

**COPLEY HOSPITAL, INC.**  
**FY21 BUDGET NARRATIVE**  
**TO THE GREEN MOUNTAIN CARE BOARD**  
*August 3, 2020*

This letter serves to provide the Green Mountain Care Board (GMCB) with a narrative summary of Copley's Fiscal Year 2021 budget. Our budget projections are based on historical data, current experience, changes in service delivery, and ongoing operational improvements. The Copley Board of Trustees approved this budget on July 27, 2020.

**A. EXECUTIVE SUMMARY**

*Provide a summary of the hospital's FY21 budget submission, including any information the GMCB should know about programmatic changes such as telemedicine, as well as staffing and operational changes and the overall impact of COVID-19.*

**Revenue Assumptions**

Utilization is driven by physicians, services, and staff. Stable staffing, improvements to technology, enhanced services, and consistent management enable us to best meet the needs of the community.

**Volume:**

- Inpatient services are expected to decrease slightly (1.7%) from projected 2020 pre-COVID-19 volumes.
- Outpatient services are expected to decrease (3.7%) from projected 2020 pre-COVID-19 volumes.
- Clinic visits are expected to decrease (4.7%) from projected 2020 pre-COVID-19 visits.

**Payer Mix:**

Due to the economic impact of the pandemic, Copley has adjusted its payer mix to reflect an increase in Medicaid and self-pay patients. Additionally, Medicare volumes continue to increase due to the aging demographics of our community.

**Deductions from Revenue**

Affordable Care is being budgeted at 1.0% of gross patient revenue (GPR), which is an increase from 2020 projections. Copley's Affordable Care is an application-driven process based on income, family size, and extenuating circumstances. We endeavor to be "payer of last resort" relative to settlements, accidents, and other similar matters.

Contractual Allowances are coming in higher than previous years; primarily due to the shift in payer mix. This is reflected in the rate schedule.

Bad Debt, as a percentage of GPR, will come in at 2.1%. Copley helps to ensure that patients receive the financial assistance they need, including by setting up affordable payment plans.

**Operating Expense**

Copley's Total Operating Expense shows a 6.9% increase from the FY 2020 budget. Full-time employees (FTEs) will increase by 6.3 from the FY 2020 budget; 4.3 FTEs are due to COVID-19 and include 1.0 FTE for Food & Nutrition, 2.8 FTE for Patient Access screeners, and 0.5 FTE for Housekeeping. Benefits saw increased costs in healthcare (3.0%) and dental (20.0% due to usage) premiums; all other areas are increasing by ~3% as well. With the exception of pharmaceuticals, which are increasing by 5.5% to 6.5%, other non-salary expenses increased by an inflationary average of 3% to 4%.

We are expecting \$302,000 in Non-Operating Revenue from development efforts and moderate gains on our investments in the stock market.

## COVID-19

Since mid-March, our focus has been on COVID-19 and on hospital and staff readiness - a challenging focus given the almost daily changes in both information and direction coming from the Centers for Disease Control and Prevention and the Vermont Health Department. Nevertheless, we adjusted to those changes without compromising the safety of our patients and staff.

At the onset of COVID-19, Copley quickly began calling patients. Providers identified patients that could benefit from telemedicine visits and patients that could be placed on a recall list for future in-person visits. Training for providers in telemedicine was quickly completed, and telemedicine visits began on March 31. Some patients still ask to be seen via telemedicine. Telemedicine visits work well for post-op visits, MRI reviews, follow-up visits, and at-risk patients, and they continue to prove helpful in decreasing in-person clinic volumes and spacing out waiting room numbers.

As the summer months brought a return to some kind of normalcy, we collaborated with neighboring providers (Community Health Services of Lamoille Valley, Lamoille Home Health & Hospice, Tamarack Family Medicine, and Lamoille County Mental Health Services) on a campaign reminding our community to seek the medical care they needed: **“Don’t put your Health on Hold”**. We are happy to report that, since mid-May, we have seen an uptick in the number of patients who are returning for healthcare services. Caring for our community is what we do best, and it feels good to be providing exceptional care once again.

