STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

FY2025 HOSPITAL BUDGET DECISION AND ORDER

In re:	Copley Hospital	)	Docket No. 24-003-H
	Fiscal Year 2025	)	
		)	

INTRODUCTION

Vermont is confronting a health care affordability crisis. Our state's marketplace plans are among the most expensive in the country.[1] Qualified Health Plan (QHP) premiums have grown more than in any other state.[2] Employer-based insurance premiums are growing faster than the national average.[3, 4] According to the 2021 Vermont Household Health Insurance Survey, the cost of health insurance is the most common reason for a gap in coverage.[5] Forty-four percent of privately insured Vermonters under the age of 65 are underinsured, meaning they have insufficient incomes to cover deductibles and out-of-pocket expenses.[6] Simply put, the commercial market in Vermont cannot afford the current cost of care. This year Vermonters submitted public comments to the Board identifying the harmful impacts of these costs on their businesses, their budgets, and their ability to pay for care.[7]

Nonetheless, in August, the Green Mountain Care Board (GMCB or Board) approved individual rate increases averaging 14.2% for MVP and 19.8% for Blue Cross Blue Shield of Vermont (Blue Cross). The Board also approved small group rate increases averaging 11.1% for MVP and 22.8% for Blue Cross.[8] This difficult decision responded to these insurers' history of losses and serious concerns expressed by the Department of Financial Regulation about Blue Cross' continued solvency.[9] Effective July 1, 2024, the Department of Financial Regulation approved premium increases of 15.7% to 16.7% for the Vermont Education Health Initiative (VEHI).[10] These high commercial increases will make it more difficult for many Vermonters to afford care. For the small group market, many of these increases will be borne by small employers

[1] KFF Average Marketplace Premiums by Metal Tier, 2018-2024. https://www.kff.org/affordable-care-act/state-indicator/average-marketplace-premiums-by-metal-tier.
[2] *Id.*
[3] *See* GMCB Staff Presentation, Overview of FY25 Budget Requests (Aug. 6, 2024), 9.
[4] Hospital FY25 budget materials, including GMCB guidance documents, hospital budget submissions, professional reports, and GMCB staff analyses are available on the GMCB website at gmcboard.vermont.gov/hospital-budget-review. Board presentations are available at gmcboard.vermont.gov/2024-meetings. Recordings of GMCB hearings and deliberations are available at www.orcamedia.net/ and www.youtube.com/@GreenMountainCareBoard.
[5] *See* Vermont Department of Health, 2021 Vermont Household Health Insurance Survey (March 2022), 44-45, 118, available at: https://www.healthvermont.gov/sites/default/files/documents/pdf/HSVR-VHHIS-2021-Report.pdf.
[6] *Id*.
[7] *See* GMCB Staff Presentation, Impact of FY25 Budget Requests (Sept. 4, 2024), 3-10.
[8] Press Release: GMCB Sets Premium Adjustments for BCBS and MVP. https://gmcboard.vermont.gov/board/news.
[9] *Id.*
[10] Vermont Education Health Initiative (VEHI), VEHI FY 25 Health Rates Approved for Website.pdf.

or their employees. VEHI rate increases will impact homeowners in the form of property tax increases across the state.[11]

For commercial rate increases to slow, our statewide health system needs to curb spending. While hospitals make up one-third of total health care spend nationally, Vermont hospitals account for almost half of the state's total health care expenditures.[12] In FY24, spending at Vermont hospitals is expected to be $3.6 billion.[13] Collectively, hospitals' budget submissions reflect a 48% increase over pre-pandemic actuals, an increase of $1.6 billion since FY19.[14] Nonetheless, health care access is unacceptably low. Vermont has had longer wait times than peer states, with half of statewide specialist appointments not scheduled within two months.[15] Specialist utilization has shown signs of decreasing and, despite the state's reform efforts, PCP utilization has not shown meaningful signs of improvement.[16] This year, the GMCB collected clinical productivity data from each hospital, finding that approximately 70% of reported hospital departments are performing below the 50th percentile of their respective benchmark.[17] Despite recent GMCB orders approving high commercial rate increases, 9 out of 14 hospitals in Vermont had negative operating margins in each of the last two years.[18, 19]

In July 2024 the Board began its review of the FY25 budgets proposed by Vermont's 14 general community hospitals. Following public meetings, presentations by hospitals, presentations by GMCB staff, and a special public comment period, the Board established each hospital's budget in conformity with the framework set out in statute. In total, FY25 systemwide hospital net patient revenue and fixed prospective payments ("NPR/FPP" or "NPR") is capped at $3.7 billion, an increase of 4.1% ($146 million) over FY24 budgeted NPR. FY25 systemwide hospital increases to commercial NPR are capped at $1.9 billion, an increase of 3.3% ($58.7 million) over FY24. This is a 43% reduction in total commercial NPR growth proposed by hospitals, representing a modification of $43.5 million.

LEGAL FRAMEWORK

Review of proposed hospital budgets is one of the Board's core regulatory duties. 18 V.S.A. §§ 9375(b)(7), 9456. Hospitals bear the burden of persuasion in justifying their proposed budgets. GMCB Rule 3.000, § 3.306(a). The Board must establish a hospital's annual budget no later than September 15 and issue a written decision by October 1. 18 V.S.A. § 9456(d)(1).

