



COPLEY HOSPITAL, INC.
FY22 BUDGET NARRATIVE
TO THE GREEN MOUNTAIN CARE BOARD
July 1, 2021

This document serves to provide the Green Mountain Care Board (GMCB) with a narrative summary of Copley Hospital's (Copley) Fiscal Year 2022 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 June 28, 2021.

A. EXECUTIVE SUMMARY

FY 2021 has been a year of recovery for our community, and overall patient volumes have bounced back from the pandemic. Copley went into the FY 2021 year budgeting a decrease in volume due to the uncertain future caused by COVID-19. What we have experienced instead is a year of patients needing surgical and ancillary services. Our inpatient volumes met expectations and our emergency services are still ramping up to expectations. Current expense challenges include staffing shortages as well as an inflationary increase caused by the pandemic.

COVID-19 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 nimbler and more resilient, and we are able to withstand future adversity with greater confidence and competency.

As we enter into the new budget year we expect volumes to remain at post pandemic levels, staffing to increase due to volumes and as well as implementing strategies to improve retention efforts. We anticipate inflationary pressures to remain in effect for the upcoming year. All COVID-19 services have been incorporated into routine operations.

We continue to face an aging infrastructure. Over the years we have made difficult decisions in prioritizing our needs with limited cash and need to generate an operating margin in order to fund these improvements. The decreased available capital has created a large backlog; increasing risk and creating challenges in prioritizing sudden departmental needs.

The proposed budget assumes Copley continues participating in OneCare's 2021 Risk-Based ACO Programs for Medicaid, MVP, and tentatively, Blue Cross & Blue Shield of Vermont. OneCare will supply Copley with a 2022 Participation Agreement this summer, along with a financial model to help support further decision making. A commitment to participate or not will be made this summer. Should we choose to participate in OneCare's risk-based programs, Copley will provide further information at that time.

On June 28th, 2021 Copley's Board approved a FY 2022 budget that had an operating margin of 1.17%.

B. YEAR-OVER-YEAR AND RECONCILIATION

	2021P	2021B	2022B
REVENUES			
Gross Patient Care Revenue	\$142,618,471	\$139,322,909	\$154,475,253
Disproportionate Share Payments	\$ 500,596	\$ 455,000	\$ 455,000
Graduate Medical Education Payments	\$ -	\$ -	\$ -
Bad Debt	\$ (3,240,542)	\$ (2,872,182)	\$ (4,439,159)
Free Care	\$ (1,192,697)	\$ (1,359,701)	\$ (1,564,242)
Deductions From Revenue	\$ (63,244,160)	\$ (64,176,272)	\$ (67,513,111)
Net Patient Care Revenue (NPR)	\$ 75,441,668	\$ 71,369,754	\$ 81,413,741
Fixed Prospective Payments (FPP)	\$ 4,940,234	\$ 4,820,035	\$ 4,976,779
TOTAL NPR & FPP	\$ 80,381,902	\$ 76,189,789	\$ 86,390,520
Other Operating Revenue	\$ 1,816,499	\$ 828,681	\$ 1,014,326
TOTAL OPERATING REVENUE	\$ 82,198,401	\$ 77,018,470	\$ 87,404,846
EXPENSE			
Salaries/Contracts/Benefits	\$ 44,061,026	\$ 43,710,712	\$ 49,045,925
Health Care Provider Tax	\$ 4,276,021	\$ 4,363,408	\$ 5,016,920
Depreciation/Amortization	\$ 2,731,629	\$ 2,808,850	\$ 3,331,448
Interest - Short and Long Term	\$ 100,000	\$ 100,000	\$ 114,000
Other Operating Expenses	\$ 30,518,866	\$ 25,596,904	\$ 28,870,689
TOTAL OPERATING EXPENSE	\$ 81,687,542	\$ 76,579,874	\$ 86,378,982
NET OPERATING INCOME (LOSS)	\$ 510,859	\$ 438,596	\$ 1,025,864
Non-Operating Revenue	\$ 354,889	\$ 302,200	\$ 302,184
EXCESS (DEFICIT) OF REV OVER EXP	\$ 865,748	\$ 740,796	\$ 1,328,048

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

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 our community. Copley's 2022 budgeted net patient revenue is increasing by 7.5% from 2021 projected, and 13.4% from 2021 budgeted.

Volume:

- Inpatient services are expected to increase slightly (1.6%) from projected 2021 levels
- Outpatient services are to remain at projected 2021 levels
- Clinic visits are expected to decrease (1.8%) from projected 2021 levels

Payer Mix:

Medicare volumes continue to increase due to the aging demographics of our community.

Charge Request:

Copley is requesting a weighted rate increase of 5%.

Copley calculated the rate increase based on an understanding of expected volumes, necessary services, and patient needs for the area, and then determined 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.

Copley has requested a rate increase of 5.0%, and each 1% is worth \$405,144 which results in a total request of \$3,809,489 related to rate.

Deductions from Revenue

Affordable Care is being budgeted at 1.0% of gross patient revenue (GPR). 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 were budgeted at 2021 estimates.

