

COPLEY HOSPITAL, INC.
FY2019 PROPOSED BUDGET NARRATIVE
June 27, 2018

1. Executive Summary

In FY18, Copley Hospital has seen a significant and unforeseen change in its utilization. Currently, Copley's utilization is well below budget which will result in a significant financial loss and the third year in a row of generating a loss from operations. In the previous three fiscal years, Copley witnessed unexpected higher than budgeted utilization resulting in a cumulative rate decrease of 11%, giving back nearly \$5 million a year to the private and commercial payers. This decrease in rates, coupled with cost pressures from staffing challenges and medical inflation, has eroded our cash position significantly. We project Days Cash on Hand of only 62 days by the end of the year, 49 days of which are tied up in collateral on debt.

In addition to the challenges of staffing and medical inflation, Copley is confronted with funding a five-year capital plan totaling \$25 million to address an aging facility, several projected medical equipment lifecycle replacements, and a new electronic medical record. With limited cash on hand, it's imperative that we achieve an operating margin over the next several years to allow successful implementation of our capital plan.

As Vermont continues to move forward with healthcare payment and delivery reform, Copley is strongly considering participating as a "risk" hospital in calendar year (CY) 2019 for our Medicaid population. In preparation for this new model of payment, Copley has begun several initiatives to better position itself for risk-based capitation. For example, Copley joined RiseVT in FY18, OneCare's primary prevention strategy. As the first non-risk hospital to take part in this important endeavor, we felt that it was a critical time to join this effort to embrace healthy lifestyles where people live, work, play, and learn. Some of the other initiatives include a surgical quality improvement program, social workers embedded in the Women's Center and Emergency Department and a focus on surgical patient satisfaction, to name a few.

Copley's operational changes during this current fiscal year have been significant in order to best position the hospital to provide the most efficient high-quality care while preparing for the healthcare reform changes on the horizon. These changes in many ways have been a process of looking at issues or areas of risk and turning these issues or risks into opportunities to improve and take our hospital to a higher level of performance. In an effort to provide the highest quality care and to reduce the cost of healthcare, we are systematically focusing on readmissions from our local skilled nursing facility to understand why patients are coming back to Copley. In the area of mental health, we have looked at how we can provide a better environment in the emergency department for our patients and have had continued collaboration and discussion with our local mental health designated agency on how we can better meet the mental health needs of our community.

As we look toward the future, Copley's senior leadership team and board of trustees understand the challenges Copley will face. Although these challenges are not unique to Copley, or even to Vermont hospitals, they are real challenges that we must address with creativity and a team approach. Our collaborative relationships with Central Vermont Medical Center (CVMC) for oncology, Dartmouth-Hitchcock Medical Center (DHMC) for telemedicine services, UVMHC for the Antibiotic Stewardship Program and the Unified Community Collaborative (UCC)/Accountable Communities of Health (ACH) with OneCareVT are good examples of teamwork between hospitals and area providers and social service organizations. We believe that these patient focused collaborations, coupled with Copley working toward the transition to value-based health care delivery, are in line with Vermont's healthcare vision and are the actions that we should be taking for the good of Vermonters.

While these efforts are important and necessary, we feel that the most important objective is to have a strong financial footing as Copley considers entering into risk payment reform. Copley is in a position where it requires a rate increase and net patient revenue (NPR) above the cap to achieve a positive operating margin for the first time since FY15. We respectfully ask that the GMCB work with us to achieve financial stability so that we can make a seamless transition to this new healthcare delivery model.

2. Payment and Delivery Reform

Copley has signed a non-binding letter of intent to participate in OneCare's 2019 Risk-Based ACO Program for our Medicaid population. OneCare will supply us with a Participation Agreement this summer, along with additional financial and clinical modeling to help support further decision making. A commitment to participate or not will be made in August. Should we opt to participate in this risk-based program, Copley can provide further information at that time to the GMCB regarding estimated Fixed Prospective Payments, our maximum upside and downside risk, and our plans for managing this new financial risk while maintaining access to high quality care and appropriate levels of utilization.

Whether as part of an ACO or in a fee-for-service environment, we at Copley are committed to delivering the highest possible quality of care and the most efficient care appropriate. Above and beyond the standard menu of regulatory driven reporting, Copley is engaged in several ongoing programs of ensuring highest quality and optimal efficiency.

In December 2016, The Women's Center joined with The Women's Health Initiative through the Vermont Blueprint for Health. The Women's Health Initiative helps ensure that women's health providers, primary care practices, and community partners have the resources they need to help women be well by supporting healthy pregnancies, avoiding unintended pregnancies, and building thriving families through enhanced screening, brief in-office interventions, comprehensive family planning counseling and referrals to services for mental health and substance use disorders, interpersonal violence, food insecurity, housing instability and trauma. The Women's Health Initiative beneficiaries are identified by the program as Medicaid patients, representing a monthly average of 486 members. However, The Women's Center does not exclude non-Medicaid patients, allowing for every patient that presents to the clinic to benefit from this initiative and the services available within the community.