We cannot begin to thank the many individuals and businesses who have supported us during the past months with gifts of cloth masks, personal protective equipment (PPE), meals, and monetary donations. We are truly humbled by their generosity and thoughtfulness.

These donations included:

- 2,152 homemade masks
- PPE equipment, including procedural masks, gloves, N95 masks, mask clips, handheld radios, face shields, hand sanitizer, a storage unit, cleaning supplies, ski goggles, and more
- other in-kind donations included socks, gift certificates and gift cards, and hand lotion
- so many wonderful meals, which left our staff in awe
- more than \$45,000 from donors to help us financially

## COVID-19 Funding:

Funding Sources	Fiscal Year 2020			Fiscal Year 2021		
	Available Funds	Paid Back	*Grant Revenue	Available Funds	Paid Back	*Grant Revenue
Medicare Advance Funding	\$ 10,927,961	\$ 1,821,327	\$ -	\$ 9,106,634	\$ 9,106,634	\$ -
State Funding	\$ 911,083	\$ -	\$ 409,987	\$ 409,987	\$ -	\$ 409,987
Federal Funding	\$ 5,837,948	\$ -	\$ 4,669,039	\$ 1,069,593	\$ -	\$ 1,069,593
Other (BCBSVT)	\$ 2,309,951	\$ -	\$ -	\$ 2,309,951	\$ 2,309,951	\$ -
Other (PPP-Offset of expenses)	\$ 5,037,900	\$ -	\$ -	\$ 5,037,900	\$ 5,037,900	\$ -
Other (HRSA)	\$ 99,317	\$ -	\$ 99,317			
Other (VHEPC)	\$ 13,636	\$ -	\$ 13,636			
Other (VAHHS)	\$ 18,442	\$ -	\$ 18,442			
<b>TOTAL:</b>	<b>\$ 25,156,238</b>	<b>\$ 1,821,327</b>	<b>\$ 5,210,421</b>	<b>\$ 17,934,066</b>	<b>\$ 16,454,485</b>	<b>\$ 1,479,580</b>

\*Grant Revenue is realized as "Other Revenue" on the P&L

**Medicare Advance Funding** - To increase cash flow to providers of services and suppliers impacted by COVID-19, the Centers for Medicare & Medicaid Services (CMS) issued advance payments to Medicare Part A providers and Part B suppliers.

**State Funding** - COVID-19-specific Medicaid Retainer funding is to ensure continued operations through the month of April for eligible Medicaid-enrolled, Vermont-based or border provider organizations.

**Federal Funding** - HHS allocated targeted distribution funding to providers in areas particularly impacted by the COVID-19 outbreak, rural providers, and providers requesting reimbursement for the treatment of uninsured Americans. The funds give relief to those providers who are struggling to keep their doors open.

**Other (BCBSVT)** - To increase cash flow to providers of services and suppliers impacted by COVID-19, Blue Cross Blue Shield of Vermont issued advance payments.

**Other (PPP)** - The Paycheck Protection Program is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. SBA may forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses. Copley’s covered period (during which to spend the PPP loan) is the end of October, after which Copley will submit the application for forgiveness.

**Other (HRSA)** - Funding from the Small Rural Hospital Improvement Program (SHIP) is granted to small rural hospitals responding to this health crisis. Funds are used by hospitals for safety (ensuring hospitals are safe for patients and staff), response (detecting, preventing, diagnosing, and treating COVID-19), and maintaining hospital operations.

**Other (VHEPC/VAHHS)** – Grants used to support response, the preparedness and response activities, and the needs of hospitals, health systems, and health care providers on the front lines of the COVID-19 pandemic.