When reviewing a hospital's budget, the Board is guided by its statutory purpose (18 V.S.A. § 9372), its duty to regulate consistent with the principles of health care reform (18 V.S.A. § 9371; *see also* 18 V.S.A. § 9375(a)), its obligation to establish budgets with the considerations

[11] *See* 16 V.S.A. §§ 4025(a)(1), 4025(b).
[12] Peterson-KFF Health System Tracker. https://www.healthsystemtracker.org/indicator/spending/drivers-health-spending-growth
[13] *See* Impact of FY25 Budget Requests, GMCB Staff Presentation (Sept. 4, 2024), 16.
[14] *Id.*, at 29.
[15] *See* Health Services Wait Times Report, AHS, GMCB, and DFR (Feb. 16, 2022), 24.
[16] *Id.*, at 25.
[17] *See* Impact of FY25 Budget Requests, GMCB Staff Presentation (Sept. 4, 2024), 30.
[18] *Id.*, at 33.
[19] *See* FY23 Vermont Hospital Reporting: Year-End Actuals, GMCB Staff Presentation (Mar. 13, 2024), 9.

for hospital budget review specifically set forth in statute (18 V.S.A. § 9456), and the benchmarks established annually against which proposed budgets are evaluated (18 V.S.A. § 9456(e); GMCB Rule 3.000, §§ 3.202, 3.305).

First, the Legislature's purpose in establishing the Board was 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.

Second, the Board must execute its duties consistent with the principles of health care reform set forth in 18 V.S.A. § 9371. These principles include, but are not limited to, the following:

(1) "The State of Vermont must ensure universal access to and coverage for high-quality, medically necessary health services for all Vermonters. Systemic barriers, such as cost, must not prevent people from accessing necessary health care." 18 V.S.A. § 9371(1).

(2) "Overall health care costs must be contained, and growth in health care spending in Vermont must balance the health care needs of the population with the ability to pay for such care." 18 V.S.A. § 9371(2).

(3) "Primary care must be preserved and enhanced so that Vermonters have care available to them, preferably within their own communities." 18 V.S.A. § 9371(4).

(4) "Vermont's health delivery system must seek continuous improvement in health care quality and safety and of the health of the population and promote healthy lifestyles. The system therefore must be evaluated regularly for improvements in access, quality, and cost containment." 18 V.S.A. § 9371(9).

(5) "Vermont's health care system must include mechanisms for containing all system costs and eliminating unnecessary expenditures, including by reducing administrative costs and by reducing costs that do not contribute to efficient, high-quality health services or improve health outcomes. Efforts to reduce overall health care costs should identify sources of excess cost growth." 18 V.S.A. § 9371(10).

Third, in conjunction with budget reviews, the Board considers numerous factors including but not limited to (1) Vermont's critical health needs and resources; (2) actual hospital performance with respect to past budgets, (3) utilization information; (4) hospital administrative costs, (5) the salaries for hospital leadership, hospital salary spread, and a comparison of median salaries to the medians of northern New England states; (6) reimbursement changes for public health care programs, and the extent to which undercompensated costs are charged to the commercial market; (7) hospitals' investments in workforce development, (8) reports from professional review organizations; (9) public comment on all aspects of hospital costs and use, and on individual hospital budgets, (10) the benchmarks established by this Board; and (11) any other information

this Board deems relevant. 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; promote the hospital's efficient and economic operations; reflect the hospital's budget performance for prior years; and take into consideration national, regional, or in-state peer group norms according to indicators, ratios, and statistics established by the Board. 18 V.S.A. § 9456(c).

Fourth, this Board adopts annual benchmarks by March 31 of each year, which hospitals use in the development and preparation of proposed budgets. GMCB Rule 3.000, § 3.202. The Board meets with Vermont hospitals, the Vermont Association of Hospitals and Health Systems (VAHHS), and any other interested persons to obtain input prior to establishing benchmarks. GMCB Rule 3.000, § 3.202(a). Benchmarks for FY25 consist of the following: (1) NPR[20] growth benchmarked at 3.5% over FY24 systemwide approved budgets; (2) commercial rate growth[21] benchmarked at 3.4% over FY24 approved commercial rates; and (3) an operating margin greater than 0%. FY2025 Hospital Budget Guidance & Reporting Requirements (Mar. 29, 2024; updated Apr. 18, 2024), 8-9 (FY25 Guidance). These benchmarks assist the Board in determining the extent to which adjustment of a proposed budget is necessary to carry out the statutory criteria described above.

FY25 REVIEW PROCESS

The Board and its staff began developing the FY25 Guidance in December 2023. During this process, Board staff met with representatives of hospitals, the Vermont Association of Hospitals and Health Systems (VAHHS), and the Office of the Health Care Advocate (HCA), a division of Vermont Legal Aid that represents the interests of Vermont consumers. The Board adopted FY25 Guidance ("FY25 Guidance" or "Guidance") on March 31, 2024. A minor update was made to the Guidance on April 17, which changed the report period for referral and visit lags. *See* Guidance, 3. Section I of the FY25 Guidance includes the benchmarks described above.

Copley Hospital (Copley) requested a 11.8% increase in NPR over its FY24 approved budget and a 10.5% increase in commercial rate over its FY24 approved commercial rate. Copley's senior leadership presented its proposed budget to the Board at a public hearing held on August 7, 2024. Copley also submitted pre-hearing and post-hearing responses to questions asked by GMCB staff.[22] On September 13, 2024, following GMCB staff presentations and Board deliberations, and for the reasons set forth below, the Board established Copley's FY25 budget with modifications, setting FY25 NPR growth at not more than 9% over its FY24 approved budget, with commercial rate growth at not more than 3.4% over its FY24 approved commercial rate.

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[20] NPR is defined as the net revenue a hospital receives for the patient services it provides. NPR includes two forms of revenue: fee-for-service (FFS), which are payments made for individual services, and fixed prospective payments (FPP), which are advance payments made for specific services rendered to a set group of patients.