The American College of Surgeons National Surgical Quality Improvement Program (ACS NSQIP) is the gold standard in measuring the outcomes of surgical care. Copley will soon enter its second year in the program, a time when enough data has accumulated to begin to draw statistically valid conclusions and identify areas (if any) in need of improvement. Early, preliminary results strongly suggest that Copley produces remarkably good surgical outcomes compared to other hospitals within NSQIP.

The Orthopaedic department at Copley is currently finalizing how best to bring Patient Reported Outcome Measures (PROMs) into their practice. Copley uses NSQIP to evaluate and improve surgical safety, while PROMs are used to measure a patient's satisfaction with their surgical outcome over time. One of our Orthopaedic surgeons, Dr. John Macy, has already collected a year's worth of PROM data from his practice's patients.

Copley's Antibiotic Stewardship Program (ASP), which will soon enter its second year as well, aims at both improved care and improved utilization. Improved care by using improved clinical organization at Copley along with the specialized expertise available at UVMHC to match an optimal course of antibiotics to the most appropriate indications, care is improved. And it has been found that as hospitals engage in ASPs, speedier recoveries with shorter lengths of stay, decreased complications, and decreased antibiotic use all follow.

Copley doctors and staff regularly meet with their counterparts from our primary Skilled Nursing Facility, The Manor, to review all readmissions from The Manor to Copley. We are primarily looking for patterns and systematic issues that can be optimized to take better care of our mutual patients which will in turn reduce readmissions. Happily, we can report that few systematic issues or patterns have been identified in need of improvement, and that the readmission rate is well below national norms.

While we track and evaluate readmissions to Copley on an ongoing basis, this is, by its nature a backward-looking process. And while we have used this process to improve our discharge processes and coordination of care, we are actively searching for a forward-looking process that will identify with some specificity those

patients who will be in need of extra help and attention when getting ready to be discharged and at home after their discharge. In April 2017 Copley began piloting the LACE Readmission Risk Assessment Tool. The LACE index tool is a widely used and reliable tool that identifies hospitalized patients who are at risk for readmission within thirty days from discharge. The tool focuses us on four parameters:

- Length of stay
- Acuity
- Co-Morbidity
- # ED visits in preceding 6 months

Over the last year we have used the PDSA (Plan, Do, Study, Act) quality Improvement method to test the tool with Copley-specific patient populations. From this data we have redefined several of the assessment parameters to align with Copley's patient population. In particular, we have identified Mental Health and Social Detriments of Health, i.e. "Lives Alone," Food Security, and Transportation, as significant parameters for readmission risk. By using this tool on admission, we can intervene early and meaningfully.

Copley is engaged in this work, not to optimize its bottom line in a fee-for-service environment, but because we think it is good medicine and the best way to provide the highest possible quality of care for our community. By focusing so much on quality and efficient utilization, we are making ourselves essentially pre-adapted to an ACO environment and many models of health care reform.

3. Community Health Needs Assessment

We would like to share three stories that are an example of how Copley Hospital is addressing our shared population health goals; specifically to reduce the cost of healthcare by reducing preventable visits, reducing chronic health conditions, and preventative care, with a focus on screening.

A frequent user of Copley's Emergency Department struggles with substance abuse. The patient had a total of 14 visits to the Emergency Department since 2015. Copley and our local FQHC, Community Health Services of Lamoille Valley, jointly placed a social worker in the ED. That social worker became that patient's point person, in collaboration with a variety of social service organizations also working with the patient. Our Social Worker connected the person to a variety of social services and needed treatment, followed up with regular phone calls, set up transportation and held joint meetings with the patient and a care coordinator at Community Health Services of Lamoille Valley with a shared goal of helping the patient define success and reach it. This person has had zero visits to the Emergency Department since. It is a demonstration of Copley's support of in-house social workers to coordinate internal and external collaboration with social service organizations and clinical providers to create and support a care plan for patients that addresses both medical and social determinants of health. This program resulted in a potential cost savings to the system of \$144,300 due to reduced use of the ED. Copley's support continues and is reflected in Copley Hospital's ongoing work with our Unified Community Collaborative/Accountable Communities for Health.

