



Copley Hospital

FY 2018 Budget Presentation

To Green Mountain Care Board
August 15, 2017

Introduction

Presenters

- ▶ Art Mathisen, CEO
- ▶ Adam Kunin, MD, Cardiologist and CMO
- ▶ Rassoul Rangaviz, CFO
- ▶ Mike Babcock, RN, Director of Peri-Operative Services and Anesthesia
- ▶ John Macy, MD, Orthopaedics Surgeon/Incoming Chief of Orthopaedics

Support

- ▶ Debbie Dorain, Director, Revenue Cycle Operations & Financial Planning
- ▶ Don Dupuis, MD, General Surgeon, CMO
- ▶ Carol Ferrante, CAPP, EFPM, Practice Administrator
- ▶ Vera Jones, VP, Operations
- ▶ Lori Profota, RN, DNP, Chief Nursing Officer



2018 Major Initiatives

Strategically Positioning Copley for the Future

Board of Trustees, medical staff, hospital staff and community stakeholders established our strategic plan, focused on:

Strategic Positioning:

- ▶ Strengthen Identity
- ▶ Healthcare Reform
Readiness & Strengthening
Partnerships
- ▶ Workforce Sustainability
- ▶ Integrated Information
System
- ▶ Invest in Infrastructure

FY 2018:

- ▶ Develop/Formalize an
Orthopedic Center of
Excellence
- ▶ Develop and Implement a
phased plan to secure a
fully functional health info
system
- ▶ Master Facility Plan



Capital Budget

- ▶ Surgical Center Open July 2017
- ▶ FY 2018 Capital Budget \$3.7M

Category	Amount
Clinical	\$2,482,027
Facility	685,000
IT	393,400
Other	178,900
Total	\$3,739,327



- ▶ \$15.7m Placeholder for Future Capital Spending
 - Developing Master Facility Plan

2018 Major Budget Initiatives

- ▶ Meet Growing Demand for High Quality Health Care Services
- ▶ Implement Strategic Cost Reductions to Keep our Rates Low
- ▶ Invest in Improvement of Facility & Infrastructure
- ▶ Secure Financial Position for Health Care Payment Reform

Proposed NPR Increase to fund:	Amount
Inflation & Other Cost Increases	\$3,447,424
Less Strategic Cost Savings	(1,760,143)
Medicaid Provider Tax	294,138
Utilization Cost Increases	1,182,136
New Health Reform Costs	32,500
New Surgical Center Costs	909,742
Improvement in Operating Margin	738,309
Proposed NPR Increase of 7.5%	\$4,844,106

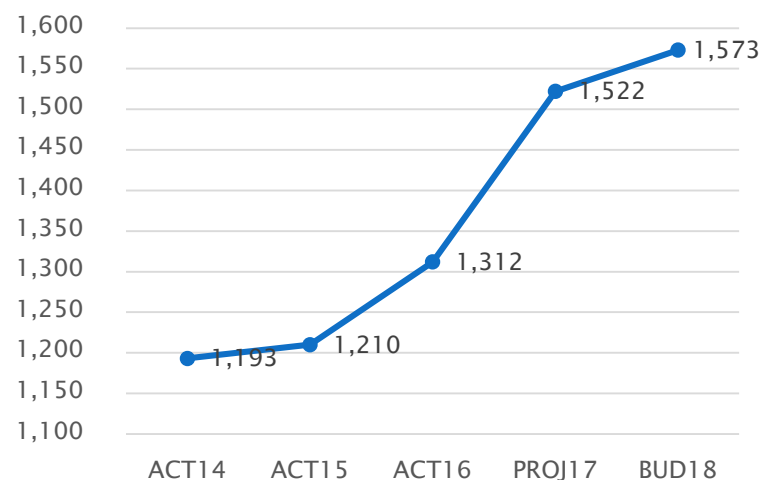
3% Cap

Response to GMCB Questions 1

Utilization: Orthopaedics & Total Joints

- ▶ High demand for Orthopedic Surgery, particularly Total Joints
- ▶ Improving Access to Surgical Services
 - Block time utilization
 - On-time starts
 - Turnover time
 - Extending hours of operation
 - Implementing use of reminder texts, Reducing No Shows

