018 Budget and decrease slightly from FY2018 Projections. Acute Admissions are budgeted to increase over FY2018 Budget and Projections. Other areas of utilization are expected to decline from FY2018 Budget (with most increasing from FY2018 Projections) with the exception of CT Scan, Radiology - Diagnostic. The most notable declines are in Emergency Room Visits and Physician Office Visits. The hospital's narrative describes some of these changes. FY2018 Projections indicate that staffing levels have declined from the FY2018 Budget; the FY2019 Budget shows that staffing is expected to be at FY2018 Budget levels. FTEs per Adjusted Occupied Bed is increasing and is substantially higher than the Vermont System Average.

QUESTIONS: Please explain factors related to the high and increasing FTEs per Adjusted Occupied Bed, and describe the hospital's response to the results for that metric.

Fiscal Year 2019 Budget Analysis							Copley Hospital						
BALANCE SHEET		FY2015A		FY2016A		FY2017A		FY2018B		FY2018P		FY2019B	
Cash & Investments	\$	14,151,781	\$	13,115,878	\$	13,409,693	\$	14,493,518	\$	10,406,813	\$	11,281,952	
Risk Reserve for Fixed Reform Payments		-		-		-		-		-		-	
Other Current Assets		8,685,697		9,680,559		10,093,344		10,605,000		10,479,000		10,924,000	
Current Assets		22,837,478		22,796,437		23,503,037		25,098,518		20,885,813		22,205,952	
Board Designated Assets		3,268,462		763,010		1,478,371		-		1,003,867		1,186,480	
Net, Property, Plant And Equipment		16,444,529		19,125,504		28,145,736		28,797,408		28,925,240		29,047,627	
Other Long-Term Assets		1,571,860		1,921,889		2,248,763		2,200,000		2,300,000		2,400,000	
Assets	\$	44,122,329	\$	44,606,840	\$	55,375,907	\$	56,095,926	\$	53,114,920	\$	54,840,059	
Current Liabilities	\$	6,774,370	\$	7,004,723	\$	8,047,320	\$	8,083,815	\$	8,364,675	\$	8,622,114	
Long Term Liabilities		3,791,096		3,867,539		10,917,898		9,861,026		10,168,187		9,773,074	
Other Noncurrent Liabilities		-		-		-		-		-		-	
Fund Balance		33,556,863		33,734,578		36,410,689		38,151,085		34,582,058		36,444,871	
Liabilities and Equities	\$	44,122,329	\$	44,606,840	\$	55,375,907	\$	56,095,926	\$	53,114,920	\$	54,840,059	
Benchmarks-Hospital													
Days Cash on Hand		108.8		81.9		84.4		79.8		62.2		66.4	
Long Term Debt to Capitalization		10.2%		10.3%		23.1%		20.5%		22.7%		21.1%	
Debt Service Coverage Ratio		28.0		10.9		7.3		4.5		1.4		7.8	
Benchmarks-Vermont System Averages													
Days Cash on Hand		178.5		178.5		183.3		193.6		167.3		178.2	
Long Term Debt to Capitalization		27.6%		27.6%		30.5%		29.0%		29.6%		26.7%	
Debt Service Coverage Ratio		3.7		3.7		5.0		3.9		3.7		3.7	
Observations:													
Board Designated Assets were not budgeted last year, they are evenly funded for their FY 2018 projections and FY 2019 budget. Their cash position continues to erode while debt has been budgeted to be reduced but operating expenses have not been reduced. Their Days Cash on Hand is the lowest in years. Their cash on hand is lower than the 25th percentile of their Vermont peers. Debt Service Coverage Ratio is mixed between their projection and budget.													

Fiscal Year 2019 Budget Analysis		Copley Hospital							
CAPITAL BUDGET	2015A	FY2016A	FY2017A	FY2018B	FY2018P	FY2019B	2020 Plan	2021 Plan	2022 Plan
Non-Certificate of Need Capital Plans Total				\$ 3,739,327	\$ 3,524,152	\$ 3,038,015	\$ 10,174,145	\$ 6,233,300	\$ 2,425,736
Certificate of Need Capital Plans				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Capital Purchases				\$ 3,739,327	\$ 3,524,152	\$ 3,038,015	\$ 10,174,145	\$ 6,233,300	\$ 2,425,736
Copley Hospital									
Age of Plant	10.4	10.9	11.5	11.4	10.3	10.6			
Capital Expenditures to Depreciation	106.7%	99.3%	99.5%	125.8%	118.9%	96.1%			
Capital Cost % of Total Expense	4.0%	3.9%	3.6%	4.5%	4.4%	4.6%			
Benchmarks-Vermont System Averages									
Age of Plant	11.4	11.4	11.8	12.5	13.0	13.2	-	-	-
Capital Expenditures to Depreciation				116.6%	116.5%	145.7%	-	-	-
Capital Cost % of Total Expense				5.3%	5.3%	5.0%	-	-	-
<p>OBSERVATIONS: Copley has no projects subject to CON review for FY2019. The hospital is prioritizing capital needs based on the limited cash flow and operating margins. Compared to the Vermont System Average, Age of Plant is favorably low. Capital Expenditures to Depreciation and Capital Cost % of Total Expense are also lower than the System Average.</p>									