A pregnant female came to The Women's Center for her initial prenatal appointment. She was unemployed and had no primary care provider. Through the clinic's psychosocial screening, the patient disclosed her history of opiate use and current use of buprenorphine purchased off the street. Our midwife introduced her to the Women's Health Initiative social worker located within our practice and together with the patient they developed and implemented a care plan to connect the patient with local resources, including intake into the Medication Assisted Treatment (MAT) clinic. The woman remains engaged in her treatment program and meets regularly with the social worker and continues to set up more supports, including rebuilding relationships with her family. She is connected with a primary care provider, is working part-time and cutting down on her smoking. This case study is a demonstration again of a dedicated collaboration, but also of an evolving practice to put psychosocial screening in place to help identify both medical and social needs.

During this winter's bone-chilling cold spells, area churches pitched in to operate "pop-up" shelters. Each evening, local volunteers staffed the shelter, hosting 6-12 people nightly, including a family with several

children. The shelters began operating in December and continued through mid-April. While the actual attendees varied, the young family was a regular guest. Copley Hospital supported this “pop-up” initiative by providing regular laundry service to ensure shelter guests had clean sheets, towels, pillowcases and blankets.

In January 2018, our Copley Social Worker spent an evening providing services to help connect shelter residents to community resources. The Social Worker worked with two families, for a total of seven people during her time at shelter. The social worker met with each family and completed an Ecomap assessment and secured appropriate release forms so that the families’ complex cases could be reviewed at the Lamoille Care Management Team (LCMT)/Lamoille Interdisciplinary Team (LIT) meeting. The Copley social worker continued to shepherd these families, presenting their cases, addressing their barriers and ensuring that each family was connected to their LCMT lead care coordinator within 48 hours. The Copley Social Worker continues to follow-up with the families to ensure that they remain connected to community partners.

In March, the “pop-up” shelters moved to a more permanent location, the “Yellow House,” and Copley has pledged to continue to provide laundry service for the shelter. In addition to the homeless shelter, Copley has provided funding to: Healthy Lamoille Valley (prevention) to assist in their process to develop a sustainability plan; Morristown Bike and Pedestrian Program to encourage programs/resources to encourage walking/bicycling in town and to Hunger Free Vermont/ Lamoille Hunger Council to support food security activities.

The above stories demonstrate the need for one-on-one connections to affect change. We must meet each individual where they are and it may take numerous attempts to achieve the individual’s definition of success. In addition, we must increase awareness, resources, and encouragement. To do so, the Hospital created and continues to host a collaborative community blog, LiveWellLamoille.com, and a robust schedule of content on social media platforms designed to address all the social determinants of health with a goal of providing tips, resources and encouragement to help residents make healthy choices. Healthy choices lead to a healthier lifestyle. The blog has reached 10% of all households in Lamoille County. It averaged 670 views per month, with readers viewing an average of 2.63 pages per session. The hospital’s website routinely promotes classes and community events that encourage healthy choices. The blog has been recognized nationally for its collaboration, use of digital media, and focus on social determinants of health.

Access to care is supported with Copley’s ongoing partnership with oncologists at Central Vermont Medical Center, enabling patients to receive chemotherapy at Copley. In February 2018, we partnered with Dartmouth Hitchcock Connected Care to provide Rheumatology via Telemedicine. Copley has also partnered with all of the nursing programs in the state, serving as a practicum site to encourage nursing education with a goal of growing a skilled workforce that will stay in the area. Members of our clinical and medical staff also routinely serve as preceptors.

Access to care for Individuals experiencing a mental health crisis continues to be a critical need. Copley Hospital routinely boards individuals in the Emergency Department while waiting for an appropriate bed to open for needed treatment. To better serve these patients, Copley has created a “sitter” program, with training on how to better serve as a companion, monitor, and safe support for both patient and attending staff. The sitter program is a collaboration with Lamoille County Mental Health Emergency Resources and the local police and sheriff departments.

At the time of this writing, Copley Hospital is conducting a Community Health Needs Assessment with the assistance of Quorum Health, the Morrisville District Office of the Vermont Department of Health (VDH) and our local Unified Community Collaborative/Accountable Communities for Health (UCC/ACH).

In FY19, we will continue all of the activities listed above. We have budgeted \$10,000 to go to social needs prioritized in the 2018 CHNA. We have also committed to creating a RiseVT-Lamoille County chapter, funding a 0.4 FTE for a RiseVT Coordinator. Ongoing funding of Copley’s Wellness Center and social media platforms will

play a fundamental role in supporting RiseVT in this area. In FY2017, Copley's Wellness Team held 95 Wellness programs, events, or screenings for the community and local businesses, reaching 1,546 participants. In addition, we recorded 1,764 employee participation interactions with Copley's Employee Wellness Program, also contributing to improving the health of our community.