Orthopedic Surgery Procedures



- ▶ Projected Demand Growth*
 - Total Care: 12%
 - Office Visits: 12%
 - Inpatient Days: 32%

* "Current and Projected Future Health Care Workforce Demand in Vermont" report prepared for the State of Vermont Agency of Administration in June 2017

Response to GMCB Questions 1

Utilization: Orthopaedics & Total Joints

“There are few procedures that return as much quality of life as joint replacement.” Steven Kurtz, PhD

Reasons for increase in demand:

- ▶ Aging population with arthritis
- ▶ Increasing prevalence of obesity
- ▶ Baby boomers remaining physically active
- ▶ 50% growth in the Vermont population age sixty-five and older from 2015 to 2030

Source: Total Knee and Hip Replacement Surgery Projections Show Meteoric Rise by 2030, American Academy of Orthopaedic Surgeons

Total Knee Replacement

--> By 2030, total knee replacement surgeries are projected to grow **673% to 3.5 million procedures** per year¹

--> Nearly **1/2** of American adults develop **knee osteoarthritis** in at least one knee of their lifetime²

--> More than **90%** of people who have knee replacement surgery experience a **dramatic reduction of knee pain**³

--> In 2008, **63%** of all knee replacement operations were performed on women⁴

--> **80%** of osteoarthritis patients have some degree of **movement limitation**⁵

--> Job-related knee osteoarthritis costs **\$3.4 to \$13.2 billion** per year⁶

--> On average, knee replacement surgery direct costs = **\$20,704** but societal savings = **\$39,697**⁷

--> Knee replacement surgery
Societal Savings:
85% from increased earnings
15% from fewer missed work days and lower disability payments⁸

--> Lifetime societal net benefit for knee replacement patients averaged between **\$10,000-\$30,000**⁹

--> **\$12 billion** in total societal savings over patients' lifetimes from **600,000** knee replacements performed in 2009¹⁰

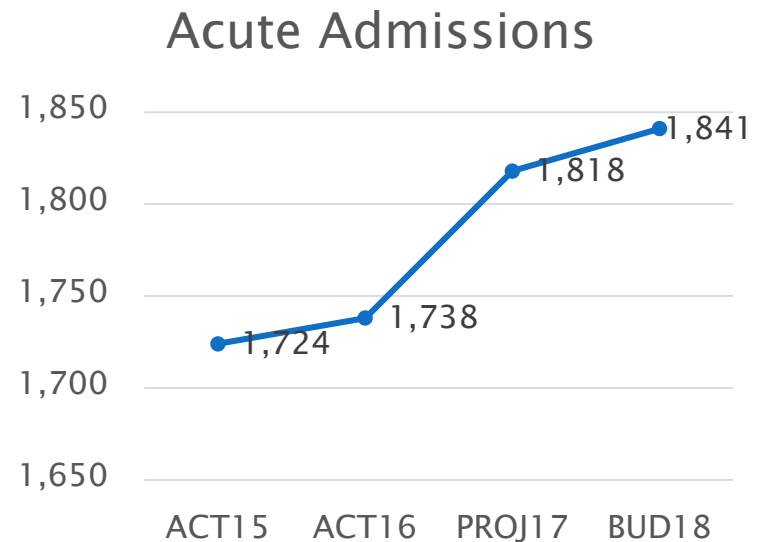
Source: Societal Savings of Knee Replacement Surgery, Journal of Bone and Joint Surgery

Response to GMCB Questions 3

Utilization: Acute Admissions

- ▶ Increase in Surgical Admissions
 - Orthopedic Surgery, Total Joints
 - Medicare & Commercial Patients
- ▶ Higher Acuity, All-Payer Case Mix Index:

Year	CMI
ACT14	1.06
ACT15	1.15
ACT16	1.19
PROJ17	1.24



Response to GMCB Question 2

Cost per Adjusted Admission

	BUD17	BUD18	DIFF
Acute Admissions	1,755	1,841	86
OR Procedures	2,122	2,283	161
Lab Tests	318,695	335,763	17,068
Diagnostic Imaging	25,805	28,135	2,330
ED Visits	13,759	13,718	-41
Adjusted Admissions	5,463	5,186	-277

- ▶ Growth in Orthopedic Surgery
 - Increasing acuity, higher variable costs related to implants
 - Drives up average inpatient revenue per admission
- ▶ New Surgical Center Adds \$910k in Operating Costs

Response to GMCB Questions 4 & 5

NPR by Payer

Payer	NPR	Utilization	Reimb
Commercial	\$2,700,466	\$2,696,308	\$4,158
Medicare	\$2,501,404	\$4,288,198	-\$1,786,794
Medicaid	-\$127,191	-\$65,886	\$193,077
Disproportionate Share	-\$230,576	0	-\$230,576
Total	\$4,844,103	\$6,918,620	-\$2,074,517

- ▶ Medicare & Commercial Utilization driven by growth in orthopedic surgery
 - No Rate Increase, No Commercial Rate Increase
- ▶ Medicare Reimbursement is Cost-Based
 - Costs are not increasing at same rate as Utilization
 - Reimbursement Rate Declining with Ratio of Cost to Charge

Response to GMCB Question 6

Staffing

- ▶ Staffing increases for
 - Utilization growth
 - New Surgical Center
- ▶ Working to Reduce Travelers
 - Market adjustments
 - New incentive pay
 - Working with local colleges
 - Growing Workforce from within
- ▶ Travelers needed for
 - Orientation period for new nurses
 - Coverage of Family & Medical Leave

Bud-Bud Increase in FTEs	
Utilization	5.2
New Surgical Center	3.8
Cost Savings	-9.4
Other	<u>3.0</u>
Total Increase	2.6

- ▶ Staff Salaries include
 - 2% COLA Increase
 - Market Adjustments necessary for recruitment and retention

Response to GMCB Question 7

Supply Costs

- ▶ Supply cost ↑\$1.3m, 2% overall
- ▶ Supply Cost Savings of \$600k over 2-years
 - Aggressively negotiating volume discounts
- ▶ Supplies selected based on several factors:
 - Price and Quality
 - Performance and Suitability
 - Service and Reputation
 - Surgeon's Confidence to Deliver Quality Outcome
 - Patient Choice

Response to GMCB Question 9

Cost Savings

- ▶ \$1.8M Strategic Cost Savings, including 9.4 FTEs
 - Equivalent to 5% Rate Reduction
- ▶ Workforce Efficiencies, New Position Control Process
- ▶ Consolidation of Nursing Units to Improve Efficiency
- ▶ Better Price Negotiation of Supplies & Drugs
- ▶ Purchased Services Reductions in Lab, Coding and Information Technology
- ▶ Divesting in a Physician Practice

Response to GMCB Question 8

Physician Transfers

Urology

- ▶ Urologist to Private Practice
- ▶ Remaining in Community
- ▶ Will Perform Surgery at Copley

Urology Reduction	
Visits	1,496
NPR	\$156,000
Expenses	\$344,000
FTEs	2.1

Oncology

- ▶ UVMC Oncologist Retirement
- ▶ Collaboration with CVMC for Oversight of Program

Oncology Reduction	
Visits	130
NPR	\$275,000
Expenses	\$113,000
FTEs	0.0

Response to GMCB Question 10

Financial Position

► Focusing on Improving Operating Margin

- Implementing Strategic Cost Reductions of \$1.8m
- Current rate of savings unsustainable
- Request exception to NPR Cap

