



“Each and every one of your staff presents positive, caring, and compassionate warmth. I have been a nurse for more than thirty years working in large hospitals and was very impressed.”



“My family was treated with as much respect and friendliness as I was...that was very important to me.”



“The people and the facilities were incredible and were responsible for getting my life back.”

Copley Hospital FY20 Proposed Budget

Presentation to the Green Mountain Care Board, August 21, 2019

1. Introduction and Overview

Presenters

- ▶ Jeffrey White, Interim CEO
- ▶ Debralee Dorain, CFO
- ▶ Donald Dupuis, MD, CMO

Overview

- ▶ Leadership changes
- ▶ Exceptional Care. Community Focused.
- ▶ Financial challenges, four years of Operating Losses
- ▶ Primary FY20 budget objective: improve financial health
 - Continue to implement strategic cost reduction efforts
 - Request approval for 3.5% NPR growth
 - Achieve positive Operating Margin for first time in 4 years
 - Build cash reserves for needed capital investments and risk mitigation, including our future participation in OneCare

2.A. Proposed Net Patient Revenue

- ▶ Propose 3.5% NPR increase budget-to-budget
 - To achieve a positive operating margin, after \$1.2M cost savings
 - Requesting exception to cap of 5% growth over FY19 projections
- ▶ Looking back over 5 years, proposed NPR is reasonable

| | ACT16 | ACT17 | ACT18 | PROJ19 | BUD20 | 5YR |
|----------------------|--------------|--------------|--------------|--------------|--------------|---------|
| Copley NPR | \$62,804,324 | \$64,983,966 | \$66,226,448 | \$68,344,899 | \$72,658,362 | Average |
| Copley NPR % Change | -1.0% | 3.5% | 1.9% | 3.2% | 6.3% | 2.8% |
| State Total % Change | 4.4% | 2.8% | 2.9% | 3.8% | 4.4% | 3.7% |

Source: GMCB B20 Preliminary Hospital Budget Submissions report dated July 31, 2019

- ▶ 5YR average annual increase of 2.8%
 - Below the State average of 3.7%
 - Lower than APM goal of limiting growth to 3.5% a year.

2.B. Change in Average Charges

- ▶ Propose 9.8%↑ in Charges = 8.5%↑ Commercial rate
- ▶ Looking back over 5 years, Only a 3.2%↑

| | Actual FY16 | Actual FY17 | Actual FY18 | Actual FY19 | Budget FY20 | 5-Yr Total | Estimated Impact on FY20 NPR |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|---------------|------------------------------------|
| Copley Proposed Rate Change | -3.0% | 0.0% | 0.0% | 7.9% | 9.8% | 14.7% | \$5,455,100 |
| GMCB Rate Adjustment | -1.0% | -3.7% | -3.4% | -3.4% | 0.0% | -11.5% | (\$4,267,600) |
| Copley Approved Rate Change | -4.0% | -3.7% | -3.4% | 4.5% | 9.8% | 3.2% | \$1,187,500 |
| State Weighted Average* | 4.4% | 1.8% | 2.0% | 2.9% | 3.2% | 14.3% | |

*Source: GMCB B20 Preliminary Hospital Budget Submissions report dated July 31, 2019

- Lowest 5-year increase in the State
- Only \$1.2M (1.6%) of \$72.7M NPR will be funded by rate changes from the last 5 years
- In hindsight, NPR was overcorrected for utilization growth in the past
- Proposing to recoup some of that NPR adjustment to help achieve positive operating margin

3. Hospital Issues/Challenges

Our People

- ▶ Recruitment and retention of skilled professionals
- ▶ Aging of our workforce

Our Population

- ▶ Community needs require appropriate local services
- ▶ Opioids
 - Requires resources (recovery coaches, Narcan, Rapid Access to MAT)
- ▶ Mental Health Challenges
 - Resources needed to 1:1 observation/care
 - Law Enforcement assistance role in flux
 - Mental health care taxes ED space
- ▶ Securing placement at appropriate facilities
 - Timeliness of referrals and availability of mental health, drug treatment, and SNF/Rehab beds

3. Hospital Issues/Challenges, cont'd

Our Physical and Digital Space

- ▶ Space Challenges
 - Current space being used at capacity
 - Limitations of inefficient layout
- ▶ Digital Space
 - Four different electronic medical record (EMR) systems
 - Server storage capacity maxed out
 - Sunsetting of unsupported, but mission-critical technology
- ▶ Limited Cash Reserves
 - Defer necessary investments in infrastructure and technology

