

Green Mountain Care Board
144 State Street
Montpelier, VT 05602

[phone] 802-828-2177
www.gmcbboard.vermont.gov

Kevin Mullin, Chair
Jessica Holmes, PhD
Robin Lunge, JD, MHCDS
Maureen Usifer
Tom Pelham
Susan Barrett, JD, Executive Director

October 1, 2021

DELIVERED ELECTRONICALLY

Joseph Woodin
Chief Executive Officer
Copley Hospital
528 Washington Highway
Morrisville, VT 05661

Dear Mr. Woodin:

Enclosed please find a Budget Order reflecting the Green Mountain Care Board's decision establishing your hospital's budget for fiscal year 2022. The Board and its staff analyzed your proposed budget, reviewed supplemental information, and took into account numerous additional considerations in rendering its decision during this process. That decision is described in the enclosed Order.

The hospital budget review process is a key tool in our efforts to constrain health care cost growth while improving the health of Vermonters. As part of this process, the Board considers hospital financial health, sustainability, and the importance of transitioning to a value-based system. We look forward to working with you and your staff to refine and improve the process for the next cycle and beyond. We appreciate the responsiveness and diligence that you and your staff have shown during the FY22 budget cycle, particularly in light of the ongoing COVID-19 pandemic.

As part of the Budget Order, your hospital shall participate in telephonic check-ins to be scheduled at the discretion of the Board Chair in consultation with Board staff based on your FY22 year-to-date operating performance and related matters. Also, as part of developing guidance for the FY23 hospital budget review process, your hospital and Board staff will work together to potentially identify and include measures in non-financial reporting to further several goals of the Vermont healthcare system, including developing strategies to reduce wait times and access to care issues, reducing potentially avoidable utilization, and continuing to participate in the Board's strategic sustainability planning process. Details of these requirements are scheduled to be discussed with stakeholders and will be communicated later.

If you have any questions regarding the Order or the implementation of its reporting requirements, please feel free to contact me or the Board's hospital budget staff. Again, thank you for your hard work and cooperation during this process.

Sincerely,

s/ Kevin Mullin



Chair, Green Mountain Care Board

cc: Jeff Hebert, CFO
Mike DelTrecco, VAHHS
Kaili Kuiper, HCA



STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2022 HOSPITAL BUDGET DECISION AND ORDER

In re: Copley Hospital) Docket No. 21-003-H
Fiscal Year 2022)
_____)

INTRODUCTION

In July, the Green Mountain Care Board (GMCB or “the Board”) began reviewing the Fiscal Year 2022 (FY22) budgets of Vermont’s 14 general (community) hospitals for compliance with policy guidelines and financial targets adopted by the Board in March. The financial benchmarks include net patient revenue and fixed prospective payment (NPR/FPP) growth of not more than 3.5% over the approved FY21 budgets. *See* GMCB, FY 2022 Hospital Budget Guidance and Reporting Requirements, 5 (Mar. 31, 2021) (FY22 Guidance).¹ The Board permitted an allowance for NPR/FPP that exceeds the growth guidance for revenues (and expenses) related to COVID-19 vaccine clinics and testing. *See id.* The hospitals’ FY22 budget submissions reflect a systemwide average NPR/FPP growth request of 6.4%² over the approved, systemwide FY21 NPR/FPP. Preliminary Review of FY2022 Hospital Budget Submissions and Public Budget Hearing Exemptions, 16 (July 28, 2021) (FY22 Preliminary Review). Individual hospital NPR growth ranged from 3.0% to 13.4%. *Id.* Hospital budget submissions also reflected an overall estimated weighted average charge increase of 6.0%, with individual charge increases ranging from 2.2% to 8.3%. FY22 Preliminary Review, 12. Following public Board meetings, presentations by hospitals and GMCB staff, and a special public comment period that closed on September 1, 2021, the Board approved hospital budgets that are expected to result in a reduced systemwide NPR/FPP increase of 6.1% (6.0% after factoring in provider transfers and accounting adjustments) and an estimated weighted average charge increase of 5.2%. GMCB, Fiscal Year 2022 Approved Vermont Hospital Budget Submissions, 16, 18 (September 28, 2021) (Approved Budgets). The Board felt a 6.1% NPR/FPP increase was warranted in light of the many challenges facing Vermont’s hospitals, including the ongoing effects of the COVID-19 pandemic, growing evidence of pent-up demand and higher acuity patients, and the increased costs associated with inflationary pressures and significant staffing challenges.

