

Copley Hospital: Budget Modification Request

April 3rd, 2024

GMCB Health System Finance Team



Agenda

- Recap of Copley Hospital's Request
- GMCB Staff Analysis of Key Financial Ratios
- Statutory Criteria for Budget Modification Requests
- Potential Vote

Copley Hospital: Request for Budget Modification



- **Request:**
 - A 12.7% change in charge effective March 1st, 2024 (7 months), up from the 8% approved in September 2023.
- Copley Hospital’s Finance Committee approved the request on January 26, 2024.
- They submitted the request on February 7, 2024, all materials received on February 19, 2024

	FY2024 Approved	FY2024 Projected	FY2024 Projected w/ Rate
NPR / FPP	111,856,924	103,966,182	110,269,017
Other Operating Revenue	669,072	1,205,002	1,205,002
Total Operating Revenue	112,525,996	105,171,184	111,474,019
Salaries and Benefits	67,559,767	67,559,767	67,559,767
All Other Operating Expenses	41,608,666	40,557,676	40,557,676
Total Operating Expense	109,168,433	108,117,443	108,117,443
Net Operating Income	2,688,491	(2,946,259)	3,356,576
Non-Operating Revenue	302,184	211,450	211,450
Total Income	2,990,675	(2,734,809)	3,568,026
Operating Margin	2.39%	-2.80%	3.01%
Total Margin	2.66%	-2.60%	3.20%

Copley Hospital: Request for Budget Modification



- **Reason for Request**

- Approved change-in-charge will not generate budgeted revenues given utilization projections.
- Current projections have Copley generating a -2.88% Operating Margin for FY2024

- **Key Financial Metrics**

Projected	FY2024 Submitted	FY2024	FY2024 w/ Rate
Operating Margin	2.98%	-2.80%	3.01%
Days Cash on Hand	59.6	37.4	59.4

Copley Hospital: Change in Net Asset Comparison



Year-over-Year Change in Net Assets / Total Assets

	FY18	FY19	FY20	FY21	FY22	FY23
BMH	1.08% [#10]	1.83% [#8]	9.62% [#1]	3.84% [#14]	-7.80% [#9]	1.88% [#6]
CVMC	1.09% [#9]	-5.40% [#13]	5.53% [#6]	13.56% [#3]	-16.15% [#13]	13.63% [#2]
COP	-3.18% [#12]	-3.55% [#11]	-3.02% [#13]	12.84% [#4]	1.01% [#3]	-1.98% [#12]
GMC	-3.69% [#13]	3.15% [#4]	3.37% [#10]	10.91% [#7]	-0.23% [#4]	-2.17% [#13]
GCH	6.15% [#3]	-0.54% [#9]	6.44% [#5]	21.18% [#2]	-12.53% [#11]	-0.44% [#9]
MAHHC	5.45% [#4]	-3.40% [#10]	8.98% [#2]	12.56% [#6]	-83.00% [#14]	6.73% [#4]
NCH	1.16% [#8]	3.02% [#5]	6.63% [#4]	7.08% [#12]	-4.94% [#7]	-10.38% [#14]
NVRH	2.86% [#7]	2.31% [#6]	3.93% [#9]	7.36% [#11]	-4.13% [#6]	2.09% [#5]
NMC	0.36% [#11]	-5.13% [#12]	-0.73% [#11]	8.96% [#9]	-7.02% [#8]	0.95% [#7]
PMC	7.90% [#2]	7.60% [#1]	4.67% [#7]	12.63% [#5]	-2.03% [#5]	15.13% [#1]
RRMC	4.32% [#5]	2.07% [#7]	4.35% [#8]	9.49% [#8]	-12.67% [#12]	-0.33% [#8]
SVMC	11.98% [#1]	7.00% [#2]	8.34% [#3]	8.34% [#10]	6.17% [#2]	-1.12% [#10]
SPRING	-18.54% [#14]	-68.40% [#14]	-19.63% [#14]	68.67% [#1]	16.81% [#1]	-1.27% [#11]
UVMMC	4.25% [#6]	3.88% [#3]	-0.97% [#12]	6.24% [#13]	-10.86% [#10]	6.79% [#3]