4. Opportunities & Risks

Opportunities

- ▶ New England Alliance for Health (NEAH)
- ▶ Expansion of Community Services
 - Telemedicine
 - Sleep Medicine
 - Breast care
- ▶ Physician Engagement
 - Surgeons actively engaged in cost containment and quality improvement
- ▶ Strong Community Partnerships
 - Unified Community Collaborative/Accountable Community for Health
 - Referral Specialist, providing increased coordination for complex cases
 - Addressing readmission risks
 - Opioids and zero suicide

4. Opportunities & Risks, cont'd

Risks

- ▶ OneCare ACO participation as of 1/1/20 (risk and opportunity)
 - How to fund dues and manage new financial risk, working with our community partners
- ▶ Lamoille County's Primary Care Landscape
 - FQHC and soon-to-open Tamarack Family Health
 - Continued loss of primary care practices in our service area
 - Aging primary care providers
 - Provider recruitment challenges
- ▶ Funding Vital Community Services
 - Can Copley continue to provide the services the community needs without a positive Operating Margin?
 - Do we remove service lines to maintain a positive Operating Margin while meeting the NPR cap?

5. Financial Health Indicators

| | FY16 | FY17 | FY18 | BUD19 | PROJ19 | BUD20 | Trend | CAH Median BUD19 |
|----------------------------------|-------|-------|-------|-------|--------|-------|---|------------------------|
| Operating Margin % | -0.1% | -0.6% | -3.3% | 0.3% | -1.8% | 1.4% |  | 1.2% |
| Total Margin % | 0.3% | 3.9% | -2.4% | 0.8% | -1.2% | 1.8% |  | 2.7% |
| Long Term Debt to Capitalization | 10.3% | 23.1% | 23.3% | 22.3% | 22.6% | 21.3% |  | 22.8% |
| Debt Service Coverage Ratio | 10.9 | 7.3 | 1.6 | 5.3 | 3.2 | 7.1 |  | 3.4 |
| Current Ratio | 3.4 | 3.1 | 3.4 | 3.0 | 2.9 | 3.0 |  | 3.1 |
| Days Cash on Hand | 82.2 | 84.4 | 64.0 | 64.9 | 67.1 | 72.1 |  | 128.9 |

▶ Profitability

- 4 years without generating operating income, FY17 positive total margin from philanthropic support for surgical center renovation
- Target a 3% Operating Margin, FY20 proposed budget is nearly half that

▶ Leverage

- Debt position is satisfactory, not too highly leveraged
- Debt service coverage trending unfavorably, will improve with profitability

▶ Liquidity

- Current ratio is satisfactory
- Days Cash on Hand remains unfavorable
- We continue to pay our bills timely, but have deferred capital investment