Ratios	Copley	System
Rate Request	0.0%	2.4%
Operating Margin	1.3%	1.7%
LT Debt to Capitalization	20.2%	23.9%
Days Cash on Hand	83.0	136.6

► Prioritizing Capital Investments

- Past precedent of prudent investment, without debt: boiler plant replacement, emergency room renovation
- Developing new Master Facility Plan to prioritize future spending on facility, technology, and equipment needs

Response to GMCB Question 11

New Surgical Center Costs

- ▶ FY18 Budget includes \$910k for new Surgical Center, the full annual impact
 - \$500k Depreciation
 - \$44k Interest on Borrowing
 - \$366k Operating Costs
 - 3.8 new FTEs
- ▶ \$100k less than FY18 projections in approved CON
- ▶ Funding from Utilization growth, with No Rate Increase
 - 2% rate increase projected for FY18 in approved CON



Response to GMCB Question 12

Update on 2017 Projections

- ▶ As of June 30th, NPR is slightly lower than anticipated
- ▶ Utilization can fluctuate in the last quarter
- ▶ Overall, do not expect a material change from submitted projections

Response to GMCB Question 13

Non-Operating Revenue

- ▶ \$2.2m Reduction in Non-Operating Revenue due to Donor Contributions for Surgical Center
 - Budgeted \$2.5m in FY17 and \$200k in FY18

Response to GMCB Question 14

Act 53 Pricing

Price Comparison for Selected Diagnosis	2015 Actual Prices		2016 Estimated Prices		2017 Estimated Prices		2018 Estimated Prices	
	Copley	System	Copley	System	Copley	System	Copley	System
	RATE CHANGE	n/a	n/a	-4.0%	4.4%	-3.7%	1.8%	0.0%
Heart failure with Complications	6,686	16,010	6,419	16,714	6,181	17,015	6,181	17,424
Hip or Knee Replacement or reattachment of feet or legs without Major Complications	49,051	42,898	47,089	44,786	45,347	45,592	45,347	46,686
Kidney or Urinary Tract Infection without Major Complications	5,934	12,845	5,697	13,410	5,486	13,652	5,486	13,979
Normal Newborn	2,102	2,920	2,018	3,048	1,943	3,103	1,943	3,178
Lens & Cataract Procedures	6,148	5,971	5,902	6,234	5,684	6,346	5,684	6,498
Colonoscopy & Biopsy	2,660	3,523	2,554	3,678	2,459	3,744	2,459	3,834
Fetal Monitoring	498	789	478	824	460	839	460	859
Treatment, fracture or dislocation of lower extremity	25,731	15,394	24,702	16,071	23,788	16,361	23,788	16,753

Notes:

- Source of 2015 Actual Prices: Act 53 2017 Hospital Report Card
- System Rate changes reflect total system weighted average rate change (not Inpatient or Outpatient specific rate changes)

Response to GMCB Question 14

Act 53 Pricing

- ▶ High Cost Industry
 - Highly Skilled Workforce
 - Inflation of Medical Technology, Supplies, and Drugs
- ▶ Impacted by Cost Shift
 - Payer Mix
 - Mix of Services
- ▶ Minimal Margin of 1.3% for Future Capital Investment

Response to GMCB Question 14

Quality Measures

- ▶ 30 Day Hospital-Wide All-Cause Unplanned Readmission
 - Care Management Utilization Review team is integrating concurrent review practices and partnerships to identify readmission risk early
 - Reviewing 100% of 30-day readmission cases
 - Pilot LACE risk assessment tool to decrease hospital readmissions
 - Partnership with Community Health Services of Lamoille Valley (CHSLV) to have a full-time Social Worker in our Emergency Department
 - Identified high-utilization patients to prevent ED visits and hospitalization
 - Connect patients with Primary Care Providers
 - Connect patient community services
- ▶ Patient Experience Survey (HCAHPS*)
 - Reviewed Regularly and drives quality improvement work