**B. YEAR-OVER-YEAR AND RECONCILIATION**

*Explain each component of the budgeted FY21 based on the prompts below, please explain the hospital’s budget-to-budget growth (or decline), in the context of its FY20 projection, including the COVID-19 assumptions.*

	2020 PROJ	2020 Bud	2021 Bud	20B-20P	20P-21B	20B-21B
<b>REVENUES</b>						
<b>Gross Patient Care Revenue</b>	\$ 120,459,602	\$ 124,871,420	\$ 141,951,641	-4%	18%	14%
Disproportionate Share Payments	\$ 452,125	\$ 454,323	\$ 455,000	0%	1%	0%
Bad Debt	\$ (2,639,908)	\$ (1,997,944)	\$ (2,967,799)	32%	12%	49%
Free Care	\$ (862,648)	\$ (749,229)	\$ (1,404,966)	15%	63%	88%
Deductions from Revenue	\$ (53,454,473)	\$ (49,920,208)	\$ (65,783,290)	7%	23%	32%
<b>Net Patient Care Revenue (NPR)</b>	\$ 63,954,698	\$ 72,658,362	\$ 72,250,586	-12%	13%	-1%
Fixed Prospective Payments	\$ 3,656,910	\$ -	\$ 4,820,035		32%	
<b>Total NPR &amp; FPP</b>	\$ 67,611,608	\$ 72,658,362	\$ 77,070,621	-7%	14%	6%
COVID-19 Stimulus and Other Grant Funding	\$ 5,210,421		\$ -			
Other	\$ 991,843	\$ 813,681	\$ 828,681	22%	-16%	2%
<b>Other Operating Revenue</b>	\$ 6,202,264	\$ 813,681	\$ 828,681	662%	-87%	2%
<b>Total Operating Revenue</b>	\$ 73,813,871	\$ 73,472,043	\$ 77,899,302	0%	6%	6%
<b>EXPENSES</b>						
Salaries/Contracts/Benefits	\$ 42,006,141	\$ 41,335,661	\$ 44,797,842	2%	7%	8%
Health Care Provider Tax	\$ 3,984,804	\$ 3,954,800	\$ 4,363,408	1%	10%	10%
Depreciation/Amortization	\$ 2,786,074	\$ 2,894,873	\$ 2,808,851	-4%	1%	-3%
Interest - Short and Long Term	\$ 105,019	\$ 105,448	\$ 100,000	0%	-5%	-5%
Other Operating Expenses	\$ 23,912,769	\$ 24,176,642	\$ 25,390,608	-1%	6%	5%
<b>Operating Expense</b>	\$ 72,794,807	\$ 72,467,424	\$ 77,460,709	0%	6%	7%
<b>Net Operating Income</b>	\$ 1,019,064	\$ 1,004,619	\$ 438,593	1%	-57%	-56%
Non-Operating Revenue	\$ 394,741	\$ 317,200	\$ 302,200	24%	-23%	-5%
<b>Excess (Deficit) of Rev over Exp</b>	\$ 1,413,805	\$ 1,321,819	\$ 740,793	7%	-48%	-44%

**Net Patient Revenue (NPR) and Fixed Prospective Payments (FPP):**

The period of October 2019 through March 2020 served as the basis for the FY2021 volume and revenue that excludes the impact of COVID-19. During this period, volumes, gross revenue exceeded the 2020 budgeted expectations by 8.39%. Copley’s payer mix is expected to see increases in Medicaid & self-pay volumes in FY2021. Medicare is also expected to expand as the population continues to age. Increases in both bad debt and free care are forecasted in FY2021.

**Other Operating and Non-Operating Revenue:**

Other Operating revenue: see “Executive Summary – COVID-19 Funding”