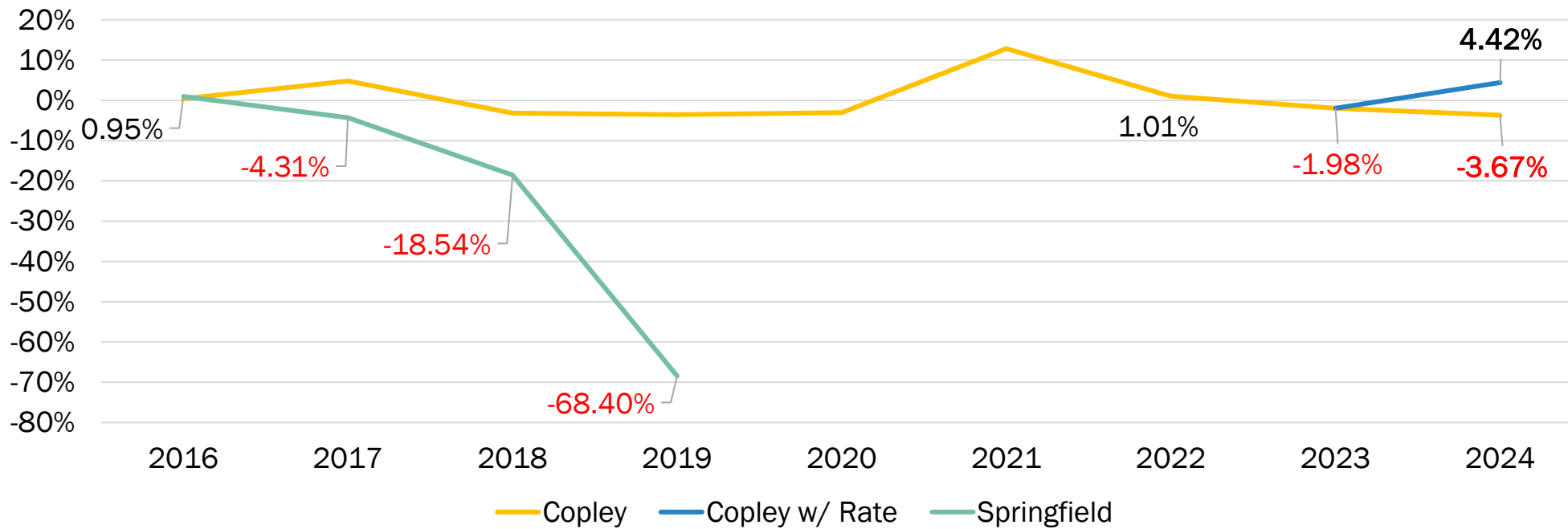
Looking at hospitals' year-over-year change in net assets as a percent of total assets allows us to compare hospitals of different sizes.

Without a rate increase, Copley's FY24 Change in Net Assets / Total Assets is projected at **-3.67%**