4. Quality Measure Results

Copley Hospital's service area is performing better than the ACO target or State rate in six of the fifteen All-Payer Model Quality Measures. Several of the measures reflect significant health needs in the community that have been identified in our 2015 Community Health Needs Assessment and Implementation Plan and continue to be present as we conduct our 2018 Needs Assessment.

Many of the quality measures are rooted in primary care. In our service area, primary care is delivered by two FQHCs and independent providers, with lab, imaging, and specialty care services provided by the hospital. Copley Hospital works collaboratively with community providers, social service agencies, town officials and business leaders to address these issues. See Sections 3, 5, 7, and 8 as examples of the collaborative work we are doing to address our community's needs and these quality measures.

Our 2018 CHNA Implementation Plan is still in development, but we anticipate increasing screenings along with launching RiseVT in Lamoille County. This commitment is shared and encouraged by our UCC/ACH colleagues. We believe this will improve the community's performance in the quality measures related to hypertension, diabetes, substance abuse, and mental health. More importantly, it will increase the opportunity for engagement and to reach someone when they are ready to accept help/treatment.

So many of the health needs reflected in the quality measures cannot be solved with clinical care alone. Addressing these needs require changes in the social determinants of health and human behavior. As we've learned from our PDSAs and quality improvement work, increased screenings, referrals, and collaborations, the resources available are not adequate to address the need, particularly in the areas of mental health and transportation. This is our largest barrier and one that far too often puts our patients and staff at risk. The challenge is how to address social determinants of health in a meaningful, sustainable way and without distorting the true cost of hospital care.

5. Mental Health

Copley Hospital does not provide inpatient care for Mental Health disorders but occasionally will admit patients for medical stabilization that have a secondary need for mental health care; an overdose patient is a good example. Our practice model relies on our partnership with Lamoille County Mental Health and other regional agencies to provide crisis intervention for this patient demographic. We currently do not have dedicated beds for mental health patients in either our Inpatient or Emergency Department but are working with local contractors to renovate an existing ED Treatment room into a safe and therapeutic environment for our patients that require one-on-one observation.

In FY17, Copley's Emergency Department treated 161 patients with a primary complaint relating to Mental Health Crisis, 14 of which were admitted to the inpatient area for medical stabilization, 104 of the 161 patients were transferred to other hospitals for inpatient Mental Health care and 57 were discharged to home from the ED with an outpatient follow up care plan. The average length of stay for those patients was 07 hours 28 minutes with a median time of 04 hours 43 minutes. The LOS ranges were 00 hours 44 minutes to 100 hours 10 minutes. Data for the first 2 quarters of FY18 indicate similar volume and length of stay duration.

In calendar year 2017, the ED Social Worker worked with 41 unique patients requiring non-urgent mental health services. Our ED Social Worker also worked collaboratively with Lamoille County Mental Health and Behavioral Health & Wellness Center to help ED patients in need of support become connected with a timely follow up visit. During the ED Social Worker's time with the patient, she would also assist patients with setting up their first appointment, assisting patients in filling out their new patient packet, and arranging transportation to and from

their appointment using Rural Community Transportation (RCT). Finally, the ED Social Worker would follow the patient throughout the first few weeks of their recovery. If it was determined the patient needed more wrapped supports, the ED Social Worker would also make a referral to the Community Health Team (CHT) connected to the patient's primary medical home.

6. Patient access

As of June 8, 2018, following are the average wait times for the third next available appointment for each of Copley's employed physician clinics, in accordance with the Institute for Healthcare Improvement's methodology:

Average Wait Time by clinic	New Patient	Follow-Up
Mansfield Orthopaedics	60 days	38 days
General Surgery Clinic	5 days	4 days
Cardiology Clinic	62 days	31 days
The Women's Center	34 days	27 days

7. Substance use disorder treatment programs

Copley Hospital utilizes Community Health Services of Lamoille Valley (CHSLV) for management of Medication Assisted Treatment patients. Patients from the ED and Inpatient areas are referred to CHSLV MAT by our providers and social workers as part of discharge planning.

Though Copley Hospital doesn't have a MAT provider or a practice directly connected to Copley, we do have developed relationships with experts in the substance abuse field. Currently, Copley Hospital partners with Lamoille County Mental Health Alcohol and Substance Abuse Prevention (LCMH ASAP), Community Health Services of Lamoille Valley's (CHSLV) Medication Assisted Treatment (MAT) team, Treatment Associates and the BAART clinics. Our CMO attends regular meetings of the Healthy Valley Lamoille County Coalition with key community leaders and clinicians. We have had preliminary meetings about ways to improve the referral process to the MAT team. Our ED Social Worker also provides short-term case management until patients are able to get connected to services. In FY18 we will be rolling out a new relationship with the Recovery Coaching Program provided by North Central Vermont Recovery Center which offers an alternative approach to providing support to those in recovery.