6.A. Proposed Financials

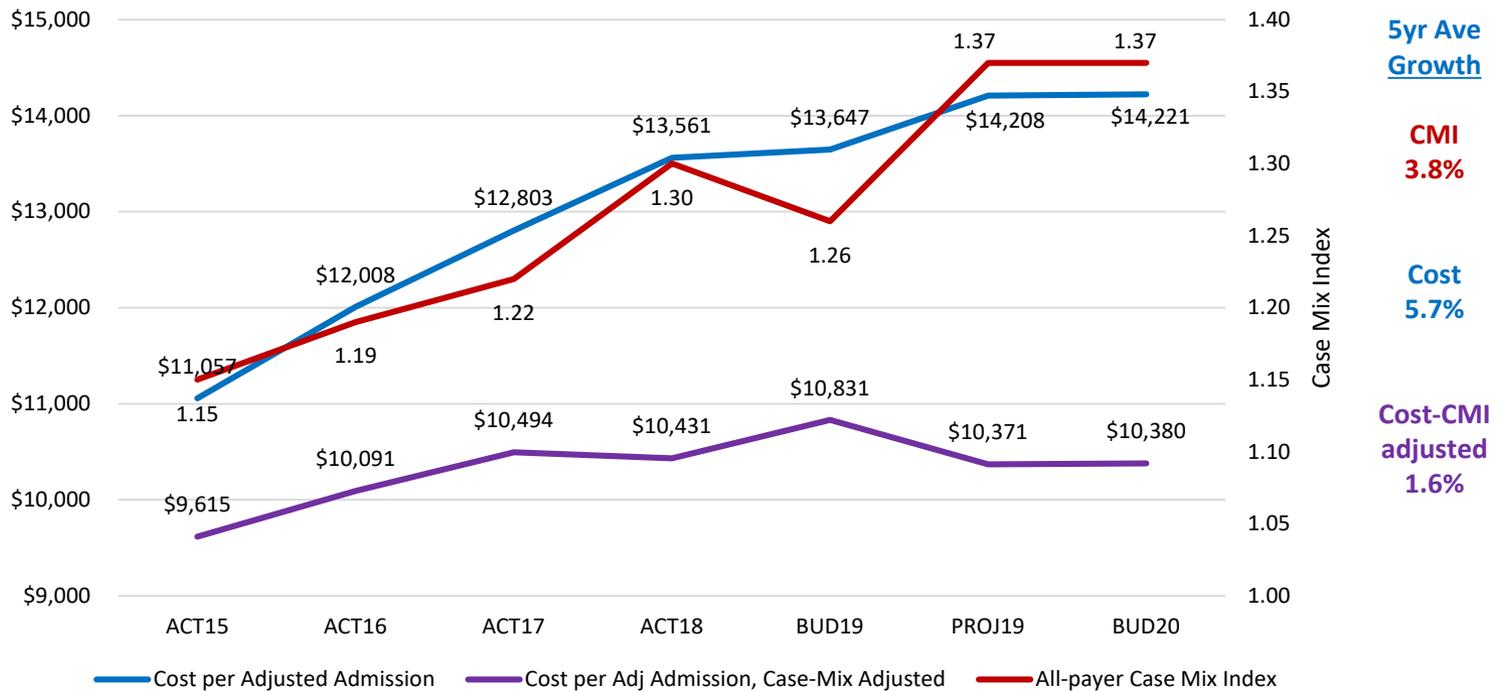
| COPLEY HOSPITAL REPORT 1 Profit and Loss Statement | | | | | | |
|--|----------------|----------------|--------------------|----------------|----------------------------------|---------------------|
| | 2018 Actual | 2019 Budget | 2019 Projection | 2020 Budget | 2019 Budget to 2020 \$ Change | 2020 % Change |
| Total NPR & FPP (incl Reserves) | \$66,226,448 | \$70,201,316 | \$68,344,899 | \$72,658,362 | \$2,457,046 | 3.5% |
| Other Operating Revenue | \$1,234,776 | \$1,188,760 | \$994,300 | \$813,681 | -\$375,079 | -31.6% |
| Total Operating Revenue | \$67,461,224 | \$71,390,076 | \$69,339,199 | \$73,472,043 | \$2,081,967 | 2.9% |
| Total Operating Expense | \$69,683,657 | \$71,157,535 | \$70,603,548 | \$72,467,424 | \$1,309,889 | 1.8% |
| Net Operating Income (Loss) | -\$2,222,433 | \$232,541 | -\$1,264,349 | \$1,004,619 | \$772,078 | 332.0% |
| Non-Operating Revenue | \$570,103 | \$376,900 | \$403,288 | \$317,200 | -\$59,700 | -15.8% |
| Excess (Deficit) Of Revenue Over Expense | -\$1,652,330 | \$609,441 | -\$861,061 | \$1,321,819 | \$712,378 | 116.9% |

| BALANCE SHEET | FY2018A | FY2019B | FY2019P | FY2020B |
|--|-------------------|-------------------|-------------------|-------------------|
| Cash & Investments | 8,788,404 | 9,426,582 | 8,466,221 | 8,969,488 |
| Risk Reserve for Fixed Reform Payments | 0 | 0 | 0 | 0 |
| Other Current Assets | 10,559,441 | 10,577,000 | 10,430,000 | 10,773,000 |
| Current Assets | 19,347,845 | 20,003,582 | 18,896,221 | 19,742,488 |
| Board Designated Assets | 2,911,343 | 2,709,564 | 4,023,350 | 4,771,447 |
| Net, Property, Plant And Equipment | 27,109,456 | 27,524,543 | 26,237,449 | 25,734,353 |
| Other Long-Term Assets | 2,543,461 | 2,750,000 | 2,500,000 | 2,600,000 |
| Assets | 51,912,105 | 52,987,689 | 51,657,020 | 52,848,288 |
| Current Liabilities | 6,606,803 | 7,673,114 | 7,844,552 | 8,115,655 |
| Long Term Liabilities | 10,546,943 | 10,123,074 | 9,915,170 | 9,513,516 |
| Other Noncurrent Liabilities | 0 | 0 | 0 | 0 |
| Fund Balance | 34,758,359 | 35,191,501 | 33,897,298 | 35,219,117 |
| Liabilities and Equities | 51,912,105 | 52,987,689 | 51,657,020 | 52,848,288 |