Bad Debt, as a percentage of GPR, will come in at 2.9%. Copley helps to ensure that patients receive the financial assistance they need, including setting up affordable payment plans.

Operating Expense

Copley's Total Operating Expense shows a 12.8% increase from the FY 2021 budget. One of the biggest issues we face this year is staffing. To mitigate our reliance on temporary staff we have added FTE's and salary costs to support our recruitment and retention efforts. Copley has also seen dramatic shifts due to COVID-19 and other world events. For example, insurance premiums have increased wildly in 2021, cyber was up 70% and property increased by 40%.

Budget-to-Budget:

- Salary/Contracts/Benefits - up 12%
- Health Care Provider Tax – This tax is calculated as 6% of the prior year net patient revenue and supplied by the state which is going up 15%
- Depreciation – up 19% due to aging infrastructure
- Interest – nothing to report
- Other Operating Expenses – up 13%
 - Pharmaceuticals up 3.2%
 - Utilities up 13.2%
 - Other non-salary expenses up ~3%

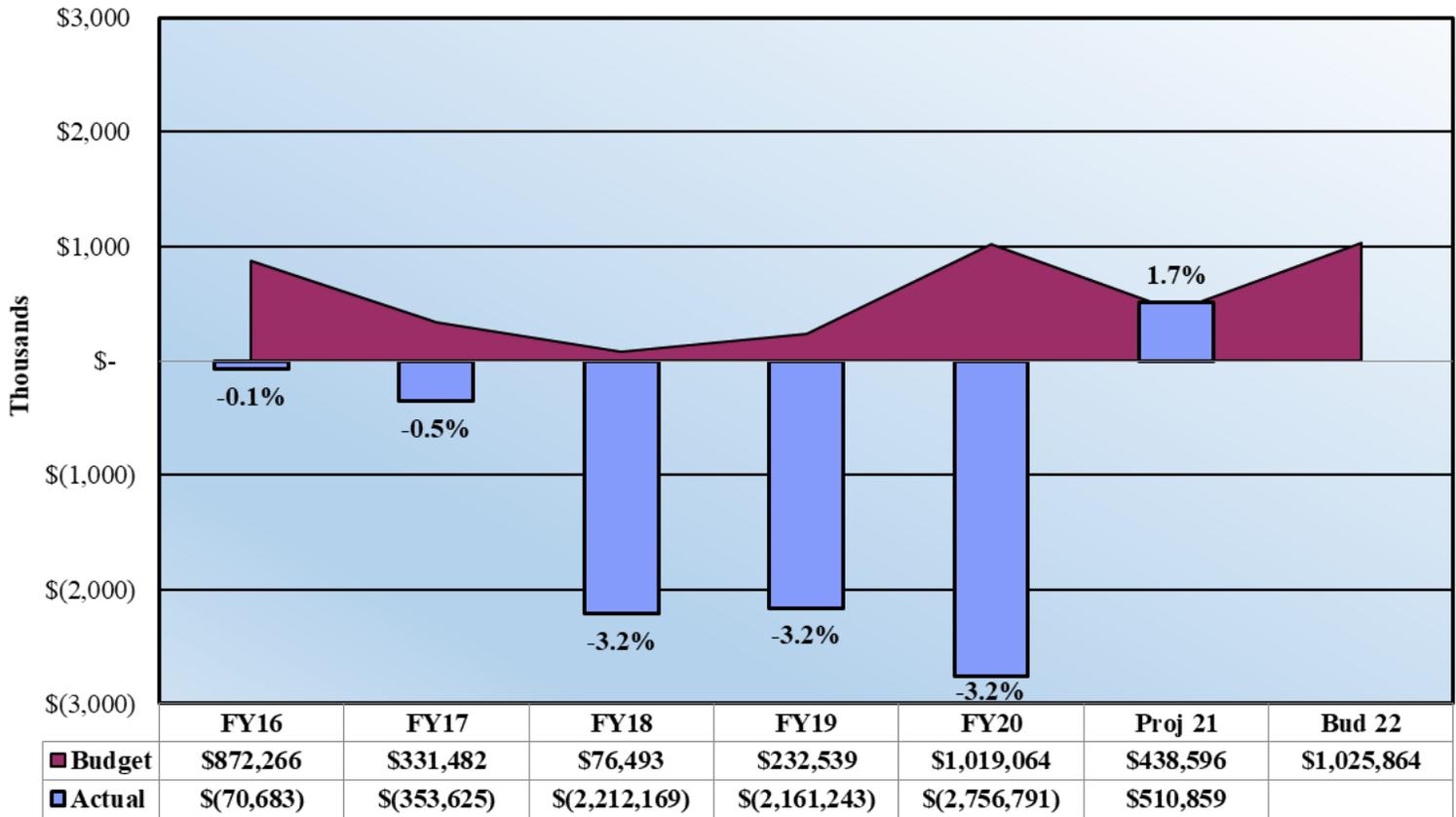
Non-Operating

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

Operating Margin and Total Margin:

Copley has budgeted an overall operating margin of 1.17% or \$1,025,864. After 5 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 Hospital Operating Gain (Loss)



COVID-19

Since mid-March 2020, 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 March 2020.