Copley Hospital (Copley) submitted its budget on July 2, 2021, requesting a 13.4% increase in NPR/FPP, which remains a 13.4% increase in NPR/FPP after excluding revenue from COVID-19 clinics and testing, and an 5.0% overall change in charge. On September 3, following

¹ The hospitals’ FY22 budget materials, including their budget narratives and responses to questions, are available on the GMCB website at: <https://gmcboard.vermont.gov/hospitalbudget/fy2022budget>. Transcripts of the hospital budget hearings and deliberations are available upon request.

² In accordance with the FY22 Guidance, hospitals may request “adjustments” to their approved FY21 NPR/FPP or FY22 request, which, if approved, are not factored into their total NPR/FPP increase. These adjustments most frequently reflect provider transfers but may also appear in other accounting adjustments. *See* FY22 Guidance, 6. After adjusting FY22 NPR/FPP budgets to remove COVID-19 vaccine clinics and testing revenue, the systemwide average NPR/FPP growth request for FY22 from approved FY21 approved budgets was 6.0%. *See* FY22 Preliminary Review, 16.

GMCB staff presentations, and deliberations, the Board approved Copley's FY22 budget with a 12.0% increase in NPR/FPP from its approved FY21 budget (including an adjustment for a provider transfer) and a change in charge of 4.0%, both reductions from Copley's submitted budget.

LEGAL FRAMEWORK

Hospital budget review is one of the Board's core regulatory responsibilities. 18 V.S.A. §§ 9375(b)(7), 9456. The Board must establish each hospital's budget annually no later than September 15 and is required to issue written decisions reflecting each hospital's established budget by October 1. 18 V.S.A. § 9456(d)(1). In making its decisions, the Board is guided by its statutory charge "to promote the general good of the state by: (1) improving the health of the population; (2) reducing the per capita rate of growth in expenditures for health services in Vermont across all payers while ensuring that access to care and quality of care are not compromised; (3) enhancing the patient and health care professional experience of care; (4) recruiting and retaining high quality health care professionals; and (5) achieving administrative simplification in health care financing and delivery." 18 V.S.A. § 9372. Additionally, the Board must execute its duty of annually establishing each hospital's budget in a way that advances the principles of healthcare reform set forth in 18 V.S.A. § 9371. *See* 18 V.S.A. § 9375(a). The Board may adjust proposed budgets that fail to comply with the Board's established benchmarks and other guidance. GMCB Rule 3.000, § 3.305. The Board may also adjust a hospital's established budget based on the Board's independent review of a hospital's budget performance. 18 V.S.A. § 9456(f); GMCB Rule 3.000, § 3.401.

Hospitals bear the burden of persuasion in justifying their proposed budgets. GMCB Rule 3.000, § 3.306(a). During its review, the Board must consider numerous factors, including hospitals' utilization information and assumptions, community and state health care needs, the cost shift, hospitals' payer mix and performance under past budgets, public comments, and any other information the Board deems relevant. *See* 18 V.S.A. § 9456(b); GMCB Rule 3.000, § 3.306(b). Each approved budget must, among other requirements, be consistent with state and community health care needs, reflect the hospital's performance for prior years, take into consideration national, regional, or in-state peer group norms, according to indicators, ratios, and statistics established by the Board, and promote the hospital's efficient and economic operations. *See* 18 V.S.A. § 9456(c).

The Board annually adopts guidance by March 31 that establishes benchmarks for hospitals to use in developing and preparing their upcoming fiscal year's budgets. GMCB Rule 3.000, § 3.202. The Board issued guidance for FY22 budgets on March 31, 2021, after public meetings with Vermont hospitals, the Vermont Association of Hospitals and Health Systems, and other interested parties. *See* FY22 Guidance, 3, 4.³ For FY22, the Board set an NPR/FPP growth guidance of not more than 3.5% over the approved FY21 budgets. FY22 Guidance, 5.

³ The Board's FY22 Guidance is available at <https://gmcbboard.vermont.gov/sites/gmcb/files/documents/FY22%20Hospital%20Budget%20Guidance-%20Final%203%2030%202021.pdf>.

To “prioritize and maximize direct patient care, safeguard the stability of health care providers, and allow for orderly regulatory processes that are responsive to the evolving needs related to the COVID-19 pandemic,” the Board was given authority to waive or permit variances from State laws, guidance, and standards with respect to several of its regulatory responsibilities, including hospital budget review. This Board authority expires six months following the termination of the state of emergency related to COVID-19. 2020, No. 91, § 5. The state of emergency related to COVID-19 ended on June 15, 2021. *See* State of Vermont, Executive Order No. 06-21 (June 15, 2021).

