



Copley Hospital
528 Washington Highway
Morrisville, VT 05661
(802) 888-8888
www.copleyvt.org

January 31, 2018

Andy Pallito, Director of Health Systems Finance
Green Mountain Care Board
144 State Street
Montpelier, VT 05620

RE: Copley Hospital FY2017 Actual Financial Performance

Mr. Pallito:

The following narrative highlights Copley Hospital's actual financial performance for the fiscal year ending September 30, 2017.

NET PATIENT REVENUE

Copley generated net patient revenue of \$64,983,966 in FY2017, within \$164,567, or 0.3%, of the GMCB approved net patient revenue. The table below summarizes the components that make up this \$164,567 difference:

NPR, Budget 2017	\$64,819,402	
Utilization	2,152,334	3.3%
Reimbursement	(2,415,896)	-3.7%
Bad debt and charity care	428,126	0.7%
Disproportionate share	0	0.0%
NPR, Actual 2017	<u>\$64,983,966</u>	0.3%

Utilization – In FY2017, Copley experienced a variety of ups and downs in utilization, most notably:

- Inpatient admissions are within budget overall, but inpatient days (which drives the revenue) are over budget by 5.1%. This increase is due to high demand for inpatient orthopedic surgery, such as total joint replacements. Inpatient utilization is lower than was projected for FY17 and, while still early in FY18, it appears that inpatient utilization will be below the FY18 approved budget.
- Surgical utilization is down 1.5% overall, but inpatient surgical cases are up 6.5% due to increased demand for orthopedic surgery discussed above, while outpatient surgical cases are down 4.7%. We continue to recruit for a second full-time general surgeon, which is affecting outpatient surgical utilization. If this recruitment challenge continues, we may be under budget in outpatient surgical utilization in FY18.
- Emergency room visits are down 9%, greater than originally projected. This decrease may be partially attributable to health reform efforts that placed a social worker in our Emergency Department. See the section below on investments in health reform activities for further details.

Reimbursement – Much of Copley’s increased utilization in FY17 came from the Medicare population, and was reimbursed on the basis of allowable cost and not volume. As such, the positive impact on revenue of increased utilization was offset by a decrease in the average rate of reimbursement per day/charge. This reimbursement trend has been reflected in the FY18 budget.

Bad debt and charity – As a percentage of gross revenue, bad debt and charity care declined to 1.9%, down from the FY17 budget of 2.4%, resulting in a positive net patient revenue variance of \$428 thousand. The FY18 budget assumes a reduced rate of bad debt and charity of 2.1% of gross revenue.

Overall, Copley’s FY17 net patient revenue is within a reasonable variance of 0.3% of the approved budget. This result is lower than was projected for FY17 as we experienced a steep decline in utilization in the last quarter of the year. This softened utilization has continued during the first quarter of FY18. It is not unusual for utilization to fluctuate up and down, but this fluctuation can have a significant impact on a small hospital. We continue to closely monitor utilization and net patient revenue in FY18 and any projected budget variances will be reported in required monthly reports to the GMCB.

OPERATING EXPENSES

Copley Hospital incurred total expenses of \$66.8 million in FY2017, up \$814 thousand, or 1.2%, from the approved FY2017 budget of \$66 million. The table below summarizes the components that make up this expense variance:

Expenses, Budget 2017	\$65,966,541	
Salaries	155,759	0.2%
Fringe benefits	(498,863)	-0.8%
Contracted labor	530,172	0.8%
Physicians	(3,318)	0.0%
Supplies	886,748	1.3%
Drugs	404,321	0.6%
Healthcare provider tax	26,079	0.0%
Other	(687,105)	-1.0%
Expenses, Actual 2017	<u>\$66,780,334</u>	1.2%

Major cost pressures contributing to the 1.2% expense overage relate to continued challenges with recruitment and retention of skilled staff, increased need for contracted labor, and increases in chargeable supplies and drugs related to increased inflation and utilization.

We continue to focus on recruitment and retention of skilled staff and reducing our need for contracted labor, particularly in our nursing units. Copley performed a market analysis of compensation and adjusted the range of pay to be able to attract and also retain our nursing and other clinical staff. We have been working to grow our workforce from within, providing cross-training opportunities. We have developed relationships with Vermont colleges and have recruited new graduate nurses into our workforce. We have had to utilize travelers to provide coverage during new employee orientation and cross-training, but hope that these investments in training will result in the eventual reduction of travelers. Traveler positions are also necessary to cover unexpected family and medical leaves of absence, so we do not expect to ever eliminate travelers entirely. Partially offsetting the overage in salaries and contracted labor costs, were significant savings on health insurance costs from more favorable claims experience.