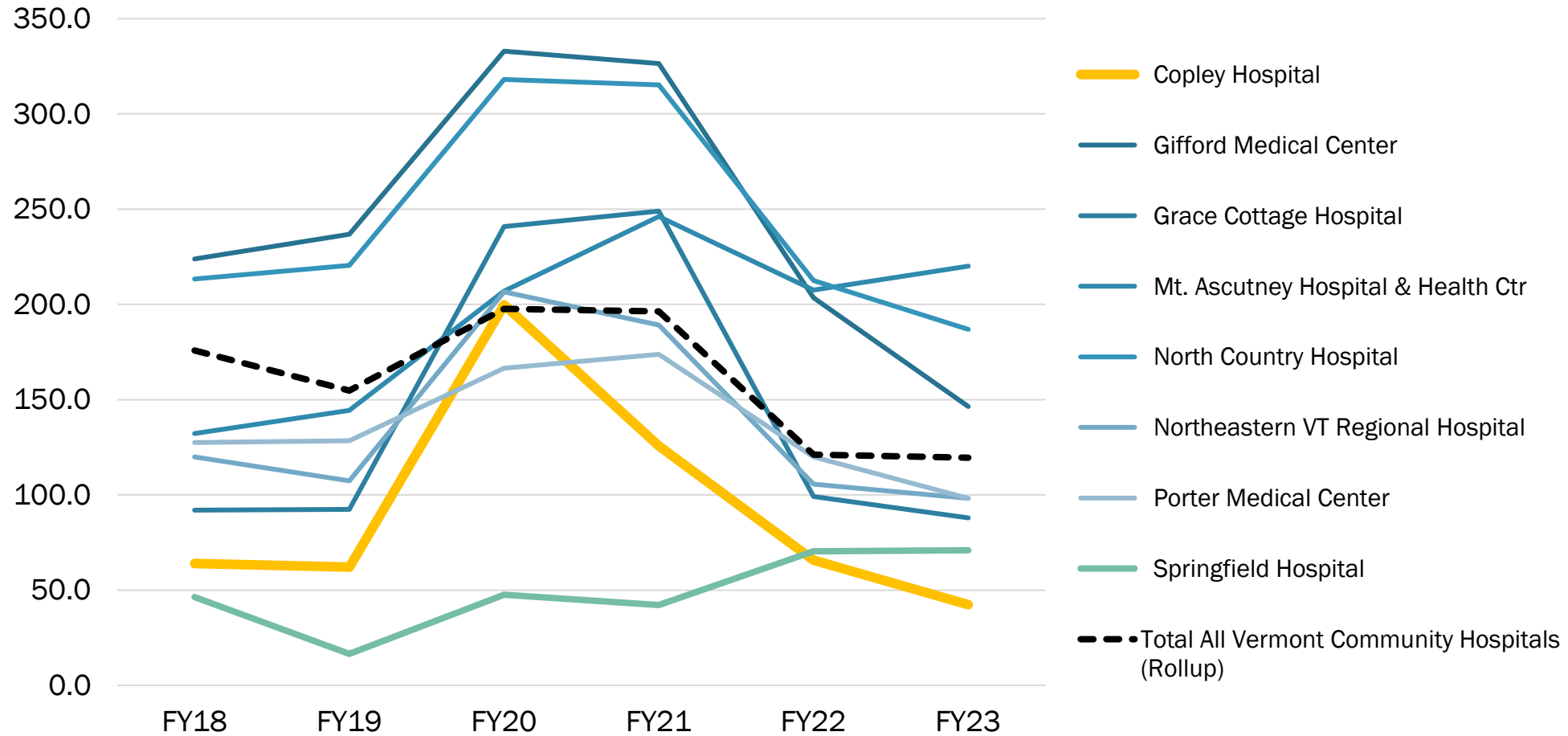
Excluding FY21 and FY22, Copley has consistently had some of the most negative (relative) changes to net assets.

Copley Hospital: Change in Net Asset Comparison vs. Springfield

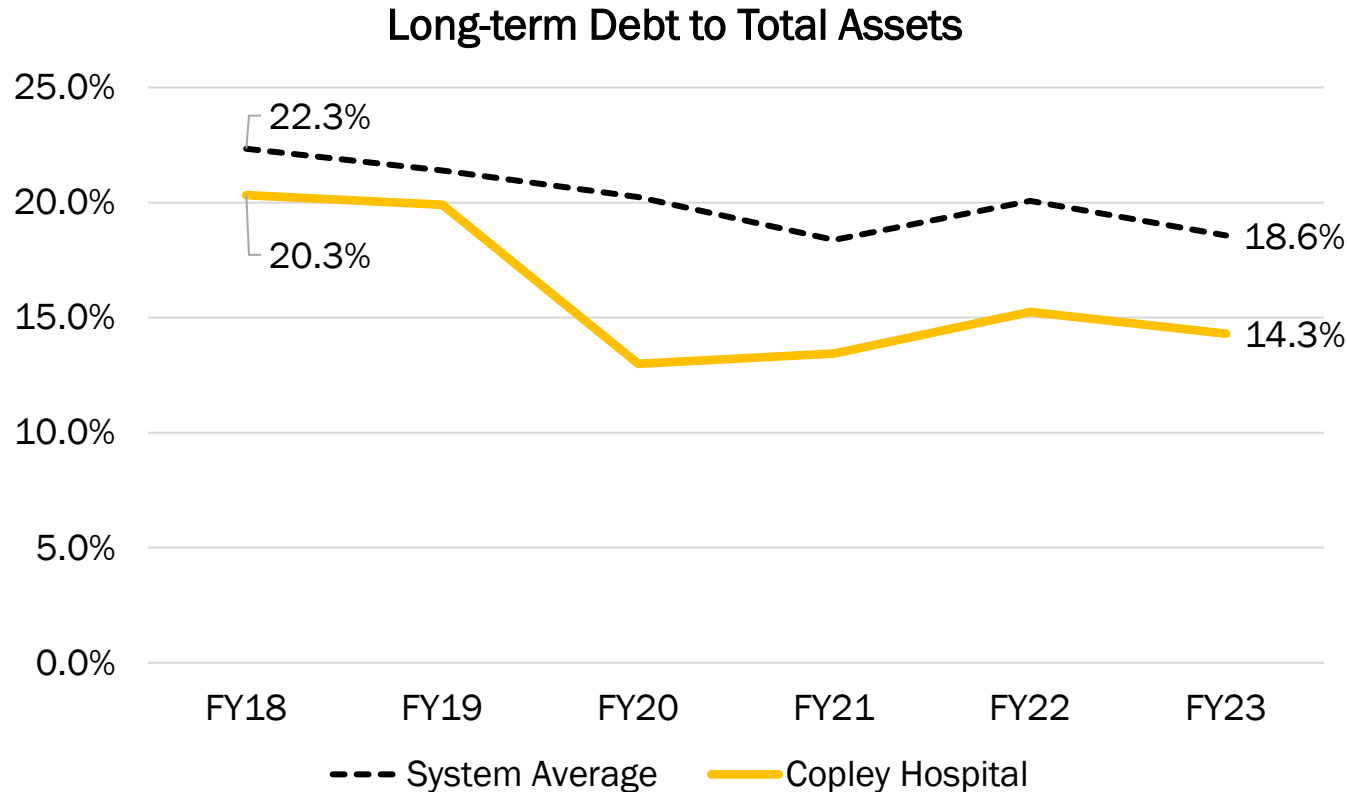
Year-over-Year Change in Net Assets as % of Total Assets