Also, in March 2020, Copley began COVID drive thru testing by referral and appointment. Screeners took every precaution not only for themselves, but for those being tested. While braving the bitter cold days, they provided a

sense of calm to every community member they screened. The team was on top of the most current data and information while testing anxious people concerned for their health.

Prior to purchasing our own Rheonix machine for testing, Copley handled 19,330 samples that were sent to Burlington or Boston. Once we were able to test through our own equipment, in Copley Hospital's Laboratory, to date we have analyzed more than 12,555 COVID samples.

As the 2020 summer months brought a return to some kind of normalcy, we collaborated with neighboring providers (Lamoille Health Partners, 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"**.

Copley Hospital began administering COVID vaccinations in December 2020 beginning with healthcare workers. In addition to Hospital staff, the state asked us to vaccinate other healthcare and emergency personnel; by March, we had vaccinated 1,200. What followed was the request for Copley to assist with community vaccination clinics. On March 31, 2021 following the Governor's outline of vaccinating population eligible community members, Copley held its first community clinic. Clinics were offered at the local VFW, two days a week with a goal of providing 400-500 vaccinations each week. We could not have provided these clinics without help from our staff, medical staff and volunteers as well as the efforts of our community partners including Lamoille Home Health & Hospice, Tamarack Family Medicine, Northern Counties Health Care, Lamoille Health Partners, Lamoille County Mental Health Services and the Medical Reserve Corps. June 10 was our last community clinic offering. In total, we provided nearly 15,000 vaccinations.

COVID-19 Funding

In 2020 Copley started to receive COVID-19 funding. These funds were to ensure the continued hospital operations enabling us to protect our patients and community. We continue to work with our auditors to understand the constant rule changes for recognizing these funds on our financials.

Medicare Advance Funding \$11,277,227 - 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. Medicare began recovering these funds in April 2021.

Vermont Medicaid Retainer Funding \$911,083 – FY 2020 COVID-19-specific Medicaid Retainer funding is to ensure continued operations for eligible Medicaid-enrolled, Vermont-based (or border) provider organizations.

Cares Act Funding/Provider Relief Funding (PRF) \$5,837,948 - 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. These funds provide relief to those providers who are struggling to keep their doors open.

VT Blue Cross Advance \$2,309,951 - To increase cash flow to providers of services and suppliers impacted by COVID-19, Blue Cross Blue Shield of Vermont issued advance payments. As of December 2020, Blue Cross has recovered these funds.

PPP \$5,037,900 - The Paycheck Protection Program is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The SBA may forgive loans if the employee retention criteria is met, and the funds are used for eligible expenses during the covered period. Copley's covered period began in May 2020 and ended October 2020. Copley is currently in the process of submitting the application for forgiveness.

State of Vermont COVID-19 Vaccine Clinic \$308,962 – FY 2021 grant to support the State's broader vaccination efforts by establishing and managing COVID-19 vaccination clinics consistent with direction and guidance from the Vermont Department of Health.

Other (HRSA) \$99,317 – FY 2020 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) \$80,625– FY 2020 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.

Other (FEMA) \$88,678– FY 2020/2021 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.

C. RISKS AND OPPORTUNITIES

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.

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. This also holds 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 progress 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 instead recommitted to our existing vendor, potentially providing a roadmap for other hospitals that are CPSI clients to garner more return on their current relationship.

‘Opportunity’ in our organization is ongoing, we continuously try to 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 nimbler and more 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 to this Team, entitled CRT-MV (Coronavirus Reposes Team: Morrisville):

1. Copley Hospital (CAH)
2. Lamoille Health Partners (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.

D. VALUE-BASED CARE PARTICIPATION

Copley is currently participating in OneCare’s 2021 Risk-Based ACO Program for our Medicaid and MVP populations. For 2022 we are tentatively planning on joining Blue Cross & Blue Shield of Vermont as well. OneCare will supply us with a 2022 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 our community providers, social service agencies, town officials, and business leaders to address what can be done to impact the previously mentioned 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.

E. CAPITAL INVESTMENT CYCLE

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 difficult decisions in prioritizing its needs with limited cash. We 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 in prioritizing sudden departmental needs.

Capital spending for FY22 is proposed at \$5.4 million with no projects subject to Certificate of Need.

Building & Building Services:

- Building Renovations: \$1,270,000
- Infrastructure Improvements: \$246,000
- Rehab Pool: \$55,330
- Other:\$250,000

Major Movable:

- Ancillary: \$2,235,452
- IT: \$318,000
- Nursing: \$231,750
- Operations: \$442,300
- Surgical: \$288,295
- Pharmacy: \$60,000

If there are any questions or comments please do not hesitate to contact Jeff Hebert, Chief Financial Officer at 802.888.8663 or JHebert@chsi.org