[21] Commercial rate growth is defined as the total increase in negotiated rate (or price) that a hospital receives from commercial health insurers. For the purposes of this Order, the terms "rate," "negotiated rate," and "price" are used interchangeably. These terms are distinct from "commercial revenue," which is comprised of two variables: price (what the hospital is paid for its services) and volume (the quantity of services the hospital provides). Commercial health insurance is defined as any health insurance provided by a private company (i.e. not Medicaid or traditional Medicare).

[22] *See* Additional FY25 Hospital Budget Information. https://gmcboard.vermont.gov/node/11866

FINDINGS

1. Copley is a critical access hospital with its primary location in Morrisville, Vermont.

2. In its FY25 budget submission Copley requested 11.8% growth in NPR from its FY24 budgeted NPR, for a total of $117,861,773. *See* Copley Submission, Income Statement, 2. This proposed increase exceeds the 3.5% growth benchmark.

3. Copley requested commercial negotiated rate growth of 10.5% over its FY24 approved rate. *See* Copley Workbook, Rate Decomposition Sheet. This proposed increase exceeds the 3.4% commercial negotiated rate growth benchmark.

4. Copley's proposed budget anticipates an operating margin of approximately $3.3 million, or 2.8%, which meets the benchmark for a positive operating margin. *See* Income Statement, 2.

5. A hospital's budgeted assumptions about its public payer rate increases can help delineate both the accuracy of its projected revenues and the reasonability of the commercial rate increase it submits with its budget. Copley assumes that for FY25 the Medicare reimbursement rate will increase by approximately 9% and the Medicaid reimbursement rate will increase by 0%. *See* Copley Workbook, Rate Decomposition Sheet. As a critical access hospital, Copley receives cost-based reimbursement for inpatient and outpatient services provided to Medicare patients. *See* Budget Narrative, 11. To determine the projected increase in Medicare reimbursement, it estimated the treatment expense increase for patients using cost accounting data from Medicare cost reports. *Id*. Copley's Medicaid assumption is consistent with the fact that the Department of Vermont Health Access (DVHA) will not be increasing Medicaid rates for FY25.

6. A hospital's budgeted assumptions about utilization can similarly help delineate the accuracy of its projected revenues and the reasonability of its commercial rate request. Copley arrives at its commercial rate request by assuming a 0.2% increase in NPR from FY24 budget due to increased utilization, spread equally across payer types. *See* Rate Decomposition Sheet; *see also* Hospital Budget Review, GMCB Staff Presentation (Sept. 6, 2024), 62. Copley's requested NPR increase of 11.8% is therefore budgeted to come almost exclusively from an increase in commercial rate. However, in its budget narrative, Copley writes that FY25 budgeted volume is expected to increase by 4.2% from FY24 budget and 0.6% from FY24 projected. *See* Budget Narrative, 10-11. If this utilization assumption is correct, Copley does not appear to need the commercial rate increase as calculated in the Rate Decomposition Sheet to arrive at an equivalent commercial revenue.

7. A hospital's net revenue and public payer reimbursement analysis is a method of showing that the revenue it needs from non-Medicaid payers incorporates any anticipated increases in Medicaid or public payer revenues. Hospitals are required to provide this analysis each year. *See* FY25 Hospital Budget Guidance & Reporting Requirements, Section VI, Part 11; *see also* 18 V.S.A. § 9456(b)(9). Copley provided details of gross and net patient revenue by payer but did not provide sufficient detail to show that the revenue it requests in the form of commercial rate growth incorporates these anticipated increases in public payer revenue. *See* Copley Salary Information, Response to Part 11.

. **Net Revenue & Public Payer Reimbursement - File an analysis that reflects a reduction in net revenue needs from non-Medicaid payers equal to any anticipated increase in Medicaid, Medicare, or another public health care program reimbursements, and to any reduction in bad debt or charity care due to an increase in the number of insured individuals as specified in 18 V.S.A. § 9456(b)(8) and (b)(9).**

	Gross Revenue Related to 10.7% Rate Increase	Net Revenue Related to 10.7% Rate Increase
Medicare	$ 9,632,226	$ 5,312,878
Medicaid	$ 2,970,423	$ -
Commercial	$ 8,476,099	$ 5,688,147
Private	$ 571,568	$ 131,359

8. The accuracy of a hospital's previous assumptions about its operating revenues and expenses can speak to the reasonableness of its projected operating margin. If a hospital underestimates revenues, it may see a higher margin than budgeted. If a hospital underestimates its expenses, it may see less margin than budgeted. Copley's operating revenues for FY23 were close to budget but it is projected to have underestimated operating revenues for FY24 by a wide margin of 5.3%. *See* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 53. It underestimated operating expenses for FY23 by 4.5% and operating expenses for FY24 by 2.3%. When taken together, Copley has had a recent pattern of obtaining higher operating revenues than budgeted and spending more than budgeted.