6.B. Expense Drivers & Cost Containment

- ▶ Inflationary pressure on wages, benefits, drugs, and supplies
- ▶ Service mix and complexity of care we provide requires more resources

Cost per Adjusted Admission, Case-Mix Adjusted



6.B. Expense Drivers & Cost Containment, cont'd

- ▶ Cost containment efforts
 - Achieved \$3.5M in cost savings since FY16

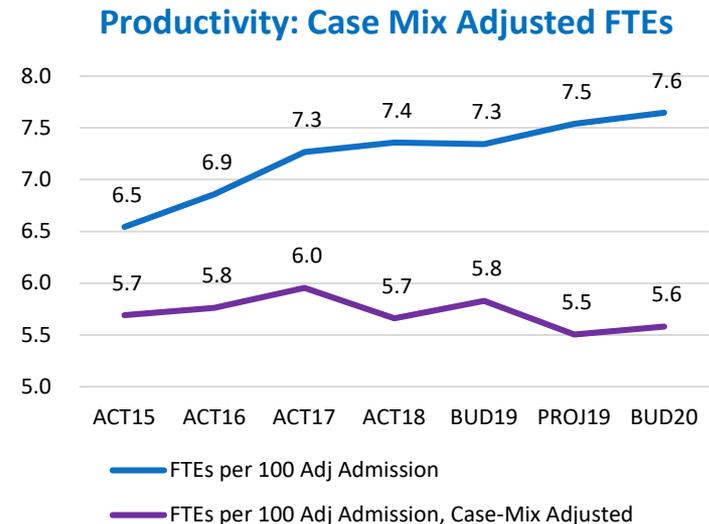
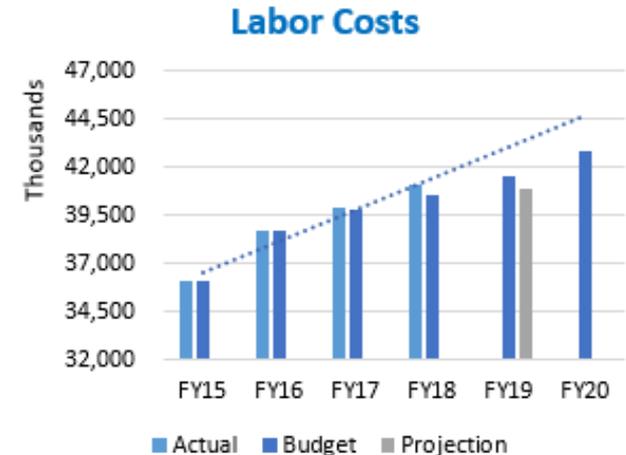
| | FTEs | Labor Costs | Supply Chain | Other Costs | Total Targeted | Achieved To-Date | % Achieved To-Date |
|--------------|--------------|----------------------|----------------------|--------------------|----------------------|----------------------|--------------------|
| FY17 | -0.9 | \$ (361,388) | \$ (400,000) | | \$ (761,388) | \$ (761,388) | 100% |
| FY18 | -7.3 | \$ (925,653) | \$ (380,707) | \$(110,000) | \$(1,416,360) | \$(1,188,573) | 84% |
| FY19 | -10.5 | \$ (997,910) | \$ (15,000) | \$(630,719) | \$(1,643,629) | \$ (823,201) | 50% |
| FY20 | -4.2 | \$ (563,992) | \$ (389,350) | \$(208,690) | \$(1,162,032) | \$ (773,885) | 67% |
| Total | -22.9 | \$(2,848,943) | \$(1,185,057) | \$(949,409) | \$(4,983,408) | \$(3,547,047) | 71% |

- FY20 Proposed Operating Expenses reflect a 3-year average annual growth of 2.8%
- Cost containment efforts have been significant, but still not enough to achieve desired 3% Operating Margin