8. Health Reform Investments.

Following is an update of the health reform investments submitted under the GMCB's extended NPR cap for FYs 2016 – 2018, as well as a summary of the new health reform investments proposed for FY2019 (See Appendix V for further details).

OneCare ACO Participation Fees (2016)

Copley's FY2016 budget included an allowance of \$82 thousand in its net patient revenue for health reform investments related to our participation fees for OneCare's ACO Shared Savings Programs. These Shared Savings programs were terminated effective December 31, 2017. Copley has signed a non-binding letter of intent to participate in OneCare's FY2019 Risk-Based ACO Program for our Medicaid population and await further information from OneCare on the results of their model of the financial impact this may have on Copley.

Social Work in the Emergency Department (2018 & 2019)

Copley's FY2018 budget included an allowance of \$32 thousand in its net patient revenue to fund cost sharing with our local FQHC for a social worker in Emergency Services. For FY2019, we propose to increase this investment by \$24 thousand for a total of \$56 thousand to fund a permanent full-time Community Referral Specialist program. Building on the work accomplished by our ED-based social worker FY 18, Copley Hospital and CHSLV are partnering to implement new position of "Community Referral Specialist". The referral specialist

position is designed to support activities such as screening, and ensuring follow-up, and follow-up tracking of patients that have been referred to a PCP and/or community agency.

During the first quarter of 2018 our ED social worker transitioned into a new role; Medical Social Worker for Copley Hospital. During the 90-day transition period the scope of work in the ED stabilized. The table to the right summarizes statistics related to this initiative for the 2nd Quarter FY2018.

	Q2 FY18
Total ED Visits Per Month	3,471
Encounters (Face to Face)	190
% of ED Pt's seen by SW	5.6%
Total Referrals	254
No PCP Referrals	129

Our plan for FY19 is to continue to build on our Emergency Department Utilization quality improvement plan. Our initial objective with this plan was to decrease the percentage of Copley Hospital Emergency department visits of ED Super-Utilizers and ultimately continuing this work into FY18. These Super-Utilizers made up a small percentage of the ED patients, but accounted for a disproportionately high amount of health care utilization. In 2017, we launched the improvement project to decrease these Super-Utilizer ED visits by 25% within 180 days. We achieved our goal and also appreciated a potential cost savings to the system of \$144,300. We believe the implementation of a Community Referral Specialist, who can support the referral process by enhancing screening and follow-up, will decrease ED utilization and connect the LACE readmission risk assessment screens ultimately reducing our admissions to acute care. This position will support follow-up on all referrals made by the social worker from the ED and those patients identified during inpatient screening. The intent is to provide ongoing follow-up with patients to ensure that they have connected with their PCP and/or other resources in the community following discharge.

Measures that this investment is intended to improve, which align with the goals of the All Payer Model, include:

- 100 % of ED Patients screened for substance use disorder
- 100 % of patients screened positive (at risk) referred to treatment
- Provide suicide risk assessment training to 100% clinical staff.
- 100 % inpatients screened using the LACE readmission risk assessment tool
- 100 % of patients screened positive receive follow-up phone call and referral.

Copley Hospital and our greater community is committed to finding better ways to support these patients' medical and psychosocial needs and achieving healthy lifestyles.

RiseVT Program Coordinator (2019)

Copley proposes an allowance of \$18 thousand in its FY2019 net patient revenue for health reform investments to fund a new RiseVT Program Coordinator part-time position. RiseVT is a statewide initiative to embrace healthy lifestyles where people live, work, play, and learn. In partnership with RiseVT, program managers are placed within communities to listen to community needs, amplify existing local efforts, fill in gaps where wellness initiatives could improve population health, mobilize people to make changes to their local environment through municipal advocacy, and continually evaluate the impact of the effort. RiseVT is based on an international, evidence-based model called EPODE (Together We Will End Childhood Obesity-French Translation) which has been successfully replicated in 29 countries across the globe and has shown a direct, positive impact on reducing obesity which is a major driver of most chronic disease.

RiseVT is a new partnership of OneCare Vermont and is a cornerstone, primary prevention strategy of the state's ACO. RiseVT coordinates and promotes regular opportunities for people to increase their physical activity and improve their dietary habits, both of which are critical to controlling the cost of chronic disease. Additionally, RiseVT works to expand local systems that support long-term wellness such as the installation of sidewalks, offering snowshoes for loan at local libraries, and expanding breast-feeding friendly businesses in communities to name a few key initiatives.