Pursuant to its authority under Act 91, the GMCB exempted any hospital that met specific criteria from a public hearing regarding its FY22 budget. *See* FY22 Guidance, 6-7. The criteria that a hospital was required to meet included an FY22 NPR/FPP rate increase at or under 3.5% from its FY21 approved budget (excluding NPR/FPP from COVID-19 testing and vaccine clinics), a change in charge request at or under 3.5% from its FY21 budget, continued involvement in value-based care reform, and a budget submission that complied with FY22 Budget Guidance, had schedules that reconciled, and was deemed reasonable. *See id.*

FY22 REVIEW PROCESS

Hospitals submitted their FY22 budgets to the GMCB on or about July 1, 2021, and hospitals that were not exempt from public hearings presented their budgets at public GMCB meetings between August 17, 2021 and August 27, 2021. The Board and its staff reviewed and analyzed FY22 budget information submitted and presented by the hospitals, including detailed financial information, utilization data, inflation costs, population health goals, value-based care participation, patient access data and wait times, budget-to-budget NPR/FPP growth rates, trended NPR/FPP growth rates forward from FY19 as a pre-pandemic base year, prior budget performance, and requested changes in charges. In addition, the Board considered comments from the Office of the Health Care Advocate (HCA) and from members of the public. The Board also considered each hospital’s unique circumstances, including its health care reform efforts, capital and infrastructure needs, hospital-specific risks and opportunities, and applicable cost-reduction initiatives.

The hospitals requested a systemwide NPR/FPP increase of 6.4% over the systemwide FY21 budgeted NPR/FPP. GMCB PowerPoint, FY 2022 Vermont Hospital Budgets, Board Deliberations, 11 (Sept. 13, 2021) (Deliberations III). After adjusting budgets to remove NPR/FPP related to COVID-19 vaccines and testing, the systemwide requested NPR/FPP increase was 6.0%. *Id.* After considering presentations from and discussions with hospital leadership, analysis prepared by GMCB staff, and input from the HCA and the public, the Board established hospital budgets that allow for a systemwide NPR/FPP growth rate for FY22 of 6.1% over the approved systemwide FY21 NPR/FPP. Approved Budgets, 16.

In addition, the Board reviewed each hospital’s proposed change in charge, which is the average amount by which a hospital increases its charges.⁴ Notably, the respective payers — Medicare, Medicaid, and commercial — do not reimburse each hospital the same amount for the same services. For example, commercial payers can negotiate reimbursements with each hospital

⁴ Changes to the actual charges vary by hospital and across service lines.

separately, resulting in pricing variations, while Medicaid and Medicare prices are not typically negotiable, and reimbursement is instead established through each payer's unique fee schedule and update factors. Medicaid reimbursements have not increased, and generally hospitals have not expected any increase in Medicaid reimbursement in FY22 budgets, despite increased costs associated with inflation. The larger rate increases that hospitals requested for FY22 are driven by that cost shift, as hospitals need higher commercial charges to cover inflation not reimbursed by public payers. Taking into consideration all adjustments, the Board reduced the estimated system weighted overall average change in charge from the requested 6.0% to 5.2%. Approved Budgets, 18.

Vermont community hospitals continue to transition to a value-based health care system focused on prevention, wellness, and health. Hospitals' expected fixed prospective payments as a percentage of NPR/FPP for FY22 range from 0% to 24%. Preliminary Review, 21. Out of close to \$3 billion NPR/FPP for all Vermont community hospitals in FY22, \$409 million, or 14%, is expected to be in the form of fixed prospective payments for FY22. *Id.* For FY21, hospitals also project 14% of NPR/FPP to be in the form of fixed prospective payments.

The Board considered each hospital's submitted budget in the context of certain financial metrics that measure the hospital's performance against state, regional, and national peer groups. Financial metrics include operating margins, total margins, days cash on hand, days receivable, days payable, long-term debt to capitalization ratios, debt service coverage ratios, and average age of plant. See Deliberations II, 24-31. The financial metrics are compiled from data from Fitch Ratings Solutions, Inc. and Flex Monitoring.⁵

Copley filed its FY22 budget submission on July 2, 2021, its narrative on July 8, 2021, and a revised narrative on July 9, 2021. Copley requested a 13.4% increase in its NPR/FPP and a 5.0% change in charge. Copley FY22 Budget Submission, Narrative, 2 (Copley Submission); GMCB Deliberations II, 94. Copley's 13.4% NPR/FPP increase exceeds the 3.5% NPR/FPP growth guidance set by the Board even after adjustments for COVID-19 vaccine clinic and testing revenue. Copley's FY21 budget-to-projection variance is 5.5% (i.e., its FY21 projected NPR/FPP is 5.5% more than its FY21 budget), and as a result the hospital's FY22 budgeted NPR/FPP represents a 7.5% increase from its projected FY21 results. *See* Deliberations II, 94.

