



**Copley Hospital**  
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January 30, 2020

Patrick Rooney, Director of Health Systems Finance  
Green Mountain Care Board  
144 State Street  
Montpelier, VT 05602

RE: Copley Hospital FY2019 Actual Financial Performance

Mr. Rooney:

The following narrative highlights Copley Hospital's actual financial performance for the fiscal year ending September 30, 2019.

### **Overview**

FY2019 was a challenging year for Copley. Unexpected medical staff vacancies and unfavorable reimbursement trends challenged our ability to meet budgeted utilization and net patient revenue (NPR). NPR was under budget by \$3.2 million, or 4.6%. In response to financial pressures, we implemented additional cost control measures and explored more long-term strategies and sustainable cost savings opportunities. As a result of these efforts, operating expenses were held under budget by \$858 thousand, or 1.2%. By the end of FY2019, Copley incurred an operating loss of \$2.2 million largely due to the shortage in NPR.

### **Net Patient Revenue**

Net patient revenue was \$3.2 million (4.6%) under the GMCB approved budget of \$70.2 million. As requested, the following table summarizes the factors, or "bridges", that contributed to this budget variance, followed by a brief explanation.

<b>Table 1: NPR Bridges</b>	<b>Amount</b>	<b>% over/under</b>
FY 19 Approved Budget	\$ 70,201,316	
Utilization	(1,874,599)	-2.7%
Reimbursement/Payer Mix	(980,718)	-1.4%
Bad Debt/Free Care	(352,183)	-0.5%
Physician Acq/Trans	0	0.0%
Changes in Accounting	0	0.0%
Changes in DSH	0	0.0%
FY 19 Actual Results	\$ 66,993,816	-4.6%

Copley’s NPR shortfall is the result of an unfavorable payer mix shift (from Commercial to Medicare), increased bad debt and charity care, and lower than expected utilization due primarily to the medical leave of an orthopedic surgeon, retirement of our pediatric dental surgeon, and a slower than expected ramp up of surgeons hired in 2018. Addressing the prolonged absence of a key member of our orthopedic surgical team was a top priority for the hospital. A reorganized surgical block schedule, more cross-training among the orthopedic surgeons, and bolstering the orthopedic practice staffing were steps taken that improved operational efficiency and access to surgical services. The immense team effort required to make these changes has helped to offset much, but not all, of the absent surgeons’ lost revenue.

Copley implemented an overall percentage change in charges of 4.5% in FY2019, consistent with the GMCB-approved change for FY2019.

**Operating Expenses**

Operating expenses were \$858 thousand (1.2%) under the GMCB approved budget of \$71.2 million. As requested, the following table summarizes the factors, or “bridges”, that contributed to this budget variance, followed by a brief explanation.

Table 2: Expense Bridges	Amount	% over/under	
FY 19 Approved Budget	\$ 71,157,535		
Salaries	(678,726)	-1.0%	Labor Related: (\$384,179), -0.5%
Fringe	194,838	0.3%	
Physician Contracts	(54,833)	-0.1%	
Contract Staffing	154,542	0.2%	Supply Chain: \$255,437, 0.4%
Supplies	(17,269)	0.0%	
Drugs	272,706	0.4%	
Facilities	119,138	0.2%	
IT Related	(33,244)	0.0%	Other Costs: (\$729,459), -1.0%
Depreciation	(156,739)	-0.2%	
Interest	19	0.0%	
Health Care Provider Tax	17,273	0.0%	
Insurance	(162,446)	-0.2%	
Travel & Education	(173,119)	-0.2%	
Marketing	(131,889)	-0.2%	
ACO Fees	(113,015)	-0.2%	
Other	(95,437)	0.1%	
FY 19 Actual Results	\$ 70,299,334	-1.2%	

Copley experienced significant expense pressures related to unfavorable health insurance claims, the need for travelers, and the cost of supplies and drugs. In response to these financial pressures, we implemented cost control measures, including a limitation on hiring actions, education, travel, and capital investments. In May 2019, Copley joined the New England Alliance for Health (NEAH). As a NEAH member, Copley can now take advantage of the purchasing leverage of 18 facilities throughout

Vermont and New Hampshire to help reduce the cost of employee benefits, employee education, supplies, and drugs beginning in FY20.

**Other & Non-Operating Revenue**

Other operating revenue was \$1.1 million in FY2019. This figure is under budget by \$65 thousand, and reflects the conclusion of our pharmacy support agreement with the Vermont State Psychiatric Hospital. This shortfall is offset partially by increases in contracted rehabilitation services in local schools and business, revenue from orthopedic research grants, and proceeds from a property insurance claim.

Non-operating revenue was \$416 thousand in FY2019, over budget by \$39 thousand. This revenue is comprised primarily of philanthropic support from our community and investment income.

**Operating Margin**

Due to our NPR shortage, Copley generated an operating loss of \$2.2 million in FY2019. This marks the fourth year in a row that Copley incurred a loss from operations, depleting our cash position. As a result, we have deferred investment in improvements to our infrastructure and equipment. It is imperative that Copley achieve a reasonable operating margin over the next several years in order to rebuild the cash reserves necessary to weather unexpected downturns, assume the risk associated with participating in payment reform, and invest in necessary capital and infrastructure improvements.

Please feel free to contact me with any questions regarding Copley's FY2019 financial performance.

Sincerely,



Debralee A. Dorain  
Chief Financial Officer, Copley Hospital