Copley Hospital: Days Cash on Hand Comparison



Copley Hospital: Long-term Debt to Asset Comparison (Capitalization)

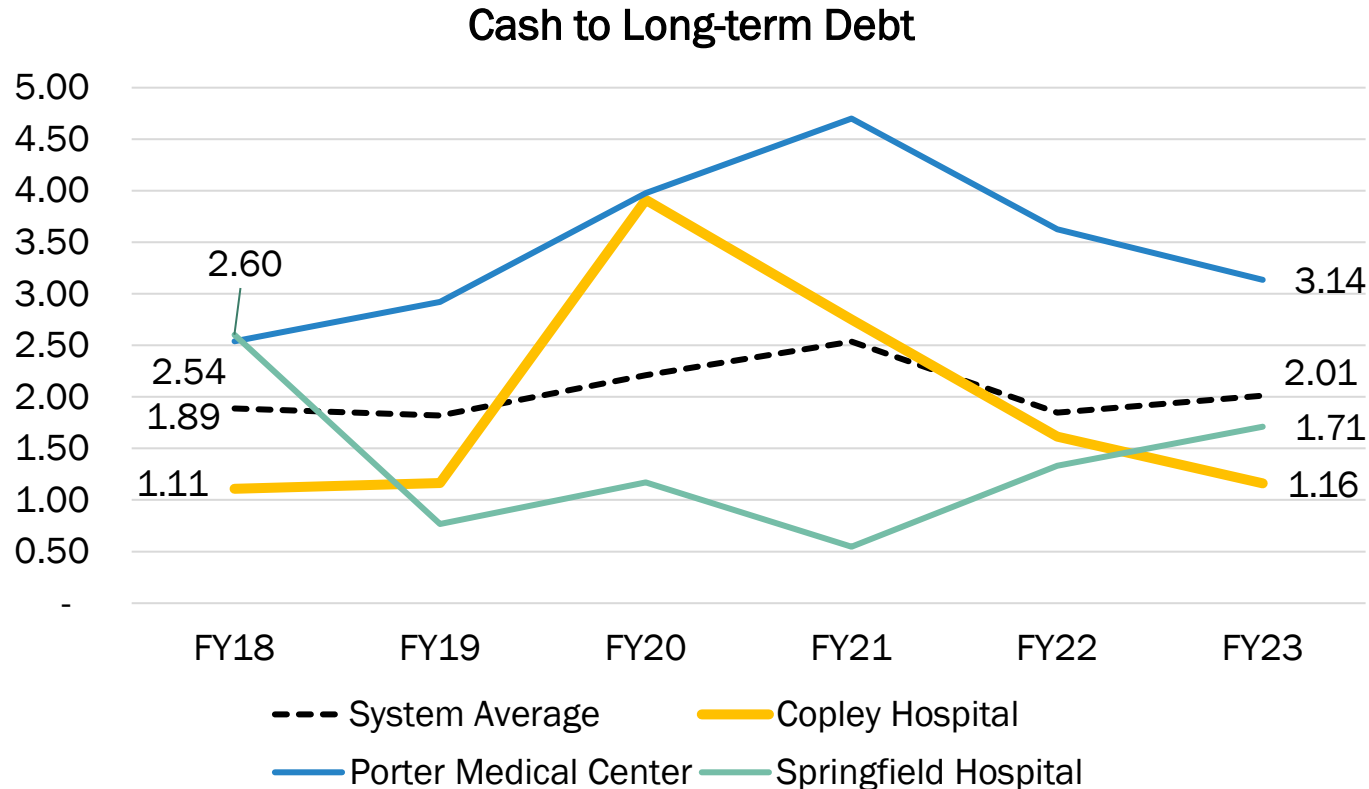


Measures the extent to which an organization is using borrowed funds to finance assets.