Copley's senior leadership presented the FY22 budget to the Board at a public hearing held August 23, 2021. *See* Copley FY22 Budget Presentation (Aug. 23, 2021) (Copley Presentation), 1. On September 3, 2021, following GMCB staff presentations and deliberation, the Board approved Copley's budget, as adjusted in this Order, with a 12.0% increase in NPR/FPP for FY22 after adjusting for a provider transfer (which would be a 12.4% increase without adjusting for the provider transfer) and a 4.0% increase in average overall charges.

Based on the above, the Board issues the following Findings, Conclusions, and Order:

FINDINGS

⁵ The Flex Monitoring Team is a consortium of researchers from the Universities of Minnesota, North Carolina-Chapel Hill, and Southern Maine, funded by the Federal Office of Rural Health Policy to evaluate the impact of the Medicare Rural Hospital Flexibility Grant Program (the Flex Program).

COVID-19 Pandemic

1. COVID-19 (SARS-CoV-2) and its variants have significantly impacted hospital operations and budgets in Vermont, from the first reported case in March, 2020, through the current hospital budget review process. Vermont's Governor declared a state of emergency on March 13, 2020, which lasted through June 15, 2021, to address the ongoing threat from COVID-19. See State of Vermont, Executive Order 01-20 (March 13, 2020).
2. Vaccines to treat COVID-19 were authorized for emergency use by the U.S. Food and Drug Administration in December 2020 and were rolled out to states, including Vermont, which then started distribution of the vaccine on an age-based basis from late 2020 through 2021. Vermont leads the nation in vaccination rates, with approximately 77% of the eligible population fully vaccinated as of September 2, 2021.⁶ Despite its high vaccination rates, Vermont and its hospitals face continued challenges from COVID-19 and its emergent variants.
3. COVID-19 significantly affected hospital operations and finances in FY21. Systemwide, hospitals budgeted \$2.79 billion in FY21 NPR/FPP but projected \$2.69 billion for FY21 NPR/FPP at the time of submitting their FY22 budgets. Deliberation II, 7. The challenges hospitals faced creating FY21 budgets because of uncertainty and fluctuations resulting from the pandemic affected hospitals' budgeting process for FY22 also. See Deliberation II, 5.
4. Federal and state governments provided financial assistance to health care providers during the pandemic. Vermont hospitals received approximately \$191 million in COVID-19 related funding in FY20, and project approximately \$107 million in COVID-19-related funding for FY21 on a statewide basis. Deliberations II, 16. For FY22, only one hospital included any COVID-19 funding in its budget, in a total amount of \$200,000. *Id.*

Copley Budget Submission

5. Copley is a critical access hospital with its primary location in Morrisville, Vermont. Copley's FY22 submitted NPR/FPP accounted for approximately 2.9% of the total submitted NPR/FPP for all 14 regulated hospitals in the State. See Deliberations II, 10.
6. Copley filed its FY22 budget submission on July 2, 2021, its narrative on July 8, 2021, and a revised narrative on July 9, 2021. Copley's budget requested a 13.4% growth in NPR/FPP, for a total of \$86,390,520. See Deliberations II, 94; Copley Submission, Narrative, 2. Copley's FY21 budget-to-projection variance is 5.5%, meaning that Copley's projected FY21 NPR/FPP is 5.5% greater than its FY21 budget and that its budgeted FY22 NPR/FPP is 7.5% greater than projected FY21 NPR/FPP. See Deliberations II, 94. In order to normalize NPR/FPP growth and exclude the impacts of COVID-19, the Board trended NPR/FPP at a 3.5% rate from FY19 approved budgets to FY22 as a point of comparison to the hospital's proposed NPR/FPP. This hypothetical 3.5% NPR/FPP increase would result in

⁶ See Vermont Department of Health, COVID-19 Vaccine Dashboard, available at: <https://www.healthvermont.gov/covid-19/vaccine/covid-19-vaccine-dashboard>.

