

Lee Memorial Health System



Operating Budget Fiscal Year Ending September 30, 2017

FY 2017 Operating Budget

- Budget Assumptions
- Payor Mix
- Medicare & Medicaid Rate Changes
- Inpatient Volume Summary
- Outpatient Volume Summary
- Cost Savings
- Income Statement Summary
- Financial Ratios
- Capital Budget & Cash Flow Available for Capital

Budget Assumptions

Revenue	Net Rate Increase (Per CMI Adjusted Admit)	2.0%
Case Mix Index	Resource Intensity	0.4%
Volumes	Adjusted Admissions	2.4%
Salaries	Merit	3.0%
Staffing Level	Salaries % of Net Operating Revenue	47.2%
Supplies	Inflation	2.3%
Investments	Investment Return Net of Fees	5.2%
Profitability Ratios	Operating Margin	4.5%
	Excess Margin	8.1%
Capital Expenditures	Cash Flow for Capital %	49.1%
	Capital Budget	\$ 90,000,000

Payor Mix

(based on gross charges)

	2015	2016	2017
	Actual	Projected	Budget
Medicare	51.4%	51.8%	51.9%
Medicaid	15.3%	14.4%	14.4%
Commercial Managed Care	21.6%	21.9%	21.8%
Self Pay/Charity	5.3%	5.5%	5.5%
Other *	6.4%	6.4%	6.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

*Other Payors: LMHS Employee Health Plan, State, Champus

Medicare Payment Updates

• Market Basket Update	2.50%
• Affordable Care Act Mandated Reduction	-1.00%
• American Tax Relief Act Coding Recoupment	-1.50%
– Double the cut from prior year to reach 11 Billion in recoupment	
– Beginning in 2018 adds back .5 % each year until 2023	
• 2 Midnight Rule reversal of prior year cuts	0.80%
• Uncompensated Care Payment Reduction	-0.30%
• Wage Index Increase	<u>0.50%</u>
Net % Increase	1.00%
\$ Increase =	\$ 3.5 million

Quality Based Payment Adjustments

Quality Based Adjustments	FY 2016	FY 2017	Change
Value Based Purchasing	(1,135,500)	(1,379,900)	(244,400)
Readmission Reductions	(2,742,500)	(3,539,100)	(796,600)
Hospital Acquired Conditions	(2,323,600)	(2,887,100)	(563,500)
Total Payment Reduction	\$ (6,201,600)	\$ (7,806,100)	\$ (1,604,500)

Medicare Outpatient Payments 3.1% increase = \$2.6 million

Medicaid and Low Income Pool

- Low Income Pool - \$20.0 million
- Medicaid Disproportionate Share Payments + \$10.0 million
- Medicaid Rate Enhancer + \$7.0 million
(Pediatrics and Neonatal Cases)
- **Net Change - \$3.0 million**

Inpatient Volume Summary

	FY 2015	FY 2016	FY 2017	%
Admissions	<u>Actual</u>	<u>Projected</u>	<u>Budget</u>	<u>Variance</u>
Adults	75,111	70,780	71,769	1.4%
Pediatrics	4,412	4,389	4,432	1.0%
NICU	843	854	871	2.0%
Post Acute	2,268	2,578	2,598	0.8%
Total Adults & Peds	82,634	78,601	79,670	1.4%
Newborns	6,242	6,047	6,120	1.2%
Total Admissions	88,876	84,648	85,790	1.3%
Patient Days				
Adults	338,279	313,640	314,828	0.4%
Pediatrics	13,572	14,352	14,513	1.1%
NICU	15,971	15,896	17,180	8.1%
Post Acute	55,300	56,964	57,073	0.2%
Total Adults & Peds	423,122	400,852	403,594	0.7%
Newborns	14,200	13,634	13,742	0.8%
Total Patient Days	437,322	414,486	417,336	0.7%
Average Length of Stay				
Adults	4.50	4.43	4.39	-1.0%
Pediatrics	3.08	3.27	3.27	0.1%
NICU	18.95	18.61	19.72	6.0%
Post Acute	24.38	22.10	21.97	-0.6%
Total Adults & Peds	5.12	5.10	5.07	-0.7%
Newborns	2.27	2.25	2.25	-0.4%
Total Average Length of Stay	4.92	4.90	4.86	-0.7%
Average Daily Census	1,258	1,248	1,282	2.7%