Has fallen system-wide since the pandemic, but Copley's has fallen faster.

May suggest increasing unwillingness or inability to borrow.

Copley Hospital: Cash to Long-term Debt Comparison



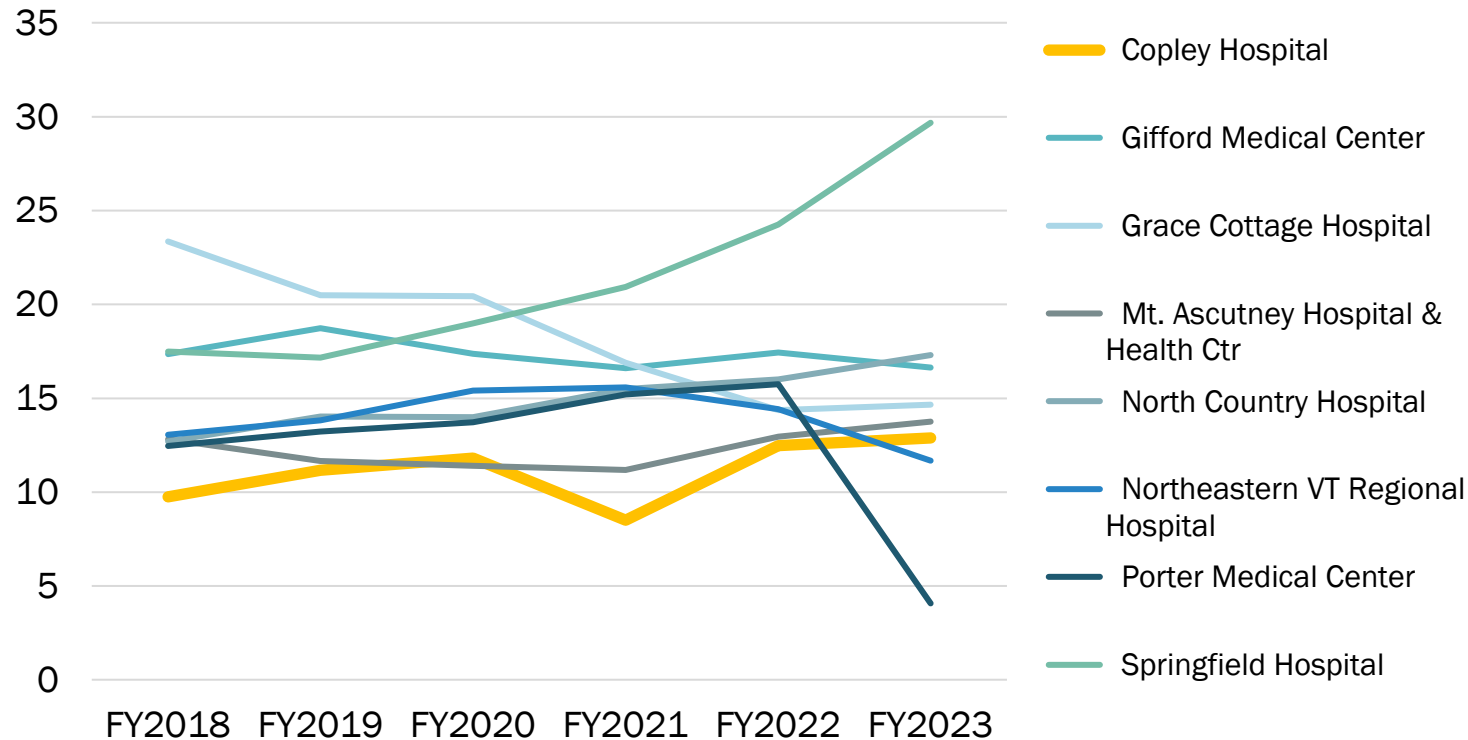
Cash to Long-term Debt measures the ratio of debt to available cash & investments.