6.B. Expense Drivers & Cost Containment, cont'd

Labor & Related Cost Pressure

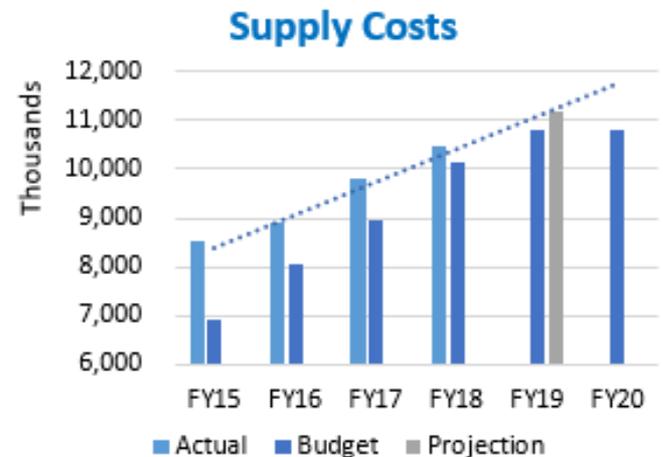
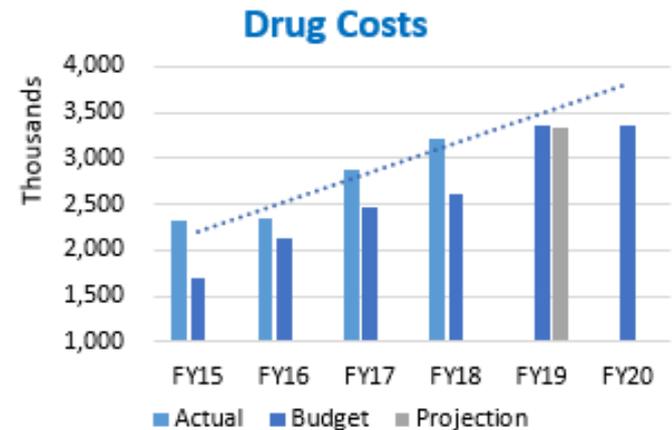
- ▶ Need for travelers
- ▶ Market adjustments for retention and turnover
- ▶ Investments in growing workforce from within to address retention
- ▶ Service mix: growing complexity of patients we care for
- ▶ Employee benefits
- ▶ Savings Initiatives:
 - Collaborations with academic institutions
 - Reduction in travelers
 - Workforce efficiencies, reducing FTEs through attrition
 - NEAH savings on benefit management



6.B. Expense Drivers & Cost Containment, cont'd

Supply Chain Cost Pressure

- ▶ Drugs
 - History of double-digit inflation
 - Drug shortages
 - Oncology and medical infusion care utilization increase
- ▶ Implants
 - Demand for Orthopedic implants
 - Patients seeking custom implants
- ▶ Savings Initiatives
 - NEAH purchasing power
 - Continued 340(b) participation
 - Physician engagement
 - Inventory management



6.C. Update on YTD FY19 June Performance

- ▶ **NPR ↓2.8% Budget, Project ↓2.6%**
 - Extended medical leave of orthopedic surgeon
 - Unfavorable Payer Mix shift of more Medicare, less Commercial
 - Bad debt & charity care are higher than budget
 - Trends incorporated into FY20 proposed NPR
- ▶ **Expenses ↓0.9% Budget, Project ↓0.8%**
 - Cost control measures
 - Wage pressure and inflation on drugs and implants continue to be a challenge
 - Unfavorable health insurance claims experience
- ▶ **Operating Loss of \$938k, 1.8%**
 - Projected to generate Operating Loss of \$1.2M by FYE
 - 4th year in a row generating operating loss
 - Deteriorating cash to 67.6 days on hand as of June 30, 2019

7. Other Clarifying Information

- ▶ Each of Vermont's 8 Critical Access Hospitals is unique, serving the needs in their respective communities
- ▶ Copley has evolved over the years into a community hospital with a Center of Excellence for orthopaedic care
 - Attracts patients from multiple communities beyond our service area
- ▶ Copley is a committed and engaged partner in the communities we serve
 - Lamoille County's largest fulltime employer
 - Active in community health and wellness initiatives, including RiseVT
 - Working closely with academic programs across our region to provide outstanding clinical experiences for students
 - Close partner to local providers and health and human services organizations working in the community

7. Other Clarifying Information, cont'd

- ▶ Copley is committed to providing cost effective and timely access to high quality care
 - We wish to maintain our Birthing Center & Women's Center as a vital community service
- ▶ What we do at Copley, we do extremely well
- ▶ ACS National Surgical Quality Improvement Program