RiseVT will be working with the local medical community to get them out in the community to support wellness efforts. RiseVT facilitates connections with physicians through innovative programming such as "Walk With a

Doc”, a coordinated walk with a physician to discuss a specific topic while you enjoy some physical activity, and our “Playscription” booth, a customized program where a physician writes out directions for an activity so people can participate in active play. Our goal is for community members to get to know their physicians better, which will encourage the utilization of primary care.

We will work closely with 3-4-50 and the Vermont Department of Health on a coordinated effort to reduce the prevalence of chronic disease by helping people embrace healthy lifestyles. In addition, RiseVT campaigns also help increase social connectedness through regular physical activity, social gatherings, and educational opportunities. While RiseVT is primarily focused on reducing obesity, we believe increased social connectedness promoted in communities can help reduce the loneliness and isolation our neighbors sometimes feel.

The state-wide RiseVT team will rigorously evaluate campaign results by monitoring publicly available data through the Vermont Department of Health such as Youth Risk Behavior Survey data, Behavior Risk Factor Surveillance Survey, census data, and the County Health Rankings. As data becomes more available, RiseVT will work with OneCare Vermont to monitor health care utilization and spending trends. Copley’s Program Manager will report to the statewide team monthly on programmatic data to continually tailor the effort to community needs. Lastly, RiseVT will work with its Scientific Advisory Board to conduct studies on the impact of local health initiatives.

Health Promotion on Social Media (2019)

Copley proposes an allowance of \$15 thousand in its FY2019 net patient revenue for health reform investments to fund costs related to health promotion on social media. Copley Hospital engages with our community and shares important public health information using several social media platforms. These include Facebook, Twitter, copleyvt.org and our collaborative community blog, Live Well Lamoille.com. With our social media content, we strive to provide valuable health and wellness information, encouraging our audience to make healthy choices, with a goal of improving overall public and population health. Social media encourages engagement and transparency as our audience can comment and/or ask questions about their care or the topic. The ‘Live Well Lamoille’ blog is a collaborative community effort with the goal of promoting as many aspects of health, both clinical and social. The idea for the blog grew out of a meeting where community leaders and business owners that represented various social determinants of health were present. Bloggers contribute information, share ideas and their perspectives in hopes of building a healthier community. Those participating in the Live Well Lamoille blog include Steve Ames (Building Bright Futures), Scott Johnson/Floyd Nease (Lamoille Family Center), Mary Collins (The Manor and Lamoille Home Health & Hospice), Tricia Follert and Todd Thomas (Town of Morristown), Lynda Marshall (Lamoille County Mental Health Services), Michele Whitmore (Johnson State College), Caleb Magoon (Power Play Sports & Waterbury Sports), Valerie Valcour (Vermont Department of Health), Jessica Bickford (Healthy Lamoille Valley), Lisa Mugford (North Central Vermont Recovery Center), David Vinick (Copley Nutritional Services), and Nancy Wagner, RDN, CD, CDE (Copley Wellness Center) and more.

Community Action Grants (2019)

Copley proposes an allowance of \$10 thousand in its FY2019 net patient revenue for health reform investments to fund costs related to Community Action Grants. Copley Hospital has donated funds to community organizations working to address specific social determinants of health and to develop an environment that encourages exercise and recreation. In FY2018, Copley Hospital donated a total of \$3,500 to Healthy Lamoille Valley to assist them with their substance abuse prevention efforts and sustainability, the Hunger Council of Lamoille Valley in support of their work to address food insecurity in the area, and to the Morristown Bike Program to assist with the free community bike share program, installation of bike racks in town, and creation of bike paths to encourage this alternative mode of transportation and for recreation. For FY2019, we propose to increase the amount of funding. Funds will be donated based on the forthcoming implementation plan developed once our 2018 Community Health Needs Assessment is completed.

9. Reconciliation of FY2018 Year-to-Date Budget Variances

Following is a summary of the year-to-date FY2018 budget variances as of April 30, 2018.

	YTD18	PROJ18	BUD18	Variance
Net patient revenue	\$38,329,426	\$66,445,250	\$68,024,531	\$(1,579,281)
Other operating revenue	803,001	1,257,843	1,348,615	(90,772)
Total operating revenue	\$39,132,427	\$67,703,093	\$69,373,146	\$(1,670,053)
Operating expenses	40,578,325	69,909,790	69,296,653	613,137
Operating surplus	\$(1,445,898)	\$(2,206,697)	\$76,493	\$(2,283,190)
Non-operating revenue	252,797	378,067	370,900	7,167
Excess of revenue over expense	\$(1,193,101)	\$(1,828,630)	\$447,393	\$(2,276,023)

So far, FY2018 has been a very challenging year for Copley financially. Utilization is below budget across many service lines. Current projections indicate that we may be \$1.6 million, or 2.3%, below our NPR budget. In addition to this reduction in our revenue stream, we continue to contend with recruitment and retention challenges necessitating the use of travelers, as well as an increase in drug shortages and double-digit inflation on drugs. We project that expenses may be \$613 thousand, or 0.9%, over budget for FY18, comprised of an overage in labor cost of \$478 thousand, overage in supplies and drug costs of \$612 thousand, and savings in other expenses of \$477 thousand.