Example: a hospital with \$100 cash & investments and \$50 long-term debt would have a ratio of 2.0.

In FY23, Copley's ratio of 1.16 was the second lowest system-wide (SVMC = 0.9).

Copley Hospital: Age of Plant

Age of Plant

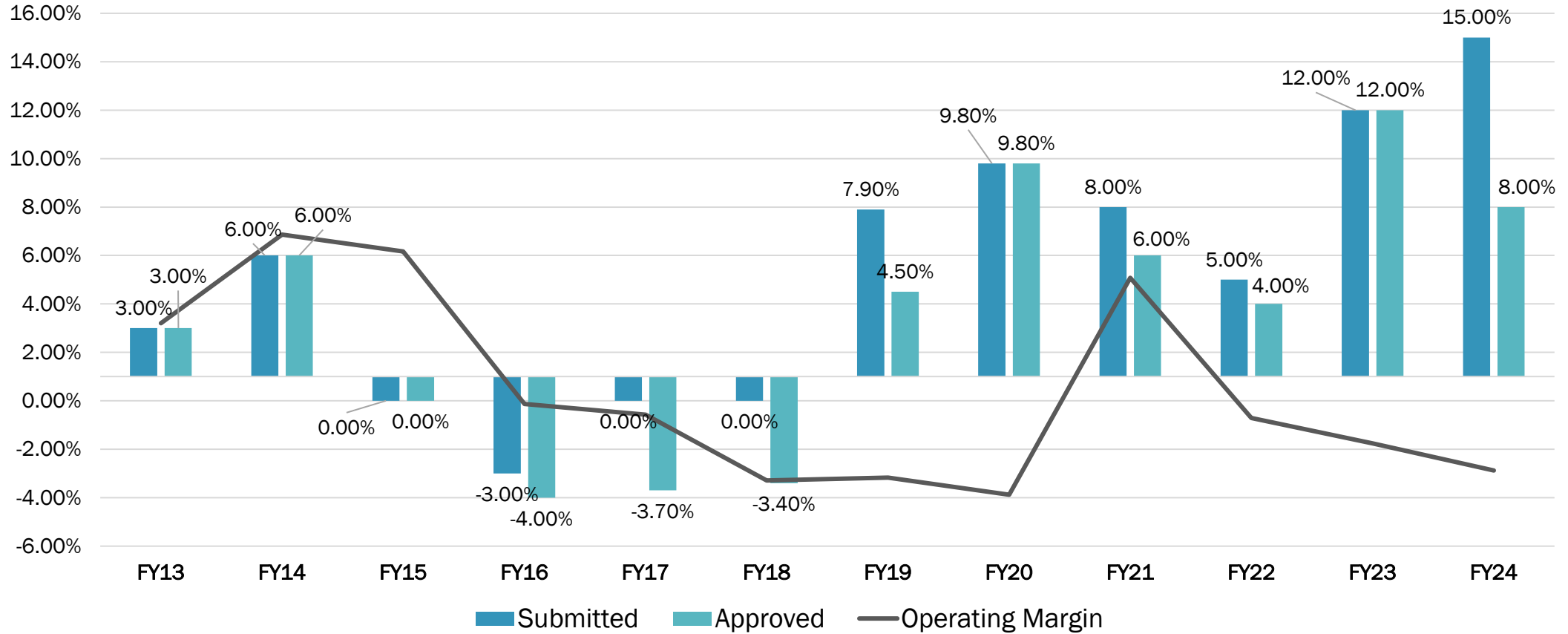


A measure of the financial age of the hospital:

Accumulated Depreciation / Depreciation expense

Copley has a relatively low age of plant compared to other Vermont Critical Access Hospitals

Copley Hospital: Change in Charge



Statute, Rule, & Policy



- 18 V.S.A. § 9456 (f): "The Board may, upon application, adjust a budget established under this section upon a showing of need based upon exceptional or unforeseen circumstances in accordance with the criteria and processes established under section 9405 of this title."
- GMCB Rule 3.401: "Budget Performance Review and Adjustment (a) The Board may conduct an independent review of a hospital's performance under the budget established for it by the Board at any time, including in response to an application for an adjustment made by a hospital pursuant to 18 V.S.A. § 9456(f)."
- Amendments and Adjustments Policy: Section D of Policy, which says "A hospital may request a budget amendment to account for unanticipated changes to its approved budget."

