



Copley Hospital

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February 7, 2024

Green Mountain Care Board
144 State Street
Montpelier, Vermont 05602

Dear Green Mountain Care Board Members:

Pursuant to 18 V.S.A. § 9456(f) and Section D. of the Policy on Budget Amendments and Adjustments, Copley Hospital, Inc. is submitting a letter of intent requesting an amendment to its FY 2024 approved budget and a rate increase averaging 12.7%, effective March 1, 2024.

It was assumed that Copley could achieve its net revenue expectation of a 21.3% growth in NPR/FPP from its FY 2022 actual results, even after a cut of 7% from our requested 15% rate increase. We will not be able to make up the difference with increased volume, while keeping our expenses the same. It felt like a confusing budget order, but we are still open to learning and understanding.

For the first quarter of FY 2024 Copley's volume is coming in at budgeted expectations, and due to the reduction of its rate increase, the net revenues are not able to cover expenses. As of December, Copley's YTD operating loss is **(\$345,782)**, and is projected to increase to a loss of **(\$2,946,259)** by the end of the fiscal year.

	Actual FY 2023	Projected FY 2024	Proj w/rate FY 2024	Submitted Budget FY 2024	Approve Budget FY 2024
OPERATING REVENUE					
Gross Patient Revenue	176,928,306	196,130,150	209,441,383	206,773,756	194,187,521
Deductions from Revenue	(86,862,483)	(98,078,071)	(105,086,469)	(100,868,004)	(94,698,870)
Fixed Prospective	6,134,878	5,914,103	5,914,103	5,951,172	5,951,172
Net Patient Revenue	96,200,701	103,966,182	110,269,017	111,856,924	105,439,823
Other Revenue	1,875,398	1,205,002	1,205,002	669,073	669,073
TOTAL OPERATING REVENUE	98,076,099	105,171,184	111,474,019	112,525,997	106,108,896
OPERATING EXPENSES					
Salaries & Benefits	54,075,620	65,154,926	65,154,926	67,559,767	67,559,767
Supplies and Other Expense	37,274,450	33,684,504	33,684,504	32,237,281	32,237,267
Provider Tax	5,405,174	5,913,918	5,913,918	5,913,916	5,913,916
Depreciation and Amortization	3,047,395	3,364,095	3,364,095	3,457,469	3,457,469
TOTAL OPERATING EXPENSES	99,802,639	108,117,443	108,117,443	109,168,433	109,168,419
OPERATING MARGIN	(1,726,541)	(2,946,259)	3,356,576	3,357,564	(3,059,523)
NON-OPERATING GAINS (LOSSES)					
Other Non Operating Items	373,971	211,450	211,450	302,184	302,184
TOTAL NON-OPERATING	373,971	211,450	211,450	302,184	302,184
TOTAL MARGIN	(1,352,570)	(2,734,809)	3,568,026	3,659,748	(2,757,339)

During the Green Mountain Care Board deliberations on 09/15/23 the Board commented about Copley as follows:

Related to Rates

- Their [Copley] commercial prices have been so low for so long, at least it appears that way from the Rand pricing and going back to the 5 years prior to that, with pretty low rate increases.
- They [Copley] also have very low outpatient prices and low inpatient prices, and I [GMCB] think those prices will take a while to come back, and I don't think the rate increases they've had over the recent years get them back to their peers.
- High performer [Copley] and I [GMCB] view the rate as an investment to that performance.
- I [GMCB] want to give rate increases to organizations that perform high.

Related to cost and quality

- But they [Copley] are also really efficient, and so I [GMCB] think they've been able to be a very efficient operating hospital with high quality in the context of these low prices.
- Also have [Copley has] the low administrative clinical salaries, and one of the lower adjusted CMI cost per discharge.
- [Copley's] Day's cash on hand are low compared to median, and they have significant capital improvements.

“So I [GMCB] hope that they [Copley] can continue to focus on being a high quality, safe, great outcome, low price organization.”

Our community needs Copley to continue to be that high quality, safe, great outcome organization, but to do that we need 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.

Budget Order for FY 2024

In the budget order it was stated that Copley could still achieve its net revenue expectation of a 21.3% growth in NPR/FPP from its FY 2022 actual results, for a total of \$111,856,924. However, the budget order also reduced the rate increase from 15% to 8%. To make up the decrease of 7% in rates, it was assumed that Copley could get to the \$111,856,924 by increasing volume over expectations.