During FY17, we were successful in renegotiating deeper discounts on our supply costs. For example, we have achieved a 20-35% reduction on certain orthopedic implant costs which we estimate to be at least \$500 thousand in savings. We look forward to seeing the full benefit of these savings in our FY18 financial performance. These efforts have kept our inflationary increase in OR supplies to less than 2% overall, but the additional cost of increased utilization is outpacing these savings.

Copley continues to face significant inflationary pressure related to drug costs. We estimate annual savings of over \$100 thousand, or 4%, from participation in 340(b) drug pricing for our eligible outpatients, but these savings only scratch the surface of inflation rates often in the double digits.

Other expenses are below budget by \$687 thousand from a wide variety of smaller savings in areas such as purchased services, repairs, and utilities. We continue to focus on opportunities to improve efficiency, reduce costs strategically, and further develop a culture of ownership that embeds cost management into the mindset of all of our staff.

OTHER & NON-OPERATING REVENUE

Other operating revenue was \$1.4 million, including \$331 thousand in meaningful use incentive funds from Medicare and Medicaid. Non-operating revenue was \$3 million, comprised primarily of philanthropic support from our community related to the replacement of our surgical center.

OPERATING MARGIN

Copley generated an operating loss of \$378 thousand, or a -0.6% operating margin. This is \$700 thousand less than the \$331 thousand surplus that was budgeted for FY17, primarily due to the cost pressures discussed above. As we continue to focus on improving efficiency and implementing our cost savings goals, the cost of increased utilization and inflationary pressure continues to strain our ability to operate in the black.

INVESTMENTS IN HEALTH CARE REFORM ACTIVITIES

Copley remains committed to health care reform initiatives with a focus on improving the health of our population. This work is collaborative, working in partnership with other local health care providers, social service organizations, the Vermont Department of Health and other community partners. We strive to provide the right care in the right place at the right time, which in turns drives value-based payment and health care delivery reform. Some examples include:

Copley recently participated in an initiative to reduce the percentage of Emergency Department (ED) visits by placing a social worker in the ED and implementing a shared care plan for 29 identified "super-utilizers". The 29 "super-utilizers" accounted for 4% of the total ED visits in the initial 90-day time period. They accounted for only 1% in the second 90-day time period. A potential \$144 thousand to the state's healthcare system was saved by this decrease in ED visits. This collaborative initiative involved the Blueprint for Health Medical Homes (Community Health Services of Lamoille Valley, Northern Counties Health Care, Family Practice Associates in Cambridge and other primary care practices), Vermont Chronic Care Initiative with the Vermont Department of Health, and other local health agencies along with Copley Hospital.

While Copley's readmissions rate is lower than the national average, we continue to work to reduce preventable hospital readmissions. We have executed several pilot projects, however the data has not identified a specific trend. In FY17 we began piloting a new readmission risk assessment tool at the time of inpatient/observation discharge. We learned that we have unique populations and are working on developing risk criteria specific to Copley and our community, including "lives alone" and "fragility" as key elements for risk. This project is an

initiative of the Unified Community Collaborative/Blueprint for Health committee. By helping us identify our "super-utilizers" on the inpatient side, we believe this will, over time, help reduce health care costs by preventing lengthy readmissions.

We continue to implement a Shared Decision Making program in Orthopaedics and it is now implemented in our Cardiology program. In addition to placing a social worker in the Emergency Department, we have placed a social worker in The Women's Center with assistance from the Women's Health Initiative. Again, this enables us to better connect patients to the services they need, addressing social determinants of health.

We are devoting more resources to data collection and benchmarking to measure and improve our quality of care. These efforts include participation in the American College of Surgeons National Surgical Quality Improvement Program® (ACS NSQIP®) to measure and improve the quality of surgical care and decrease costs. We are participating in the Medicare Beneficiary Quality Improvement Project (MBQIP) to increase quality data reporting by Critical Access Hospitals for the purpose of driving quality improvement activities. We also initiated the Antibiotic Stewardship Program (ASP) to optimize the treatment of infections and reduce adverse events associated with antibiotic use. Together, these quality initiatives support value-based payment and health care delivery reform.

Please feel free to call if you have any questions regarding Copley's actual FY2017 financial performance.

Sincerely,

A handwritten signature in black ink, appearing to read 'Art Mathisen', with a long horizontal flourish extending to the right.

Art Mathisen
Chief Executive Officer, Copley Hospital