| | Total Cases | Observed | | Pred Obs Rate** | Expected Rate | Odds Ratio | 95% C.I. | | Outlier | Decile | Adjusted Percentile | Adjusted Quartile | Assessment* |
|--------------------------------|-------------|----------|-------|-----------------|---------------|------------|----------|-------|---------|--------|---------------------|-------------------|---|
| | | Events | Rate | | | | Lower | Upper | | | | | |
| ALLCASES Mortality | 1292 | 2 | 0.15% | 0.14% | 0.14% | 1.01 | 0.61 | 1.67 | | 6 | 51 | 3 | As Expected |
| ALLCASES Morbidity | 1292 | 11 | 0.85% | 1.11% | 1.56% | 0.70 | 0.47 | 1.06 | | 2 | 18 | 1 |  Exemplary |
| ALLCASES Cardiac | 1292 | 0 | 0.00% | 0.10% | 0.13% | 0.77 | 0.35 | 1.70 | | 2 | 33 | 2 |  As Expected |
| ALLCASES Pneumonia | 1292 | 0 | 0.00% | 0.13% | 0.18% | 0.70 | 0.32 | 1.54 | | 2 | 27 | 2 | As Expected |
| ALLCASES Unplanned Intubation | 1292 | 0 | 0.00% | 0.08% | 0.08% | 0.90 | 0.49 | 1.65 | | 3 | 41 | 2 | As Expected |
| ALLCASES Ventilator > 48 Hours | 1292 | 0 | 0.00% | 0.04% | 0.04% | 0.90 | 0.37 | 2.20 | | 4 | 43 | 2 | As Expected |
| ALLCASES VTE | 1292 | 3 | 0.23% | 0.37% | 0.44% | 0.85 | 0.52 | 1.39 | | 2 | 34 | 2 | As Expected |
| ALLCASES Renal Failure | 1292 | 0 | 0.00% | 0.06% | 0.06% | 0.90 | 0.44 | 1.83 | | 4 | 42 | 2 |  As Expected |
| ALLCASES UTI | 1292 | 1 | 0.08% | 0.23% | 0.38% | 0.62 | 0.30 | 1.28 | | 2 | 21 | 1 |  Exemplary |
| ALLCASES SSI | 1285 | 7 | 0.54% | 0.57% | 0.60% | 0.95 | 0.56 | 1.61 | | 5 | 45 | 2 |  As Expected |
| ALLCASES Sepsis | 1292 | 1 | 0.08% | 0.14% | 0.16% | 0.85 | 0.39 | 1.84 | | 4 | 39 | 2 | As Expected |
| ALLCASES C.diff Colitis | 1292 | 0 | 0.00% | 0.06% | 0.07% | 0.86 | 0.38 | 1.94 | | 3 | 40 | 2 | As Expected |
| ALLCASES ROR | 1292 | 9 | 0.70% | 0.77% | 0.82% | 0.94 | 0.64 | 1.38 | | 4 | 42 | 2 |  As Expected |
| ALLCASES Readmission | 1292 | 7 | 0.54% | 1.33% | 1.94% | 0.68 | 0.50 | 0.92 | Low | 1 | 6 | 1 |  Exemplary |

8. Capital Budget Plans

- ▶ YTD June FY19 Capital budget is underspent by \$2M
 - Deferred capital investments due to limited cash reserves and lack of positive operating margin
- ▶ FY20 Capital spending limited to \$3M = 100% of Depreciation
 - Continuing to defer capital investments is not sustainable long-term
 - No capital investments over \$500k planned
- ▶ Major capital investment needs over next 2 years include:
 - Fully functional and integrated Health Information System
 - Currently have 4 EMRs, relying on interfaces and manual interventions that add risk and challenge continuity of patient care
 - MRI replacement
 - Currently use a 20 year old mobile unit with only refurbished parts available
 - Evaluating fixed site vs mobile options, need to improve quality of images and provide a better patient experience

9. Long-Range Financial Outlook/Plans

- ▶ Strengthen Copley's financial position and flexibility
 - Achieve a 3%+ Operating Margin in FY21 and beyond
 - Continue to prudently and strategically manage costs
 - We look forward to the many benefits of our NEAH affiliation
 - Unrealistic to expect the same rate of cost savings every year
 - Continue to focus on operational efficiencies
 - Optimize utilization of fixed capacity to keep unit costs down
 - Anticipating a growing need for access to appropriate services due to the aging of our population and Lamoille County's population growth
 - With an Operating Margin, renew efforts to prudently fund necessary capital investments
 - Anticipate future CON application(s) for a Health Information System and MRI replacement

9. Long-Range Financial Outlook/Plans, cont'd

- ▶ Improve the integration of services with primary care, specialists, other hospitals and the community
 - Participate in OneCare's Medicaid program – need to secure funding for dues and management of new financial risk on behalf of our primary care partners
 - Continue efforts to improve care coordination