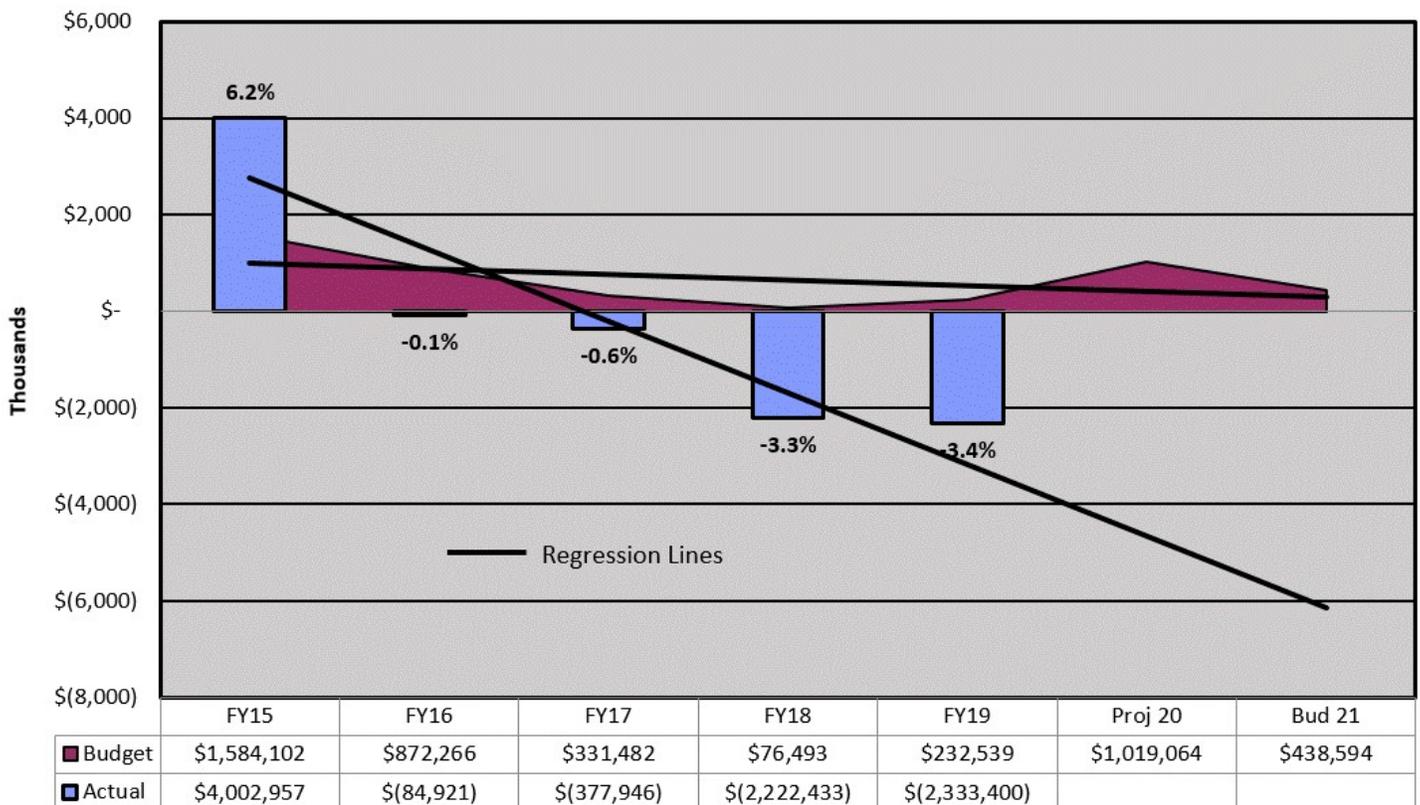
**Operating Expenses:**

- Salary/Contracts/Benefits - up 8% budget to budget
  - FTEs increasing 6.3 with 4.3 FTEs due to COVID-19 (screeners/food & nutrition/housekeeping)
- Health Care Provider Tax – This tax is calculated as 6% of the prior year net patient revenue and supplied by the state
- Depreciation – nothing to report
- Interest – nothing to report
- Other Operating Expenses – up 5% budget to budget
  - Pharmaceuticals up 5.5 – 6.5%
  - Utilities down 7.4%
  - Other non-salary expenses up ~3%

**Operating Margin and Total Margin:**

Copley has budgeted an overall operating margin of 0.56% or \$438,593. After years without generating income from operations, Copley needs to achieve a reasonable operating margin for the next several years in order to rebuild cash reserves necessary to weather unexpected downturns, take on risk in payment reform, invest in necessary equipment and infrastructure improvements, and provide financial stability for our employees and community.