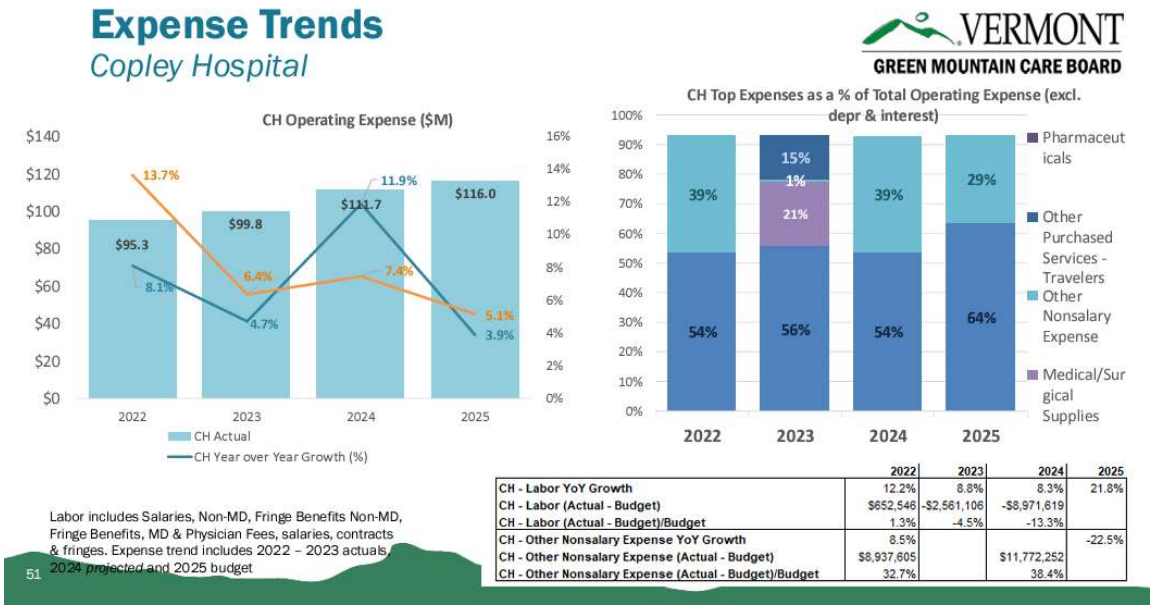
	2022	2023	2024
CH Operating Revenue	$94,664,395	$98,076,098	$111,709,076
CH Operating Expense:	$95,335,394	$99,802,638	$111,672,475
CH Margin:	-$670,999	-$1,726,541	$36,601
CH Operating Revenue: (Actual - Budget)	$7,993,798	$1,028,539	$5,600,181
CH Operating Revenue: % Difference in Actual vs. Budget	9.2%	1.1%	5.3%
CH Operating Expense: (Actual - Budget)	$8,956,412	$4,324,175	$2,504,042
CH Operating Expense: % Difference in Actual vs. Budget	10.4%	4.5%	2.3%
VT Operating Revenue: % Difference in Actual vs. Budget	5.7%	3.1%	3.0%
VT Operating Expenses: % Difference in Actual vs. Budget	10.4%	4.3%	3.3%

9. Comparing prior year budgeted margins to actual margins can help test the reasonableness of a proposed budget. Copley's FY23 actuals present concerning figures, with both the operating margin and total margin coming in negative and under budget. *Id*. at 54. This is one reason that Copley's FY24 application for a mid-year adjustment to its budget was approved with a 7% increase to its commercial rate. *See* Modification of FY24 Hospital Budget Decision and Order, Copley Hospital (Docket. No. 23-003-H), at 6. However, while Copley budgeted negative operating and total margins for FY24, its projected FY24 operating and total margins show a

small projected positive margin. *See* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 54. This projected improvement seems to indicate that recent large increases to commercial rate have stabilized Copley's operating and total margins.

	FY22 Budget	FY22 Actuals	FY23 Budget	FY23 Actuals	FY24 Budget	FY24 Projected	FY25 Budget
Operating Margin	0.3%	-0.7%	1.6%	-1.8%	-2.9%	0.0%	2.8%
Total Margin	0.7%	0.7%	1.9%	-1.4%	-2.6%	0.2%	3.2%
EBIDA	4.0%	2.6%	5.0%	1.6%	0.6%	2.9%	6.4%

10. The trajectory of a hospital's operating expense growth is one method of examining efficiency. Copley's operating expenses have grown generally at a lower rate than the Vermont average, except for projected expenses for FY24 which are coming in significantly over the Vermont average, as shown. *See* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 51.



	2022	2023	2024	2025
CH - Labor YoY Growth	12.2%	8.8%	8.3%	21.8%
CH - Labor (Actual - Budget)	$652,546	-$2,561,106	-$8,971,619	
CH - Labor (Actual - Budget)/Budget	1.3%	-4.5%	-13.3%	
CH - Other Nonsalary Expense YoY Growth	8.5%			-22.5%
CH - Other Nonsalary Expense (Actual - Budget)	$8,937,605		$11,772,252	
CH - Other Nonsalary Expense (Actual - Budget)/Budget	32.7%		38.4%	

11. A hospital's ratio of administrative and general salaries to clinical salaries is another method of gauging efficiency. A lower number indicates a smaller percent of non-clinical salaries in the hospital. Using the most recent FY22 data, Copley has a ratio of 16.4%, which is lower than the Vermont median and the other critical access hospitals in Vermont. *See* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 65.

12. A hospital's ratio of clinical to non-clinical employees is another method of gauging efficiency. For its FY25 ratio, Copley budgets 72% clinical FTEs and 28% non-clinical FTEs. Its

distribution of newly budgeted FTEs is 65% clinical and 35% non-clinical. *See* Workbook Submission; *see also* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 52.

13. Hospitals also monitor clinical productivity. When assessed at the hospital level, as done here, this measure is an indicator of potential inefficiencies. Copley's productivity data, as submitted, demonstrates that 30.6% of physician FTEs are in specialty areas performing below the 25th percentile, and 90.4% of physician FTEs are in specialty areas performing below the 50th percentile. *See* Workbook Submission, Clinical Productivity Tab; *see also* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 65. This indicates the existence of system-level capacity that, if improved, could both decrease wait times and increase overall NPR absent any increase to commercial rate.