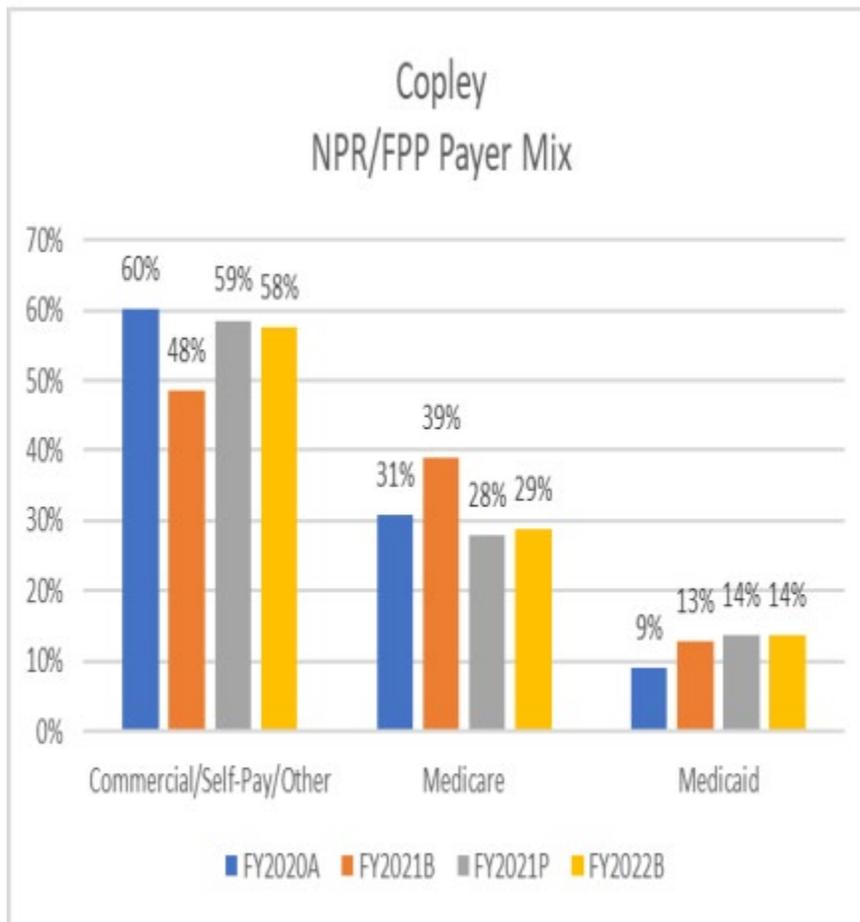
an FY22 NPR/FPP of \$74,277,241, which is approximately \$12.1 million less than Copley's budgeted NPR/FPP for FY22. *See* Deliberations II, 94.

7. Copley's FY22 budget includes requests for one provider transfer adjustments. Deliberations II, 95-96. Copley hired an independent neurologist from Community Health Services of Lamoille Valley, a nearby federally qualified health center, effective April 1, 2021, increasing Copley's NPR/FPP by \$314,197 and increasing its operating expenses by \$501,590. *Id.* When adjusted for provider transfers, Copley is effectively requesting a 13% increase in NPR/FPP for FY22 over its FY21. *See id.*
8. On September 3, 2021, the Board unanimously acknowledged Copley's provider transfer adjustments as submitted and subject to the notification requirements set forth in Act 143 of 2016. GMCB Meeting Minutes, 2 (Sept. 3, 2021).
9. Copley's FY22 NPR/FPP increase from its FY21 budget is comprised of utilization (\$4.2 million), rate effect (\$3.7 million), and reimbursement and payer mix (\$3.1 million). *See* Deliberations II, 97.
10. Copley's FY22 budget assumes that overall volume will decrease slightly from projected FY21 volumes, but will be an increase from the volumes that Copley assumed in its FY21 budget. *See* Copley Submission, Narrative, 2; Copley Presentation, Slide 16; Testimony of Jeff Hebert, Hearing Transcript, 124:18-125:9. Compared to projected FY21 volumes, Copley expects inpatient services to increase slightly (1.6%), outpatient service volumes to remain level, and clinic visits to decrease slightly (1.8%). *See* Copley Submission, Narrative, 2. Compared to FY21 budgeted volumes, Copley expects FY22 inpatient volumes to be 8.6% lower, outpatient volumes to be 13.2% greater, and clinic volumes to be 5.4% greater. *See* Copley Presentation, Slide 16.
11. Copley's requested NPR/FPP increase of 13.4% from FY21 budget is the largest among Vermont hospitals; the budgeted FY22 NPR/FPP increase for all Vermont community hospitals is 6.4%. *See* Deliberations II, 11. Copley's NPR/FPP increase from FY21 projections to FY22 budget is the sixth highest among Vermont community hospitals. *See id.* Copley's compound annual growth rate for NPR/FPP from FY19 to FY22 is 8.8%, which is the largest among Vermont community hospitals during that period. *See Id.*
12. Copley submitted its FY22 budget with a requested average overall charge increase of 5.0%. *See* Copley Submission, Narrative, 2; Deliberations II, 94. The change in charge is distributed evenly across inpatient, outpatient, and professional services. *See* Deliberations II, 101. The value of a 1% change in charge for Copley is \$734,279. *Id.*
13. Copley's requested 5.0% change in charge for FY22 is less than the estimated weighted average for all Vermont community hospitals of 6.0%. Deliberations II, 8. In its FY21 budget, Copley requested an 8.0% change in charge and received 6.0%. Deliberations II, 101. For FY20, Copley requested and received a 9.8% change in charge. *Id.* For FY19, Copley requested a 7.9% change in charge and received 4.5%. *Id.* Copley's five year (FY17-FY21) average approved change in charge is 2.64%, which is the fifth lowest among

Vermont community hospitals for that period, but its median approved change in charge was 4.5%, which was the second highest. Deliberations II, 9.