Response to GMCB Questions 15 & 16

Health Reform Investments & Population Health

- ▶ Unique circumstances
 - Critical Access Hospital
 - 25 beds with primary service area population of 25,000
 - Independent Hospital
 - Primary Care practices are under separate corporate governance
 - Skilled nursing and community mental health and substance abuse treatment also under separate corporate governance
 - Not currently under risk model
- ▶ Our collaboration with primary care, skilled nursing and mental health partners is crucial in anticipation of transformation to population health model

Response to GMCB Questions 15 & 16, continued

Health Reform Investments & Population Health

- ▶ Examples include the **Lamoille County Community Collaborative** – meets monthly with all the key care providers in the service area
- ▶ **Social Worker in the Emergency Department** over the last 5 months has connected >400 patients with primary care providers. Additional focus on identifying and reaching out to highest ER utilizers. Both are crucial in reducing ER overutilization
- ▶ **Shared Decision Making** Clinical Research on Anticoagulation of Atrial Fibrillation in Ambulatory Cardiology. Broad application to Primary Care
- ▶ **NSQIP** and Patient Reported outcomes
- ▶ **LACE** risk assessment tool to decrease hospital readmissions

Response to GMCB Questions 15 & 16, continued

Health Reform Investments & Population Health

- ▶ Copley will continue to provide outstanding, personalized community care at or better than quality benchmarks at or below regional cost for the entire episode of care
- ▶ As one example, CMS claims data provided by OneCare demonstrates that Joint Replacement Surgery is significantly less expensive compared to other VT hospitals and in particular other Critical Access Hospitals.
- ▶ We continue to focus on close coordination with primary care and mental health/substance abuse care partners and reducing avoidable utilization in anticipation of move away from fee for service.

Status of Community Health Needs Assessment (CHNA) Implementation Plan

▶ Reduce Preventable Hospital Visits to Reduce Healthcare Cost

- Taskforce to Reduce Readmissions
- Social Workers in the ED and Women's Center
- Blueprint for Health Care Coordination
- Connecting Patients with Needed Services

▶ Encouraging Wellness

- Copley Employee Wellness Program
- Diabetes Support Group
- Healthy Lamoille Valley, Substance Abuse Prevention
- Hunger Council
- Live Well Lamoille Blog
- Bike Share/Bike Racks in Morristown

Response to Health Care Advocate Questions

Formal written response is forthcoming

In Summary: Helping People Live Healthier Lives

Turning the ship in the right direction takes time and money

Copley is committed:

- ▶ New Strategic Plan setting the direction for our community hospital
- ▶ Workforce is becoming more lean
- ▶ Patients receiving the right care, at the right location, at the right time. Example Case Manager in ED
- ▶ Focusing on cost savings: Over \$2.6m savings over two years

In Summary: Helping People Live Healthier Lives

Summary of NPR Growth	
Inflationary Growth	3.0%
New Health Reform Investment	0.1%
New Surgical Center Costs	1.4%
Increase in Surgical Care	1.8%
Improve Operating Margin	1.2%
Proposed NPR Growth	7.5%

- No Rate Increase Proposed
- No Commercial Rate Increase
- 3-Year Cumulative Rate Reduction of 7.7%

In Summary: Helping People Live Healthier Lives

We ask the Green Mountain Care Board to approve our FY2018 budget as requested recognizing that Copley has implemented or is in the process of implementing initiatives to reduce costs as we:

- ▶ Invest in quality initiatives that allow us to benchmark our work
- ▶ Continue to achieve work efficiencies that increase access to care
- ▶ Invest in primary and secondary prevention
- ▶ Utilize the Unified Community Collaborative (UCC) as a catalyst to transition from fee for service care
- ▶ Continue to engage local and statewide partners in enhance access to various specialties



Questions?

Thank you for your consideration