Includes IP and OBS days

Outpatient Volume Summary

	FY 2015 Actual	FY 2016 Projected	FY 2017 Budget	% Variance
OP Registrations				
Emergency Room	207,359	213,562	220,619	3.3%
OP Surgery Cases	22,328	24,082	24,251	0.7%
Subtotal	229,687	237,644	244,870	3.0%
Visits/Encounters				
Home Health Visits	71,026	72,957	90,789	24.4%
Physician Encounters	977,600	1,243,000	1,438,805	15.8%
Trauma Services District	11,940	12,200	13,093	7.3%
Subtotal	1,060,566	1,328,157	1,542,687	16.2%
Total Outpatient	1,290,253	1,565,801	1,787,557	14.2%

Cost Savings

• Contract & Overtime Reductions	- \$5.2 million
• Locum Cost for Hospitalist	- \$4.0 million
• Pharmacy Rebates	-\$3.0 million
• Other Purchased Services	-\$2.6 million
• Patient Flow Improvements	-\$1.4 million
Total Cost Savings	-\$16.2 million

Income Statement Summary

(in thousands)

	FY 2015 Actual	FY 2016 Projected	FY 2017 Budget	Variance	
				FY17 Bud vs FY16 Proj \$	%
Net Patient Revenue	1,430,675	1,570,107	1,661,649	91,542	5.8%
Other Operating Revenue	66,869	40,082	41,716	1,634	4.1%
Total Operating Revenue	1,497,544	1,610,189	1,703,364	93,175	5.8%
Operating Expenses					
Salaries & Wages	661,076	740,632	803,712	63,080	8.5%
Fringe Benefits	110,886	124,315	131,128	6,813	5.5%
Health Care Access	16,836	17,754	19,268	1,514	8.5%
Supplies	281,744	304,196	321,161	16,965	5.6%
Other Services	80,112	81,933	82,521	589	0.7%
Purchased Services	140,322	157,757	154,097	(3,660)	-2.3%
Total Operating Expenses	1,290,977	1,426,586	1,511,886	85,300	6.0%
EBITDA	206,568	183,603	191,478	7,875	4.3%
Depreciation/Amortization	79,116	84,063	93,912	9,849	11.7%
Interest Expense	23,960	22,082	21,766	(316)	-1.4%
Gain (loss) from Operations	103,492	77,458	75,800	(1,658)	-2.1%
Operating Margin %	6.9%	4.8%	4.5%		
Total Non Operating Revenue	3,590	79,351	67,994	(11,357)	-14.3%
Excess of Revenue/Expenses	107,082	156,809	143,794	(13,015)	-8.3%

Financial Ratios

	LMHS 2017 Goals	'A' Moody's Medians	Audited 2015	Projected 2016	Budget 2017	
Profitability Ratios:						
Operating Margin	4.0%	3.9%	6.9%	4.8%	4.5%	+
Excess Margin	8.2%	6.7%	7.1%	9.3%	8.1%	+
Operating Cash Flow Margin	10.9%	10.8%	13.8%	11.4%	11.2%	+
Liquidity Ratios:						
Days Cash on Hand	240.4	227.5	261.4	259.3	241.7	+
Cushion Ratio	16.0	21.0	16.0	16.8	16.6	+
Cash to Debt	152.2%	158.9%	132.9%	150.6%	157.2%	+
Capital Ratios:						
Debt to Capitalization (%)	33.7%	32.8%	41.4%	36.9%	33.2%	(-)
Annual Debt Service Coverage	3.5	5.5	5.0	4.2	4.0	+
Debt to Cash Flow	3.4	2.6	3.2	3.2	3.2	(-)

Note + = Ratios that should be above the Moody's median

(-) = Ratios that should be lower than the Moody's median

Capital Budget & Cash Flow Available for Capital

Routine

Acute Care	\$ 12,324,069
Subs & Corporate	\$ 1,044,472
Post Acute	\$ 649,957
Outpatient	\$ 2,797,386
LPG	\$ 1,087,665
Surgical Services	\$ 6,552,989
Radiology	\$ 5,884,884
Contingency	\$ 1,250,000
Total Routine	\$ 31,591,422
Facilities	\$ 14,500,000
Information Technology	\$ 14,500,000
Strategic Growth/Program Development	\$ 29,408,578
Total Proposed Capital Budget 2017	\$ 90,000,000
Cash Flow from Operations Available for Capital	\$ 183,456,000
Capital Budget as a % of Cash Flow	49.1%
Excess (Deficit) Cash Flow	\$ 93,456,000
FY 2017 spend - Golisano Children's Hospital (approved in prior years)	\$ 66,700,000