14. Copley’s FY22 budget includes \$0 increase as a result of Medicaid reimbursement increases. *See Deliberations II, 101; Testimony of Jeff Hebert, Hearing Transcript, 126:25-127:5.* Copley expects that its Medicare volume will continue to increase in FY22. *See Copley Presentation, Slide 16.* Copley’s FY22 budget includes a \$1.6 million increase related to higher Medicare reimbursements, which represents an increase of approximately 5.6% from FY21 Medicare payments. *See Deliberations II, 101; Copley Submission, Appendices Workbook, Appendix 1 – Reconciliation Table.* Copley’s budget also includes \$1.9 million increase expected from the change in charge from commercial payers. *See Deliberations II, 101.* Copley, as a critical access hospital, receives a cost-based reimbursement from Medicare, and consequently Copley’s rate is increased commensurate with its cost increases, Copley stated that for Medicare the hospital will capitalize on that cost increase in its entirety. *See Testimony of Jeff Hebert, Hearing Transcript, 126:17-126:24.*

15. Copley’s proposed FY22 budget includes the following allocation of NPR/FPP by payers:



See Deliberations II, 102.

16. The ratio of gross to net revenue collection rates for commercial to Medicare for Copley is 164% in its FY22 budget. *See* Deliberations II, 139.
17. Copley's FY22 budget includes total operating expenses of \$86,378,982, an increase of approximately \$9.8 million, or 12.8%, over budgeted FY21, and approximately \$4.7 million more than projected FY21 operating expenses. Copley FY22 Budget, Staff Analysis, Income Statement, 3-4. Salary and wage expense is a primary driver of increased operating expenses: Copley plans to add 24 full time equivalent (FTE) employees for FY22, and has also seen an increased use in travelers and contracted services to fill gaps in its staffing in FY21. *See* Copley Presentation, Slide 33; Testimony of Jeff Hebert, Hearing Transcript, 140:3-140:23. In addition to salary, contracts, and benefits, which are budgeted to increase 12% from FY21 to FY22, Copley's increase in operating expenses comes from the health care provider tax, which Copley expects to be 15% more because of its FY21 net patient revenue, depreciation, which Copley expects to increase 19%, and other operating expenses, which Copley expects overall will increase 13%. *See* Copley Submission, Narrative, 3.
18. For FY22, Copley budgeted an operating margin of \$1,025,864, or 1.17%, and a total margin of 1.5%. Copley FY22 Budget, Staff Analysis, Income Statement, 4. Copley projects a 0.6% operating margin (equal to \$510,859) and a 1.0% total margin in FY21. Copley FY22 Budget, Staff Analysis, Income Statement, 3. For FY20, Copley had an operating margin of -3.9% (reflecting an operating loss of \$2,756,792) and a -3.2% total margin. Deliberations II, 100; Copley FY22 Budget, Staff Analysis, Income Statement, 3. From FY16 through FY20, Copley had a negative operating margin. *See* Copley Presentation, Slide 24; Testimony of Joseph Woodin, Hearing Transcript, 132:14-133:17. COVID-19 relief funds in FY21 are helping Copley project a positive operating margin. *See* Testimony of Joseph Woodin, Hearing Transcript, 132:19-132:21.
19. Copley has not budgeted for any COVID-19 stimulus or relief funds for FY22. Copley FY22 Budget, Staff Analysis, Income Statement, 4. Copley recognized \$852,053 in COVID-19 stimulus and relief funds and other grants in FY20, and projects \$534,296 for FY21. Copley FY22 Budget, Staff Analysis, Income Statement, 3. Copley has received approximately \$5.8 million in CARES Act / Provider Relief Funding and \$5 million in a Paycheck Protection Program loan. *See* Copley Submission, Narrative, 5. Copley applied to the U.S. Small Business Administration for forgiveness of the PPP loan, but while its application for loan forgiveness is pending, Copley has recorded the funding, along with other COVID-19 relief funding that Copley may be required to repay, as a current liability on its balance sheet. *See id*; Copley Submission, Appendices Workbook, Appendix 7 – COVID-19 Advances, Relief Funds, and Other Grants. Copley projects \$16.9 million in current liabilities from COVID-19 for FY21, and budgeted \$1.1 million in current liabilities from COVID-19 for FY22. *See* Copley Submission, Staff Analysis, Balance Sheet, 5. If Copley's PPP loan is forgiven or it determines that it will not be required to repay COVID-19 relief funding, Copley can recognize those amounts as revenue and remove them from current liabilities on its balance sheet.
20. For 2021, Copley is a participating provider in OneCare Vermont's Medicaid and MVP commercial programs. *See* Copley Submission, Narrative, 7; Deliberations II, 32. For 2022,

Copley is tentatively planning on joining the BlueCross BlueShield of Vermont commercial programs as well. *See* Copley Submission, Narrative, 7.