14. A hospital's wait times are also an indicator of system efficiencies. While longer wait times can occur for many reasons, longer wait times paired with relatively low clinical productivity suggests the existence of untapped revenue that would increase patient access and mitigate the need for higher commercial price to generate margin. Copley reports that 73% of new patients are scheduled to be seen within 14 days. *See* Workbook Submission, Referral Lags and Visit Lags. 17% of new patients are scheduled to be seen within 15-30 days, 9% of new patients are scheduled to be seen within 31-90 days, and 1% of new patients are scheduled to be seen within 91-180 days. *Id*. When compared to other hospitals that reported this data Copley has relatively low wait times, with the first figure of 17% being the highest reported in Vermont. *See* GMCB Staff Analysis, FY25 Hospital Aggregated Wait Times.[23] However, Vermont experiences longer wait times than peer states. *See* Health Services Wait Times Report, AHS, GMCB & DFR, (Feb. 16, 2022), 24.

15. A hospital's investment in workforce development is an important aspect of its budget. *See* 18 V.S.A. § 9456(b)(12). Progress in this area can both improve access to services and can reduce costs at a time when statewide locum traveler expenses are still high. Copley employs a nursing assistant education program that prepares up to 24 participants each year for the Vermont Nursing Assistant Examination, which is required to become a Licensed Nursing Assistant (LNA). The program is a paid-to-learn program funded by Copley. Upon successful completion of the program and licensure, the candidate becomes an LNA at Copley. In 2022, a donor pledged $100,000 per year for ten years to fund a scholarship program. *See* Narrative, 16. This program is a valuable addition to our state's workforce development needs, especially considering Copley's high staff vacancy rates and high use of contract employees. *See* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 52.

16. In July 2024 Copley opened a new orthopedic medical office building, which replaced the prior medical office that Copley was leasing for its orthopedic practice. *See* Budget Narrative, 1. It is reasonable to conclude that this new medical office building will allow Copley to increase volume related to orthopedic procedures, which are a meaningful source of revenue for the hospital. *See* Copley Resp. to Questions (Aug. 12, 2024), 4.[24]

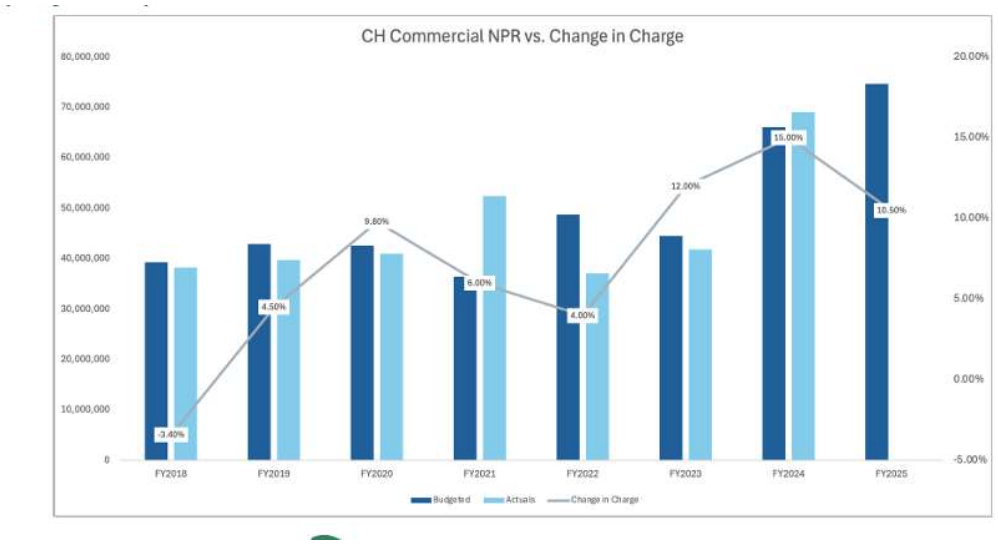
[23] https://gmcboard.vermont.gov/document/fy25-hospital-aggregated-wait-times
[24] *See also, e.g.,* https://www.wcax.com/2024/08/07/is-new-orthopedics-office-gold-mine-copley-hospital

17. Looking ahead, Copley should see some cost savings through group purchasing endeavors with its recent participation in the New England Collaborative Health Network, which will provide independent hospitals and their community partners, among other benefits, the benefit of group purchasing and shared administrative resources. *See* Copley FY25 Budget Presentation (Aug. 14, 2024), 20; Testimony of Woodin, Hearing Tr., 175:19 – 177:13.

18. Except for FY22 and FY23, commercial revenue has been the highest contributor to Copley's overall NPR. *See* Hospital Revenue Trends by Payer, Staff Analysis, 7.[25] While Medicare NPR is projected to remain flat between FY23 and FY24, Medicaid NPR is projected to increase by approximately $5.3 million. *Id*. Meanwhile, commercial NPR is projected to increase by approximately $12.2 million from FY23 to FY24, representing a $17.5 million increase in total NPR. If Copley's budgeted commercial price increase is approved as submitted, Copley expects to see an additional $4.3 million in commercial NPR. *Id.*

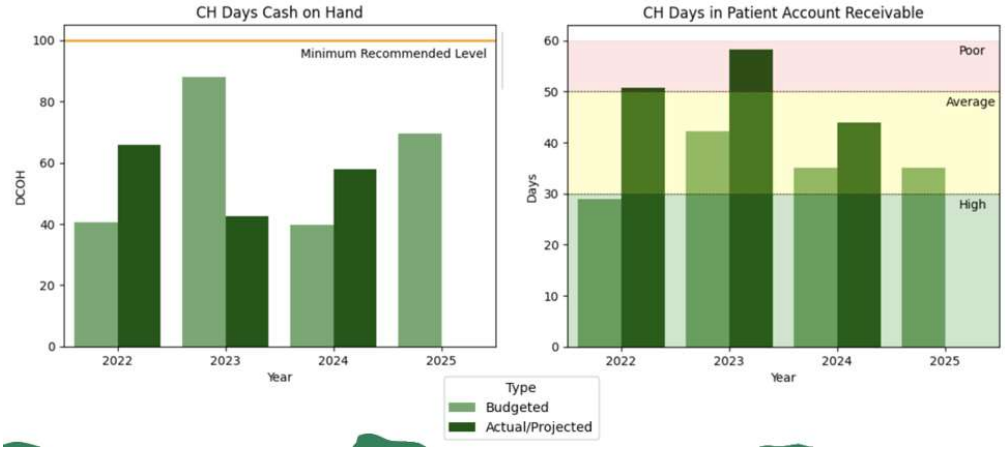
19. Copley has previously been approved for commercial charge increases as shown below. *Id*., at 50. These increases have contributed to the commercial NPR increase shown above. Recent increases have been substantial, including a 12% increase for FY23 and a 15% increase for FY24. As shown below, these increases have supported substantial commercial NPR growth in recent fiscal years.