**Copley Operating Gain (Loss)**



### **C. CHANGE IN CHARGE REQUEST:**

1. *Explain how the hospital's overall change-in-charge request in gross revenue was derived and what assumptions, including those related to COVID-19, were used in quantifying the requested increase/decrease.*
2. *Describe how the change-in-charge request affects each payer type (Medicare, Medicaid, Commercial). Explain the underlying assumptions and methodology used to make that allocation. Explain how the change-in-charge request affects bad debt and free care. Please explain your government payer reimbursement assumptions and how they affect your non-government-payer change-in-charge request and underlying assumptions. (See 18 V.S.A. § 9456(b)(9))*
3. *Please indicate the dollar value of 1% NPR/FPP FY21 overall change in charge.*

Copley is requesting a total rate increase of 8%.

Copley calculated the rate increase based on an understanding of expected volumes, necessary services, and patient needs for the area, as well as what it costs to provide these services.

Copley utilizes these rates as a basis for discussion with our commercial payers. The rates are used to provide both parties with validity and a sense of fairness, given the oversight from both the Copley Board of Trustees and the Green Mountain Care Board.

Copley's overall rate increase is applied to all payers.

#### **Medicare:**

Critical Access Hospital (CAH) payments are based on costs and the share of those costs allocated to Medicare patients. Copley receives cost-based reimbursement for inpatient and outpatient services provided to Medicare patients. The cost of treating Medicare patients is estimated using cost accounting data from Medicare cost reports.

Copley has realized the rate increase in its NPR for Medicare due to the relationship in the increase of cost per services unit as compared to the increase in charges.

#### **Medicaid:**

Copley is not budgeting any additional reimbursement due to the rate increase for Medicaid.

#### **Commercial:**

Increases in gross charges will increase net patient service revenue but not on a dollar for dollar basis. Commercial insurance impact varies depending on the individual payer contracts.

#### **Bad Debt & Free Care:**

The increase in gross charges would be offset by an increase in both bad debt and free care.

Copley has requested a rate increase of 8.0%, and each 1% is worth \$673,969 which results in a total request of \$5,391,753 related to rate.

### **D. SERVICE LINE ADJUSTMENTS**

*Please explain if the hospital plans to add or reduce service lines.*

Copley feels the services we currently offer are necessary and appropriate for our patients and the communities we serve based on our periodic Community Needs Assessment. At this time Copley does not have any plans to add or reduce any of its service lines.

## **E. RISKS AND OPPORTUNITIES**

*Please discuss the hospital's risks and opportunities in FY21. Recognizing the risks and opportunities in the current environment, please explain how the FY21 budget proposal supports strategies for addressing these issues.*

The COVID-19 pandemic has been one of the most acute and severe risk scenarios we have ever experienced. Fortunately we have received assistance and relief from both the Federal Government and the State of Vermont to weather this storm, but concerns over a second wave or lingering operational expenses continue. We do not know the future changes in volumes that might occur given this ongoing health crisis or the potential for permanent 'demand destruction' for services. Much like predicting the economy, nobody can assess the ongoing harm from this virus, or predict if and when a reliable vaccine will be discovered.

As a small Critical Access Hospital, we have a systemic risk that the loss of one or more 'key providers' could bring about a devastating impact on financial performance. The same can be true of our nurses, support staff, technologists, billers, and even leadership team (to name a few). We are always looking to manage those scenarios by ensuring we have options such as cross-training programs, incentives, shared assignments, part-time staff, per diems, etc.

The risk of sustainability, considering our financial performance, has been a concern over these past four years given our Operating Margin losses. We are assertively managing these issues, many of which are rooted in a need for improved operations, standardization, and increased accuracy in data collection and indicators. We are making significant inroads and are also planning a major 'reinstallation' of our existing IT system (CPSI) in 2021 as part of these efforts. We have dropped our 2019 plans to purchase a new and much more expensive Cerner Millennium software program and recommitted to our existing vendor, potentially providing a roadmap for existing CPSI clients to garner more return on their current relationship.