21. Copley budgeted approximately \$5 million of its FY22 patient services income paid in FPPs. *See* Deliberations II, 13. This represents 5.8% of Copley's budgeted FY22 NPR/FPP, which is less than the systemwide total of 13.8% of NPR/FPP paid as FPP. Deliberation II, 13. For FY21, Copley budgeted approximately \$4.8 million of its \$76.2 million NPR/FPP, or 6.3%, to be paid in FPPs. *See* Copley Submission, Staff Analysis, Income Statement, 3.
22. Copley's budget anticipates 43.6 days cash⁷ on hand in FY22. Copley FY22 Budget, Staff Analysis, Balance Sheet, 5. Copley's days cash on hand is affected by Copley's treatment of its PPP loan and other COVID-19 relief funding as a current liability that the hospital will be required to repay, but if the PPP loan is forgiven and Copley is able to retain other COVID-19 relief funding, Copley's days cash on hand would increase commensurate with the amounts retained. *See* Copley Submission, Staff Analysis, Balance Sheet, 5; Copley Submission, Appendices Workbook, Appendix 7 – COVID-19 Advances, Relief Funds, and Other Grants; Finding of Fact, ¶19. Copley expects to have 120.8 days cash on hand at the end of FY21. *Id.* Copley's cash position for FY21 is projected to be better than it had budgeted for FY21 (70.8 days cash on hand), but less than its FY20 days cash on hand of 199.8. *Id.* Copley's days cash on hand is less than the Vermont median for critical access hospitals of 148.6, and less than the benchmarks for Northern New England and Northeast CAH hospitals. *See* Deliberations II, 26.
23. Copley's narrative, presentation, and other filed budget information comply with the Board's FY22 hospital budget requirements.
24. Approving Copley's budget as outlined below will promote the efficient and economic operation of the hospital and is consistent with the current Health Resource Allocation Plan (HRAP) and ongoing community needs in Copley's Health Service Area.

CONCLUSIONS

Our review of FY22 budgets comes during a challenging period for Vermont hospitals, which are struggling to manage the ongoing COVID-19 pandemic, care for a growing number of patients who deferred care during the pandemic and are now arriving at the hospital sicker, address significant staffing challenges, and cover the costs associated with inflation. The COVID-19 pandemic has placed significant strain on hospital operations, hospital finances, and the health care workforce. The pandemic has also created uncertain and highly variable hospital utilization, making it difficult for hospitals to budget accurately.

Hospitals also face significant challenges providing adequate staffing to handle demand. Staffing challenges are not new for hospitals,⁸ nor are the challenges limited to the State of Vermont, but staffing shortages have been exacerbated by the strain and other effects of the

⁷ The systemwide average for FY22 budgets is approximately 176 days cash on hand.

⁸ *See, e.g.,* GMCB Board Meeting January 30, 2019 on Health Care Workforce.

pandemic. Staffing shortages are playing out across the system in the form of higher costs for full-time providers, travelers, and other staff, employee burnout, and long patient wait times for certain services.

The cost-shift continues to be a serious concern facing Vermont community hospitals. Hospitals have generally budgeted no increase or only small increases for Medicaid reimbursements for FY22, which will not cover the cost of inflation, leaving hospitals to increase commercial rates more to cover that unreimbursed cost for public payers.

Based on our review, Copley's presentation, staff analysis, deliberations on September 3, 2021, we approve Copley's budget with the adjustments set out below. Copley's NPR/FPP growth is the highest among Vermont community hospitals. *See* Findings of Fact (Findings), ¶¶6, 11. That 13.4% growth results in part from Copley exceeding its FY21 budget, but we note that Copley has had significant NPR/FPP growth over the past five years, with the highest compound annual growth rate of Vermont community hospitals. Findings, ¶11. Additionally, over the past three fiscal years Copley requested high changes in charge of 8.0%, 9.8%, and 7.9%, and Copley received high changes in charge of 6.0%, 9.8%, and 4.5%. Findings, ¶13. For FY22, Copley is expecting an increase in its Medicare population, and Copley is able to capitalize on rate increases that are commensurate with expenses for Medicare as well as commercial payers. *See* Findings, ¶14. Copley has a small Medicaid population and therefore has less of a cost shift to commercial payers from Medicaid. *See* Findings, ¶15. Therefore, we approve Copley's budget with a 4% change in charge, which is a reduction of 1% from Copley's submitted budget. The value of a 1% change in charge is \$734,279. Findings, ¶12. We reduce Copley's submitted FY22 NPR/FPP by \$734,279 and approve Copley's budget with a 12% increase in NPR/FPP from its approved FY21 budget, accounting for the adjustment for the provider transfer that we acknowledged in Findings, ¶8 (a 12.4% increase without adjusting for the provider transfer).