Year-to-date, we generated an operating loss of \$1.5 million. Current projections indicate that we may incur an operating loss of \$2.2 million for the full fiscal year. This will mark the third year in a row that Copley generates an operating loss, deteriorating our cash position. We project Days Cash on Hand of only 62 days by the end of the year, significantly lower than the CAH median of 114 days.

10. Budget-to-budget growth

A. Net patient revenues:

Copley Hospital proposes net patient revenue of \$72 million in FY2019, up \$4 million or 5.9% from the approved FY2018 budget of \$68 million. This increase is proposed to be accomplished with increases from cost-based reimbursement, offset by a reduction in utilization, and a rate increase of 7.9%. After much effort to identify \$800 thousand in cost savings for FY2019, Copley determined that a 5.9% increase in NPR is necessary in order to cover its increased costs and generate a modest operating margin of 2%.

Following is a reconciliation of the proposed change in net patient revenue. For further details, refer to the GMCB "Rate Schedule".

Proposed NPR Change	Total	%	Medicare	Medicaid	Comm/Other
NPR, Budget FY18	\$68,024,531		\$21,251,590	\$6,642,279	\$40,130,662
Utilization	(920,459)	-1.4%	(1,246,311)	(1,259,407)	1,585,259
Reimbursement rates	2,110,379	3.1%	1,496,809	311,964	301,606
Bad debt and charity	18,724	0.0%	84,862	8,671	(74,809)
Rate change	3,104,535	4.6%	0	0	3,104,535
Disproportionate share	(299,734)	-0.4%	0	0	(299,734)
Increase in NPR	\$4,013,445	5.9%	\$335,360	\$(938,772)	\$4,616,857
NPR, Proposed FY19	\$72,037,976		\$21,586,950	\$5,703,507	\$44,747,519

Utilization

After incorporating more current trends in actual utilization, analyzing our surgical capacity, and adjusting OR block schedules for known medical staff changes, we propose a \$920 thousand reduction in net patient revenue due to utilization. Copley's proposed a variety of ups and downs in utilization, most notably:

- Surgical Services – Total operating room cases are proposed to decrease by 3.6% as a result of moving more minor cases to an outpatient procedure room setting. Inpatient operating room cases are proposed to increase by 9% to accommodate the growing demand for total joint surgeries.
- Inpatient Services – Acute inpatient admissions are proposed to increase 3.6% from surgical demand, while acute inpatient days are proposed to decrease by 2.1% due to a reduction in the actual average length of stay to 2.6 days.
- Emergency Services – Emergency room visits are proposed to decrease by 7.9%. This decrease is partially attributable to health reform efforts that placed a social worker in our Emergency Department. See the section 8 on investments in health reform activities for further details.

Reimbursement rates

Copley Hospital's FY2019 proposed budget includes a reimbursement rate of 60.4%, before Disproportionate Share (DSH) revenue, representing an increase from the approved FY2018 budgeted rate of 59.8%. The budget-to-budget impact on net patient revenue of changes in assumed reimbursement rates is an increase of \$2.1 million. Following is a summary of the reimbursement assumptions for each of the major payer sources:

- Medicare- Medicare reimbursement estimates are based on a CAH-specific reimbursement model based on the trend in estimated inpatient costs per day and the ratio of costs to charges for outpatient and ancillary services. The estimates are calculated in accordance with legislated payment rules currently in effect. There are no significant prior year settlement adjustments impacting proposed Medicare net patient revenue.
- Medicaid - Medicaid reimbursement is proposed based on current year-to-date payment trends.
- Commercial/self-pay/other- These payers primarily reimburse hospital services based on a percentage of charge. Since Copley is requesting a rate increase, reimbursement from these sources is budgeted to increase in the FY19 proposed budget. Professional fees are reimbursed based on fixed fee schedules. Copley has assumed no changes in these fixed reimbursement rates in preparing its proposed FY2019 budget.

Bad debt and charity

Total bad debt and charity care write-offs are proposed to be 2% of gross patient revenue, based on Copley's current experience. This represents a slight decrease from 2.1% budgeted in FY2018, resulting in an increase in proposed net patient revenue of \$19 thousand.

Disproportionate share

Copley's proposed FY2019 budget includes a reduction of \$300 thousand, in Disproportionate Share payments.