'Opportunity' in our organization is ongoing, as we try to continuously improve our clinical quality, patient experience, and coordination of care within our service areas. People do still leave our community and seek care at St. Elsewhere, which humbles and inspires us to work even harder to regain their trust and respect.

We expect to produce a reasonable Master Facility Plan in 2021, involving input from our staff and community, so that we can be cost-effective, more integrated, and efficient in capital outlays. We need this 'strategic road map' and know that it will reap benefits for future generations given our long-term commitment to Vermont.

Thankfully the COVID-19 ordeal has brought out the best in our staff, and they have performed admirably throughout the crisis. Folks have expeditiously instituted new policies and procedures, embraced a new 'ongoing change cycle', and exhibited teamwork in ways unimaginable. We flexed up, flexed down, sanitized, donned PPE, and reduced expenses; everyone pitched in to meet the manic workload. We are now much more nimble and resilient, and we are able to withstand future adversity with greater confidence and competency.

Lastly, we see opportunity in continuing the coordinated efforts initiated to address the COVID-19 emergency. We convened six organizations, representing the largest health care provider teams in this area, which supported each other through the unfolding crisis. The Executive Directors from the following providers signed on:

1. Copley Hospital (CAH)
2. Community Health Services of Lamoille Valley (FQHC)
3. Tamarack Health Care (large PCP Practice)
4. Lamoille County Mental Health Services (the local designated mental health agency)
5. Lamoille County Home Health and Hospice
6. The Manor (SNF)

We expect these relationships to continue as we address the need for mutual aid and support, and coordinate services in the midst of ongoing efforts at Health Care Reform in the State.

## **F. ONECARE VERMONT PARTICIPATION**

*Is the hospital participating in OneCare Vermont's provider network in CY 2021 and, if so, please state what payer programs? If the hospital is not planning to participate in all of OneCare's payer programs, please explain why. Please state what the hospital is projecting for ACO dues for FY2020 and budgeting for FY2021.*

Copley is currently participating in OneCare's 2020 Risk-Based ACO Program for our Medicaid population. OneCare will supply us with a 2021 Participation Agreement this summer, along with a financial model to help support further decision making. A commitment to participate or not will be made later this summer. Should we choose to participate in OneCare's risk-based programs, 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 the 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. As an integral partner of the Unified Community Collaborative/Accountable Communities for Health Team (UCC/ACH), Copley continues to work in collaboration with community partners to address shared population health goals, specifically through increased screening opportunities, education, and improvements in referral and coordination of care processes. Since Copley Hospital does not own any primary care practices, we work collaboratively with community providers, social service agencies, town officials, and business leaders to address what can be done to impact the above quality measures. Collaboration with other community organizations has allowed for more efficient use of community resources, decreased duplication of services, and has contributed to improvements in access and availability of needed services to ensure that all patients receive the right care, at the right time, by the right provider. Copley supports the mission and vision of all of our community partners and recognizes the importance of our primary care partners in moving the needle on many of the All Payer Model quality measures and other population health initiatives.

## **G. CAPITAL INVESTMENT CYCLE**

*List the hospital's capital investments and describe the investment cycle and how it relates to the hospital's overall strategic plan, including the challenges facing Vermont's hospitals in response to the COVID-19 pandemic.*

Copley faces an aging infrastructure. Many of the buildings, which were built decades ago, are now in need of major renovations in order to ensure optimal operation of key functions. Over the years, Copley has made the difficult decisions in prioritizing its 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. The decreased available capital has created a large backlog – increasing risk and creating challenges when it comes to prioritizing upcoming departmental needs.

Capital spending for FY21 is proposed at \$4.2 million with no projects subject to Certificate of Need.

### **Building & Building Services:**

- Air Handler: \$532,000
- Paving: \$311,840
- Renovations, Patient Access: \$250,000
- Renovations, Food & Nutrition: \$208,000
- Other Building Improvements: \$570,500

### **Major Movable:**

- Ancillary: \$687,200
- Clinic: \$17,000
- Finance: \$57,000
- IT: \$688,000
- Nursing: \$354,250
- Operations: \$141,000
- Surgical: \$262,000
- Pharmacy: \$115,000