ORDER

Based on our findings and conclusions and the authority granted by Chapter 221, Subchapter 7 of Title 18, Copley's budget is approved with the adjustments below for FY22 subject to the following terms and conditions:

- A. Copley's FY22 NPR/FPP budget is approved at a growth rate of 12.4%, which is a growth rate of 12% after accounting for the acknowledged provider transfer adjustments, over its FY21 budget, with a total NPR/FPP of \$85,656,271 for FY22.
- B. Copley's overall average charge increase is approved at not more than 4.0% over current approved levels.
- C. Beginning on or before November 20, 2021, and every month thereafter, Copley shall file with the Board the actual year-to-date FY22 operating results as of the end of the prior month. The report shall be in a form and manner as prescribed by GMCB staff.

- D. Copley shall participate in telephonic check-ins to be scheduled at the discretion of the Board Chair in consultation with Board staff based on the hospital's FY22 year-to-date operating performance
- E. Copley shall advise the Board of any material changes to its FY22 budgeted revenues and expenses, or to the assumptions used in determining its budget, including:
 - a. changes in Medicaid, Medicare, or commercial reimbursement;
 - b. additions or reductions in programs or services to patients; and
 - c. any other event that could materially change the approved NPR/FPP budget.
- F. On or before January 31, 2022, Copley shall file with the Board, in a form and manner prescribed by GMCB staff, such information as the Board determines necessary to review the hospital's FY21 actual operating results.
- G. Copley shall file with the Board one copy of its FY21 audited financial statements and associated management letter(s), as well as the parent organization's audited consolidated financial statements, if applicable, 15 days after the hospital receives its statements, or by January 31, 2022, whichever is earlier.
- H. Copley shall participate in the Board's strategic sustainability planning process.
- I. Copley shall review the data and information in Mathematica's report Potentially Avoidable Hospital Utilization at Rural Hospitals⁹ regarding potentially avoidable utilization in their ED and inpatient settings, and hospitals will work with Board staff to potentially include these measures in non-financial reporting as part of the FY23 hospital budget review process, with the goal of developing strategies to reduce potentially avoidable utilization.
- J. Copley shall timely file all forms and information required for provider acquisitions and/or transfers as determined by GMCB staff, if applicable.
- K. Copley shall file all requested data and other information in a timely and accurate manner.
- L. After notice and an opportunity to be heard, the GMCB may amend the provisions contained herein, and issue an amended order, consistent with its authority as set forth in 18 V.S.A. Chapter 220, Subchapter 1, 18 V.S.A. Chapter 221, Subchapter 7, and GMCB Rule 3.000.
- M. All materials required above shall be provided electronically, unless doing so is not practicable.

⁹ See Mathematica, Potentially Avoidable Hospital Utilization at Rural Hospitals (August 11, 2021), available at: https://gmcboard.vermont.gov/sites/gmcb/files/documents/PotentiallyAvoidableHospitalUtilizationatRuralHospitals_Mathematica_BoardPres_20210811.pdf; see also Mathematica, Rural Health PAU Dashboard, available at: <https://rural-health.vrdc.mathematica-stg.net/landing>.

N. The findings and orders contained in this decision do not constrain the Board’s decisions in future hospital budget reviews, future certificate of need reviews, or any other future regulatory or policy decisions.

So ordered.

Dated: October 1, 2021
Montpelier, Vermont

<u>s/ Kevin Mullin, Chair</u>)	
<u>s/ Jessica Holmes</u>)	GREEN MOUNTAIN
<u>s/ Robin Lunge</u>)	CARE BOARD
<u>s/ Tom Pelham</u>)	OF VERMONT
<u>s/ Maureen Usifer</u>)	

Filed: October 1, 2021

Attest: s/ Jean Stetter
Green Mountain Care Board
Administrative Services Director

NOTICE TO READERS: This document is subject to revision of technical errors. Readers are requested to notify the Board (by email, telephone, or in writing) of any apparent errors, so that any necessary corrections may be made. (Email address: Lori.Perry@vermont.gov).