[25] https://gmcboard.vermont.gov/hospital-budget-review/FY25-Professional-Staff-Analyses



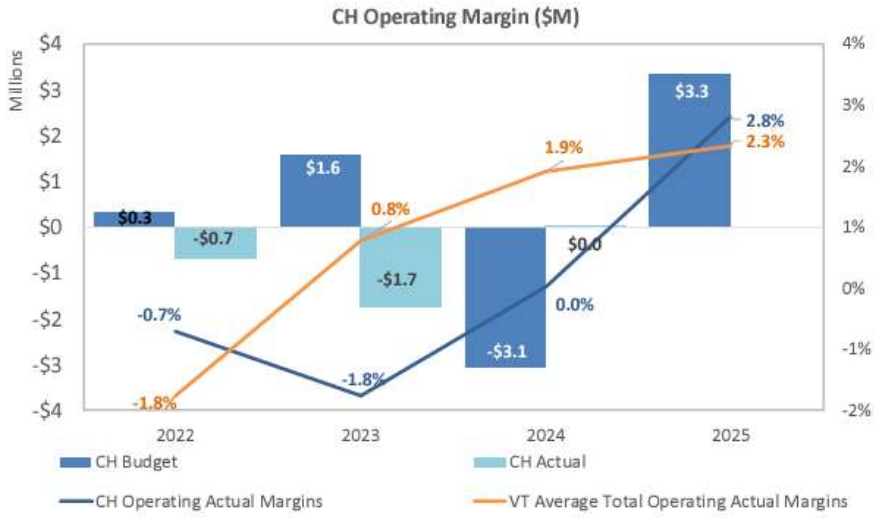
20. RAND standardized pricing provides a national comparison of hospital commercial prices. To determine standardized price, RAND first calculates a relative price by comparing a hospital's commercial prices to the Medicare payment system as a benchmark. RAND then calculates the standardized price by adjusting the benchmark using Medicare's case mix grouping and relative weights. For standardized price, a higher decile indicates that commercial prices appear to be higher than the national median, while a lower decile indicates that commercial prices appear to be lower than the national median. The most current RAND report uses prices from 2020 - 2022. *See* RAND Hospital Price Transparency Project, GMCB Presentation (Aug. 6, 2024), 7-9. Copley's commercial standardized prices appear generally low compared to hospitals nationally, except for outpatient prices which are around the national median. *See* Hospital Budget Review, Staff Presentation (Sept. 6, 2024), 60. However, this price data does not incorporate the 12% commercial increase that Copley received in FY23 or the 15% commercial increase it received in FY24.

21. Days cash on hand (DCOH) is a measure of a hospital's financial health. Copley's days cash on hand is low, with this figure hovering around 40 in FY23 and a projected value of 60 for FY24. *Id.* at 55. This projected increase of approximately 20 days cash on hand is encouraging but Copley's total is still a concerning metric of its financial health.



22. Days in patient accounts receivable, which reflects the average time it takes for a hospital to collect revenues for patient services rendered, is an important input to analyze a hospital's financial health. Using the industry standard, Copley's days in patient accounts receivable was relatively poor for FY22 and FY23, as shown above. *Id*. However, this figure as projected is improving, indicating the likelihood of a corresponding increase in days cash on hand. *Id*.

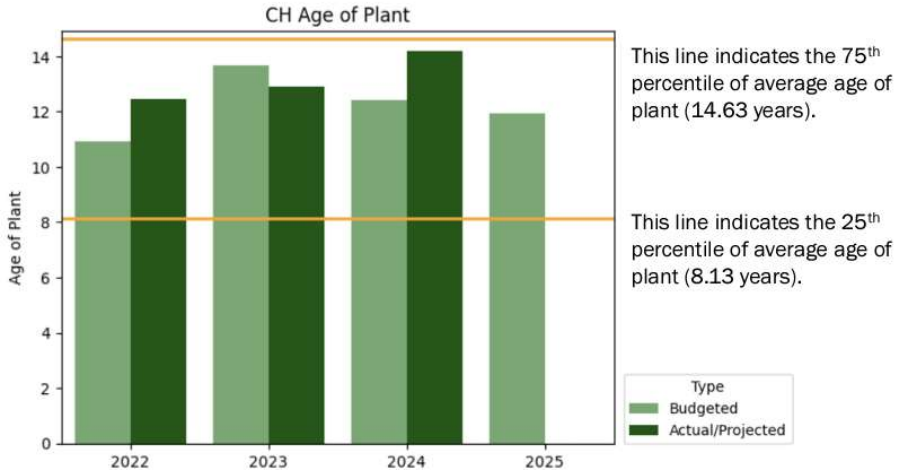
23. A hospital's operating margin is another evaluation of its financial health. Operating margins demonstrate a hospital's ability to cover expenses with revenues, but do not demonstrate that a hospital is efficiently delivering care or being adequately reimbursed. Copley has struggled to obtain a positive operating margin in recent years, as shown below, with actual operating margin coming in less than budgeted for FY22 and FY23. *Id*., at 53. For FY24 Copley is projected to obtain a higher operating margin than budgeted, but its operating margin is still projected to be zero. *Id*.