- ▶ Tie-in to All-Payer Model Goals
 - State-wide 3.5% may be an achievable goal
 - Individual hospital's goals should be case by case based on utilization trend, service mix, size, capital needs, and overall financial health

10. Historical Budget Compliance

Looking back at NPR over the last 3 years

| Year | Rate Change | NPR Growth | Budget | Actual | Variance | % Variance |
|-----------------|---------------|-------------|----------------------|----------------------|------------------|-------------|
| FY16 | -4.0% | -1.0% | \$60,987,719 | \$62,804,324 | \$1,816,605 | 3.0% |
| FY17 | -3.7% | 3.5% | \$64,819,405 | \$64,983,966 | \$164,561 | 0.3% |
| FY18 | -3.4% | 1.9% | \$68,024,531 | \$66,226,448 | (\$1,798,083) | -2.6% |
| 3Y Total | -11.1% | 4.4% | \$193,831,655 | \$194,014,738 | \$183,083 | 0.1% |

- ▶ Implemented 11.1% reduction in charges
- ▶ Actual growth of only 4.4% = 1.5% average annually
- ▶ Cumulative budget variance of only 0.1%

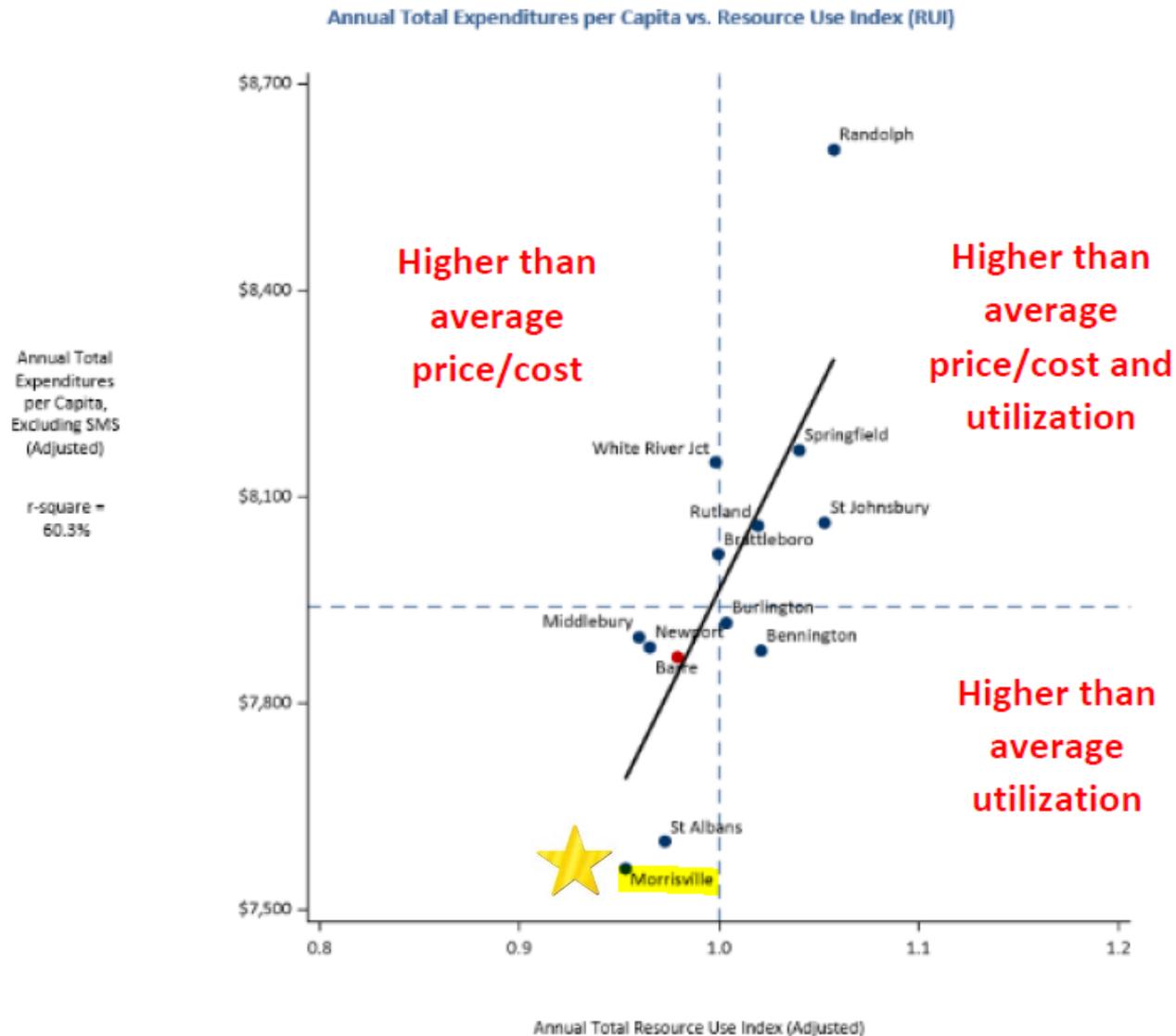
11. All-Payer Total Cost of Care (TCOC)