Exceptional circumstances

- Chronically negative operating margins
- Reduced days cash on hand
 - Lowest among Critical Access Hospitals
- Reduced capacity to borrow
 - Low Debt to Assets ratio, but the second lowest Cash to Long-term Debt in FY23: 1.2 (SVMC: 0.9)
 - System average was 2.0
- Low prices relative to other VT hospitals
 - RAND 4.0
 - Evidence that commercial prices are 2nd or 3rd lowest in the system

Copley Hospital: Potential Options



		% Rate Increase from FY24 Budget	Projected FY24 Operating Margin	Projected Days Cash On Hand	Impact on FY24 System-wide Average Change in Charge
Option #1	Approve Copley's Amended Budget as Submitted	12.7%	3.0%	59.4	+0.32% [4.47%]
Option #2	Approve a smaller rate increase estimated to generate 0% margin.	5.9%	0.0%	47.7	+0.15% [4.29%]
Option #3	Approve a smaller rate increase estimated to generate 0% margin March thru September	3.5%	-1.2%	43.4	+0.09% [4.23%]
Option #4	Deny Copley a mid-year rate adjustment	0.0%	-2.8%	37.4	+0.00% [4.15%]

Copley Hospital: Potential Options

- **Closely monitor expenses**

- While there is evidence that Copley's prices are low compared to the system, there is also evidence that their expense growth has outpaced other Vermont Critical Access hospitals.*
- Should the Board approve a mid-year rate increase, staff also recommends requiring Copley to provide the Board with a **3-year projection of expenses** (with final form determined by staff) which shall include discussions/explanations of:
 - Key drivers of expected growth;
 - Management's strategy for controlling/mitigating expense growth.

- See [slide 8](#) from 3/13/24 staff presentation or appendix in this presentation.

Potential Vote



Suggested motion language:

Move to [approve] a mid-year budget adjustment to Copley Hospital's FY24 budget with a charge and commercial rate increase of not more than [X.X%] over Copley's previously approved FY24 budget, subject to the same conditions and limitations as set forth in Copley's FY24 budget order, including limitation on how charge and commercial rate increases are implemented as set out in Conditions B. and C., and with an additional condition requiring Copley to provide a 3-year projection of expenses in a format determined by GMCB staff.

Appendix: Calculations



The net impact of a 1% rate increase is derived by taking the difference between the projected NPR with and without the requested rate increase...

$$\$3,356,576 - \text{\$}2,946,259 = \$6,303,835$$

Then dividing by the percentage increase requested.

$$\$6,303,835 / 12.7 = \text{\$}496,286$$

Estimated monthly operating income without the rate increase is the projected FY24 margin divided by 12 months

$$\text{\$}2,946,259 / 12 = \text{\$}245,522$$



Appendix: Calculations, cont.



For **Option #2** (0% operating margin for the year), we take the absolute value of the projected operating loss *without* the rate increase and divide it by the previously calculated NPR impact of a 1% increase,

$$\$2,946,259 / 496,286 = 5.9\%$$

For **Option #3** (0% operating margin March-Sept), we need to determine the total operating income that will, in aggregate, reflect \$0 operating income less the approximate losses from Oct-Feb...

$$\$0 + (-\$245,522 * 5 \text{ months}) = \text{\textbf{-\$1,227,608}}$$

We then take the difference between the absolute value of this figure and the projected operating income with zero increase to determine the additional operating income needed to be generated...

$$\$2,946,259 - \$1,227,628 = \text{\textbf{\$1,718,631}}$$

Then divide this figure by the NPR impact of a 1% increase,

$$\$1,718,631 / 496,286 = 3.5\%$$



Appendix: Calculations, cont.