B. Expenses:

Copley Hospital proposes total expenses of \$71.7 million in FY2019, up \$2.4 million, or 3.5% from the approved FY2018 budget of \$69.3 million. Following is a reconciliation of the proposed change in expenses, explained further below:

Proposed Expenses	Approved FY2018	Proposed FY2019	Proposed Change	% Change
Salaries	\$23,742,205	\$24,502,487	\$760,282	3.2%
Fringe	5,576,778	5,874,108	297,330	5.3%
Physician Contracts	10,093,120	10,065,199	(27,921)	-0.3%
Contract Staffing	1,184,547	1,183,069	(1,478)	-0.1%
Supplies	10,132,343	10,817,127	684,784	6.8%
Drugs	2,616,358	3,346,605	730,247	27.9%
Facilities	3,248,683	3,153,073	(95,610)	-2.9%
Depreciation	2,972,162	3,161,595	189,433	6.4%
Interest	116,013	111,325	(4,688)	-4.0%
Health Care Provider Tax	4,015,272	3,882,632	(132,640)	-3.3%
Other	5,599,172	5,643,605	44,433	0.8%
Total Expenses	\$69,296,653	\$71,740,825	\$2,444,172	3.5%

After identifying \$770 thousand in cost savings, Copley's proposed expense increase is comprised of \$1 million in labor-related costs and \$1.4 million in supply and drug costs, with other costs remaining relatively flat in total.

Cost Savings

Copley's proposed FY19 expenses includes \$770 thousand in strategic cost savings for FY2019, equivalent to a 2% rate change at Copley. \$695 thousand of these savings are related to workforce efficiencies, reducing support staff by 5.4 FTEs and midlevel providers by 1.2 FTEs. The remaining \$75 thousand in savings relates to reduced purchased service costs in marketing and laboratory services, and other miscellaneous savings.

Labor Costs

Copley's proposed expenses include a \$1 million increase in total labor-related costs, after incorporating \$695 thousand in labor-related cost savings initiatives. Major factors contributing to the increase in labor-related costs include cost of living increases, certain market adjustments necessary to retain and recruit quality staff, health reform and other strategic investments, and 4%-7% inflation on fringe benefits such as health and dental insurance.

Supplies & Drugs

Supplies and drugs are proposed to increase \$1.4 million in total. Copley's budget assumes inflation on supplies ranging up to 3% and inflation on drugs ranging up to 20%. Oncology drugs, in particular, account for \$393 thousand of the total growth in drug costs.

11. Bad Debt

In FY2017, Copley's bad debt expense, net of recoveries, totaled \$1.4 million, \$64 thousand of which related to write-offs of services rendered prior to FY2016.

Bad debt accounts with balances greater than \$10 are placed with either a collection agency or an attorney for collection, depending on the circumstances surrounding the accounts status. Copley's primary bad debt collection agency is Action Collection Agency of Boston (ACA). The President of ACA, who is the former President of the American Collectors Association, was an active participant in the Medical Debt Collection Task Force for the Patient Friendly Billing Project for HFMA Region 1. ACA strives to meet these guidelines in keeping their collections letters clear and not confusing for our patients, while safeguarding all patient information as required under HIPAA and the FDCPA, which regulates consumer collections. ACA asserts that their verbal

communication with patients is also professional and compassionate, as they recognize that healthcare is a unique type of consumer debt and must be treated as such.

12. Rate Request

As illustrated in the table below, Copley decreased its rates significantly each of the last three years. Our current financial position requires that we request an overall rate increase of 7.9% in FY19 in order to yield a 2.0% operating margin and prevent further deterioration of our cash. This proposed increase will result in a cumulative rate decrease of 3.2% over the four years ending in FY19.

	Actual FY16	Actual FY17	Actual FY18	Proposed FY19	4-Yr Total
Rate Change	-4.0%	-3.7%	-3.4%	7.9%	-3.2%

The FY19 proposed rate increase will be applied equally to all payers and is estimated to increase gross patient revenue by \$8.7 million and net patient revenue by \$3.1 million.

13. FY 2017 overages

Copley Hospital's FY2017 net patient revenue was within 0.3% of the GMCB approved budget.

14. Capital budget investments

Capital spending for FY2019 is proposed to be \$3 million with no projects subject to Certificate of Need review or individual capital expenditures proposed over \$500 thousand. We are currently developing a master plan to prioritize facility, technology, and equipment needs in the coming years. We face difficult decisions in prioritizing our needs with limited cash and need to generate an operating margin in order to fund these improvements to provide a safe and comfortable patient environment, high quality care, and seamless coordination of care amongst providers.

15. Technical concerns

Copley Hospital has no technical concerns or reporting issues at this time.