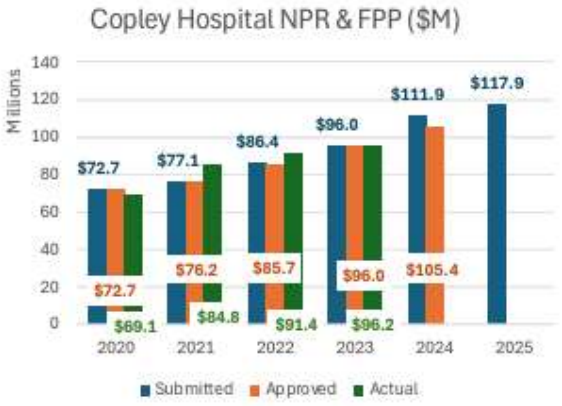
**Margin % shows Actuals 2022 - 2023, Projected 2024 & Budgeted 2025*

24. A hospital's ratio of current assets to current liabilities is another method of evaluating its financial health. Copley's current ratio of assets to liabilities is above breakeven and is above the US median. *Id.* at 56. Copley does not have any unrestricted funded depreciation. *Id*.

25. Average age of plant, a ratio that measures the age of a hospital's fixed assets, is another assessment of a hospital's financial health. It indicates how much capital spending may be required in the near term. As such, an older average age of plant indicates a greater immediate need for capital resources. Copley's average age of plant in recent years has been above the 25th percentile and below the 75th percentile, as shown below. *Id.*, at 57.



26. Copley prior years' submitted NPR, approved NPR, and actual NPR and operating expenses are shown below. *Id.* at 64.



27. Copley's prior year submitted operating margins, approved operating margins, and its actuals for FY20 through FY23 are shown below. *Id*. As discussed above, actual margins have been generally less than approved, except for FY21, when Copley benefited from COVID funding. *See* Copley FY25 Budget Presentation (Aug. 14, 2024), 24.

28. The GMCB solicited and considered public comment on all aspects of hospital costs and use, and on the budget proposed by Copley, through a special comment period during the GMCB's hospital hearings and deliberations.

CONCLUSIONS

While Copley met the GMCB's benchmark for positive operating margin, its proposed budget includes NPR growth of 11.8%, which exceeds the benchmark of 3.5%, and a commercial negotiated rate increase of 10.5%, which exceeds the benchmark of 3.4%. *See* Findings, ¶¶ 2-4. As such, we review Copley's budget submission consistent with the factors set out in FY25 Guidance, GMCB Rule 3.000, and in statute to determine whether it has satisfied its burden of persuasion in justifying its request. GMCB Rule 3.000, § 3.306(a).

We find that Copley has made reasonable public payer assumptions. *See* Findings, ¶ 5. However, we do not believe Copley's budgeted utilization increase of 0.2% for FY25 to be a reasonable assumption. *See* Findings, ¶ 6. Furthermore, a purpose of Copley's new orthopedic medical building is to increase access for patients, which we expect will result in higher orthopedic-related volumes and increased revenue. *See* Findings, ¶ 16. These volume discrepancies are important to our assessment because, if Copley underestimates operating revenue as it has in the past, its commercial rate increase as requested will likely lead to a higher NPR than budgeted. *See* Findings, ¶ 7.

Additionally, Copley argues that its budgeted NPR and commercial rate increase are necessary to remediate insufficient operating margins and low prices. *See* Copley FY25 Budget Presentation (Aug. 14, 2024), 23. We find these arguments unpersuasive. Copley's low operating margins in FY22 and FY23 were due in part to underestimated operating expenses for both years; for FY24 Copley is projected to close this gap with the difference between actual and budgeted operating expense reduced to 2.3% and a projected operating margin of 0%. *See* Findings, ¶¶ 8-9. While Copley's arguments about its low prices have been persuasive in the past and would seem to be supported by its standardized prices, the RAND data does not incorporate price changes in FY23 or FY24, which are both years in which Copley received substantial increases to its commercial rate. *See* Findings, ¶¶ 19-20. For these reasons and the reasons above, we find that Copley has not met its burden of justifying its budget as submitted.

In support of our obligation at 18 V.S.A. § 9456(c)(3) to promote efficient and economic operation of the hospital, we next turn to Copley's recent financial performance and efficiency of delivering care. Except for FY24, Copley has managed to keep operating expense growth moderately low compared to the state average. *See* Findings, ¶ 10. It has kept a relatively strong ratio of non-clinical to clinical expenses. *See* Findings, ¶¶ 11-12. Copley also has relatively low wait times, a commendable feat given the workforce challenges it has contended with in recent years. *See* Findings, ¶¶ 14-15. However, Copley's physician productivity data is concerning, showing a very high percentage of physicians in specialty practices performing under both the 25th and 50th percentiles. *See* Findings, ¶ 13. Its participation with the New England Collaborative Health Network indicates that Copley has additional latitude this year to realize reductions in

operating expenses as well. *See* Findings, ¶ 17. If system-wide productivity increases, or if some operating expenses are reduced, Copley can realize gains in margin without a 10.5% increase in commercial rate.