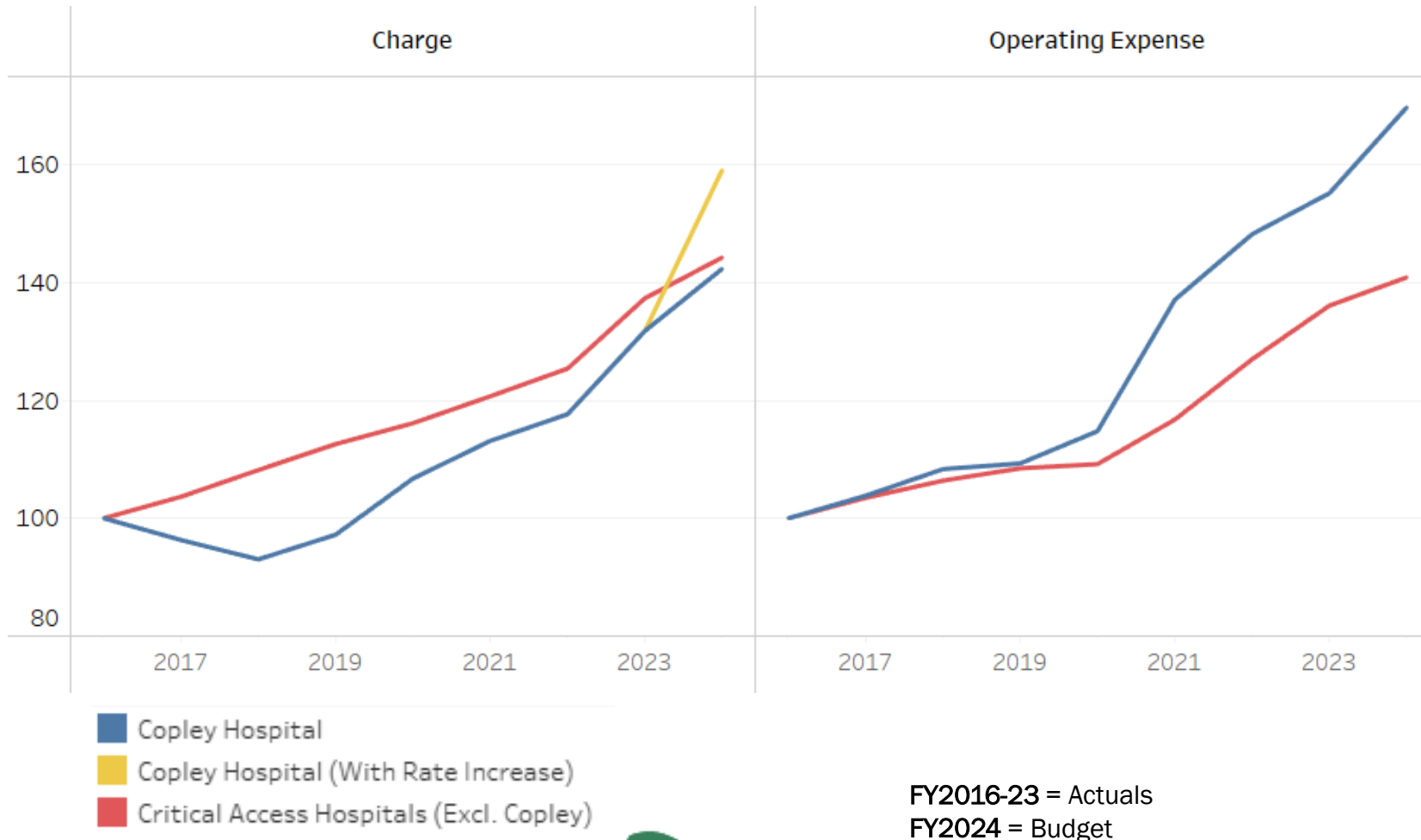


FY24 Operating Margin	Additional Rate for Margin	Additional Rate for Margin [less approx. Oct-Feb losses]	
-1.00%	3.8%	1.3%	
-0.50%	4.8%	2.4%	
0.00%	5.9%	3.5%	Reflects options #2 and #3
0.50%	7.0%	4.6%	
1.00%	8.1%	5.6%	
1.50%	9.2%	6.7%	
2.00%	10.3%	7.8%	
2.50%	11.4%	8.9%	
3.00%	12.5%	10.0%	

This table shows the projected rate increases Copley would need to generate various operating margins in FY24.

The ‘Additional Rate for Margin [less Oct-Feb losses]’ reflects the rate increase need to get to that operating margin *but for* the approximate operating losses October through February

Appendix: Copley Hospital: Growth in Change in Charge & Operating Expense



FY16 was selected as the “base year” (index=100) for comparative purposes as Copley’s Operating Revenue and Expenses were essentially breakeven.

In recent years, Copley’s approved charge increases have nearly caught up to the other Critical Access Hospitals, while their Operating Expense growth continues at a faster rate.