| Hospital Service Area of Patient Residence | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 5-Year Compounding Growth Rate |
|--|----------|----------|----------|----------|----------|----------|--------------------------------|
| Barre | \$386.25 | \$412.15 | \$430.99 | \$445.12 | \$489.67 | \$479.57 | 4.4% |
| Bennington | \$439.97 | \$453.64 | \$464.43 | \$479.16 | \$496.70 | \$508.14 | 2.9% |
| Brattleboro | \$408.98 | \$409.73 | \$419.43 | \$420.34 | \$453.89 | \$486.41 | 3.5% |
| Burlington | \$351.29 | \$378.03 | \$389.47 | \$402.99 | \$429.12 | \$445.53 | 4.9% |
| Middlebury | \$377.55 | \$412.63 | \$415.64 | \$431.85 | \$464.06 | \$469.07 | 4.4% |
| Morrisville | \$375.35 | \$378.53 | \$387.37 | \$388.78 | \$404.79 | \$420.88 | 2.3% |
| Newport | \$416.06 | \$424.26 | \$426.08 | \$434.80 | \$452.52 | \$479.65 | 2.9% |
| Randolph | \$434.81 | \$448.97 | \$467.31 | \$512.82 | \$522.98 | \$574.90 | 5.7% |
| Rutland | \$459.60 | \$486.65 | \$487.80 | \$504.74 | \$528.24 | \$551.08 | 3.7% |
| Springfield | \$470.82 | \$477.60 | \$472.21 | \$518.65 | \$527.10 | \$549.65 | 3.1% |
| St Albans | \$393.96 | \$407.67 | \$432.73 | \$448.26 | \$456.28 | \$466.19 | 3.4% |
| St Johnsbury | \$404.04 | \$423.11 | \$425.58 | \$441.02 | \$481.44 | \$495.53 | 4.2% |
| White River Jct | \$419.70 | \$440.18 | \$451.56 | \$458.47 | \$450.32 | \$493.91 | 3.3% |
| Statewide | \$399.27 | \$418.51 | \$428.40 | \$443.13 | \$466.32 | \$483.50 | 3.9% |



11. All-Payer Total Cost of Care, cont'd

Blueprint for Health Community Utilization and Expenditure Measures



Closing Remarks

Respectfully, we ask the Green Mountain Care Board to approve our FY20 budget as requested. With the ability to earn a modest Operating Margin, we will:

- ▶ Continue to serve our community, both with respect to our range of patient services and as an economic engine for the Lamoille Valley
- ▶ Diligently contain **costs**
- ▶ Continue to provide high **quality** care
- ▶ Prudently invest in our facilities, technology and equipment
- ▶ Assure local **access** to patient care services addressing demonstrated community needs
- ▶ Work with our community partners to assure a robust primary care provider contingent

EXCEPTIONAL CARE. COMMUNITY FOCUSED.



In 1986, the Foster G. McGaw Prize was created to recognize hospitals that have distinguished themselves through efforts to improve the health and well-being of everyone in their communities.

Today, despite sweeping changes in the way health care is delivered, hospitals and their communities continue to forge strong partnerships to promote a healthier America.

The Baxter Allegiance Foundation and the American Hospital Association founded the Foster G. McGaw Prize on the belief that the relationship between a hospital and its community is unique. We celebrate the winners and finalists of this award because they show us how people working together in hospitals and communities can enrich the environment in which they live.

In the decades that come, the bond between the community and its health care providers will become stronger and more interdependent. And we shall continue to honor those individuals and organizations that distinguish themselves through excellence in community service.

In 1987, Copley Hospital along with Mount Sinai Hospital in Hartford, CT were the recipients of this coveted prize. That year, the finalists included Children's Hospital of Los Angeles, Mount Sinai Hospital Medical Center of Chicago, and St. Mary Medical Center, Galesburg, IL.

*With your help, we will continue this noble work
Thank you for your consideration*

Questions?