Looking at Copley's financial health, we find mixed results that support a reduction to NPR from the requested 11.8% but necessitate more than the 3.5% benchmark. Copley's ratio of current assets to current liabilities is strong and its average age of plant is below the 75th percentile. *See* Findings, ¶¶ 24-25. While Copley's days in patient accounts receivable has improved, its days cash on hand is concerningly low. *See* Findings, ¶¶ 21-22. We conclude that a 9% increase in NPR is appropriate. Finding that Copley's volume assumptions are low, and that its physician productivity has room to improve, we conclude that a commercial rate increase of 3.4% is sufficient to meet this NPR growth rate. To the extent that Copley experiences increased utilization, the hospital must make every possible effort to shift unnecessary or avoidable care to clinically appropriate settings. We find that this strategy consistent with our duty to ensure that Vermonters "receive affordable and appropriate health care at the appropriate time in the appropriate setting." *See* 18 V.S.A. § 9371(1). Copley's expected commercial NPR, provided in Condition E, below, incorporates Copley's current payer mix and utilization assumptions and may not match the hospital's actual expected commercial NPR submitted on or before March 15, 2025.

We conclude that these modifications to Copley's budget balance its current financial needs with our obligation to advance the statutory principle that "[o]verall health care costs must be contained, and growth in health care spending in Vermont must balance the health care needs of the population with the ability to pay for such care. 18 V.S.A. § 9371(2).

ORDER

Based on our findings and conclusions and the authority granted by Chapter 221, Subchapter 7 of Title 18, Copley's budget is approved for FY25 subject to the following terms and conditions:

A. Copley's FY25 NPR/FPP ("NPR") budget is approved at a growth rate of not more than 9% over its FY24 budget, with a total NPR of not more than $114,929,408 for FY25 and a commensurate reduction in operating expenses.

B. Copley's overall change in charge and commercial negotiated rate increase are approved at not more than 3.4% over current approved levels, with no commercial negotiated rate increase for any payer at more than 3.4% over current approved levels. The commercial negotiated rate increase overall or with respect to any payer may be less than 3.4% as negotiated between the hospital and payer.

C. The commercial rate increase cap in Paragraph B is a maximum and is subject to negotiation between Copley and commercial insurers. Copley shall not represent the maximum commercial rate increase approved by the GMCB in Paragraph B or the expected commercial NPR based on that rate increase as the amounts set or guaranteed by the GMCB in the hospital's negotiations with insurers.

D. The commercial negotiated rate cap in Paragraph B shall not apply to Medicare Advantage plans.

E. Copley's expected commercial NPR, based on its budget as adjusted in this Order, is $59,247,176. Copley shall report its actual expected commercial NPR not later than March 15, 2025, or such later date as specified by the Director of Health Systems Finance and explain any variations from the expected commercial NPR.

F. Copley shall file an updated Rate Decomposition Sheet with the Board no more than 30 days after its FY25 contracts have been finalized with commercial payers.

G. Copley shall make any necessary changes to its methods of data collection such that it can report revenues segmented by the following payer types starting FY25: (1) Medicare, (2) Medicare Advantage, (3) Medicaid, (4) commercial health insurance, (5) Vermont-specific commercial payers, (6) non-Vermont commercial payers, and (7) all other payers (e.g. self-pay, workers' compensation, etc.), for which data collection and reporting may be combined. The GMCB shall provide definitions for each payer type by October 1, 2024, so hospitals can uniformly implement this change.

H. Beginning on or before November 20, 2024, and every month thereafter, Copley shall file with the Board the actual year-to-date FY25 operating results as of the end of the prior month. The report shall be in a form and manner as prescribed by GMCB staff.

I. On or before January 31, 2025, 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 FY24 actual operating results.

J. Copley shall file with the Board one copy of its FY24 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, 2025, whichever is earlier.

K. Copley shall file with the Board its actual year-to-date FY25 operating results on April 30, 2025 for October 1, 2024 through March 31, 2025. The report shall be in a form and manner as prescribed by GMCB staff.

L. Copley shall participate in check-ins to be scheduled at the discretion of the Director of Health Systems Finance based on the hospital's FY25 year-to-date operating performance.

M. Beginning on or before November 20, 2024, Copley shall include with each year-to-date monthly report a letter, if applicable, identifying any material changes to its FY25 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 budget.

N. Copley shall develop and maintain a system to be able to measure and report to the GMCB the referral lag and the visit lag for each hospital-owned primary and specialty care practice as well as the top five most frequent imaging procedures. Referral lag means the percentage of appointments scheduled within 3 business days of referral (percentage of all referrals where the clinic or hospital has completed scheduling an appointment within 3 business days of receiving the referral, regardless of the date on which the appointment will take place). Visit lag means the percentage of new patient appointments scheduled for the patient to be seen within 2 weeks, 1 month, 3 months, and 6 months of their scheduling date (the scheduling date is the date the hospital or practice schedules the appointment, not the date the referral was received or the date the patient will be seen).

   a) Copley shall report to the GMCB the referral lag and the visit lag for each hospital owned primary and specialty care practice as well as the top five most frequent imaging procedures on April 30, 2025, for February and March 2025, and as required by the GMCB's FY26 hospital budget guidance.

O. Copley shall participate in the Board's work, including the community engagement process, pursuant to Act 167.

P. Copley shall timely file all forms and information required for practice acquisitions and/or transfers as determined by GMCB staff, if applicable.

Q. Copley shall file all requested data and other information in a timely and accurate manner.

R. Copley shall report on any changes it makes to the methods it uses to calculate information it reports to the GMCB. Any such report shall include a detailed explanation as to the reason for the change and the inclusion of a comparison report that shows the results using the hospital's prior method of calculation.

S. 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.

T. All materials required above shall be provided electronically, unless doing so is not practicable, as determined by the Director of Health Systems Finance.

U. 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, 2024
Montpelier, Vermont

s/ Owen Foster, Chair	)	
	)	GREEN MOUNTAIN
s/ Jessica Holmes	)	CARE BOARD
	)	OF VERMONT
s/ Robin Lunge	)	
	)	
s/ David Murman	)	
	)	
s/ Thom Walsh	)	

Filed: October 1, 2024

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.