For FY 2024 Copley submitted volume expectation of:

- Inpatient services are expected to increase (1.3%) from projected FY 2023 levels
- Outpatient services are expected to increase by (3.2%) from projected FY 2023 levels
- Clinic visits are expected to increase (1.7%) from projected FY 2023 levels

Volumes are calculated each year during the budget process and are based on the managers' expectation that are responsible for the departments that drive Copley's volumes. For the quarter that ended in December, Copley's actual volumes came in at budgeted expectations. They did not increase as allowed/hoped for?

Budget Amendment and Rate Increase Request:

Request – Seeking approval from GMCB to increase our charges by an additional 12.7% as of 03/01/2024.

1. Original request of 15% = generates gross revenue of \$26,970,493 over 12 months
2. Approved increase of 8% = generates gross revenue of \$14,384,258 (A) over 12 months (\$12,586,235 shortfall)

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3. Requested additional increase of 12.7% = generates gross revenue of \$13,311,232 (B) over remaining 7 months.
 4. Resulting in “net” gross revenue of \$27,695,490 (A+B)

Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total	
1	2	3	4	5	6	7	8	9	10	11	12		
\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 1,198,688	\$ 14,384,258	8% All 12 months
					\$ 1,048,853	\$ 1,048,853	\$ 1,048,853	\$ 1,048,853	\$ 1,048,853	\$ 1,048,853	\$ 1,048,853	\$ 7,341,970	7% for 7 months
					\$ 749,180	\$ 749,180	\$ 749,180	\$ 749,180	\$ 749,180	\$ 749,180	\$ 749,180	\$ 5,244,262	5.0% 7 mos for Oct-Feb
					\$ 17,857	\$ 17,857	\$ 17,857	\$ 17,857	\$ 17,857	\$ 17,857	\$ 17,857	\$ 125,000	0.1% 7 mos for Nursing
					\$ 85,714	\$ 85,714	\$ 85,714	\$ 85,714	\$ 85,714	\$ 85,714	\$ 85,714	\$ 600,000	0.6% 7 mos for AR Aging
												\$ 27,695,490	

Copley calculated the rate increase based on an understanding of expected volumes, necessary services, and patient needs for the area, the final step is to determine the 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 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. The commercial insurance impact varies depending on the individual payer contracts.

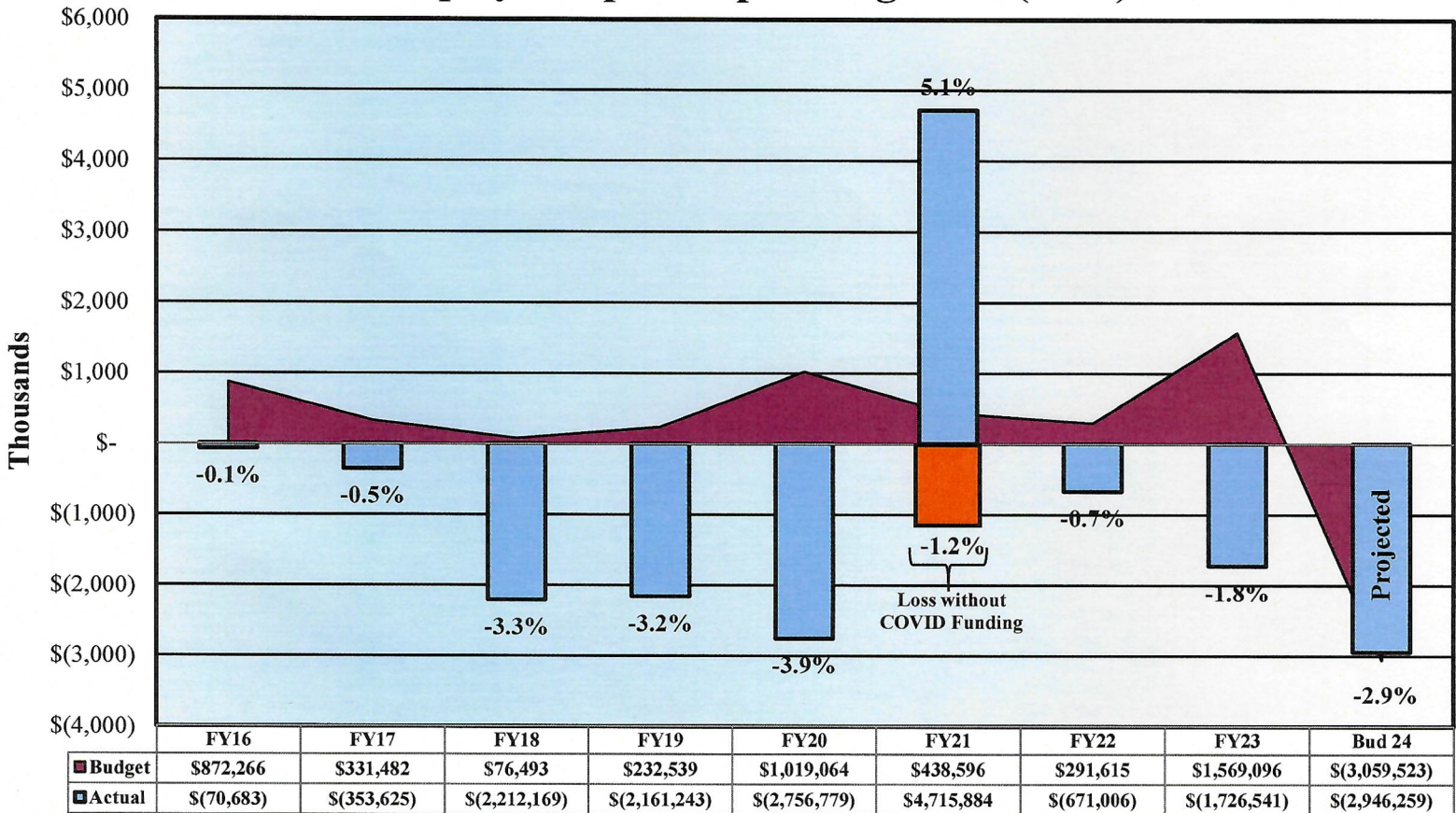
Board Approval:

On January 26th, Copley’s Finance Committee reviewed Copley’s financial performance and budget adjustment request. The Committee approved the request as presented. As required in the Budget Amendments and Adjustments Policy, Copley obtained approval from its Board of Directors on February 5th to amend its budget and increase rates by an average of 12.7% effective March 1st, 2024.

Operating Margin:

Copley’s approved overall budgeted operating margin for FY 2024 was **-2.88%** or **(\$3,059,253)**. Our audited 5-year average operating margin has been a loss of **\$518,937**. If Copley had not received the needed COVID funding in FY 2021 it would have posted the last eight consecutive years with a loss. As of December, Copley’s YTD operating loss is **(\$345,782)**. 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 Hospital Operating Gain (Loss)



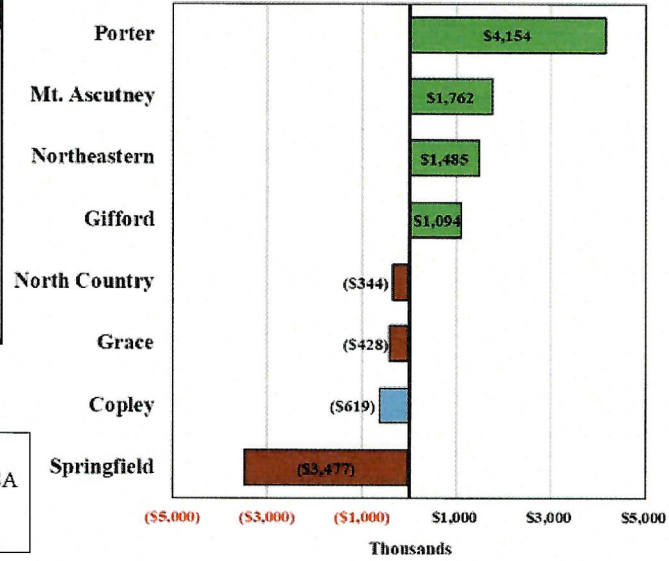
Operating Margin vs. Rate Increase:

CAH 5 Year Operating Margins

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	5 Year Avg
★ Copley	(\$2,222,433)	(\$2,161,242)	(\$2,756,792)	\$4,715,884	(\$670,999)	(\$619,116)
Requested Rate Increases						
	0.0%	7.9%	9.8%	8.0%	5.0%	6.1%
Approved Rate Increases						
	-3.4%	4.5%	9.8%	6.0%	4.0%	4.2%

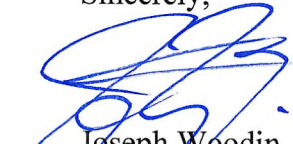
The GMCB has a statutory obligation to ensure that hospital budgets “promote efficient and economic operation of the hospital” and “reflect budget performances for prior years”. 18 VSA 9456 (3) & (4). In its 2020 hospital budget review, the Board ordered 6 of the 14 hospitals to complete sustainability plans to address concerns about consistent operating losses.

CAH 5 Year Average Operating Margins (2018 – 2022):



Please direct any questions pertaining to this FY 2024 Budget Amendment to myself or Jeff Hebert, CFO. His contact information is JHebert@CHSI.org or (802) 888 - 8663

Sincerely,


Joseph Woodin
President & CEO