

Lee Health

FY 2019 Operating and Capital Budgets

Fiscal Year Ending September 30, 2019

Ben Spence, Chief Financial and Business Services Officer



FY 2019 Operating and Capital Budgets

Topics:

- 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

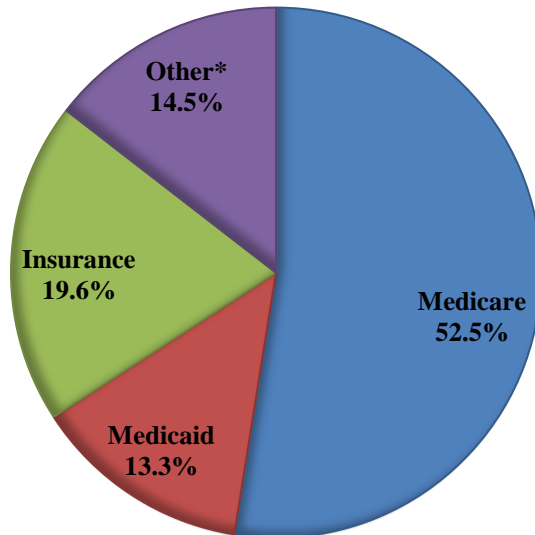
Net Revenue	Rate Increase (Per CMI Adjusted Admit)	0.5%
Salaries	Merit Increase Average - Maximum	2.5% - 4.0%
Staffing Level	Salaries % of Net Operating Revenue	45.9%
Inflation	Patient Supplies	2.5%
	Implants	1.0%
	Drug Expense	4.5%
	Raw Food	2.0%
Investments	Investment Return Net of Fees	5.3%
Profitability Ratios	Operating Margin	3.0%
	Excess Margin	5.8%
Capital Expenditures	Capital Budget as a % of Cashflow	45.8%
	Capital Budget	\$ 83,500,000

Payor Mix and Reimbursement Changes

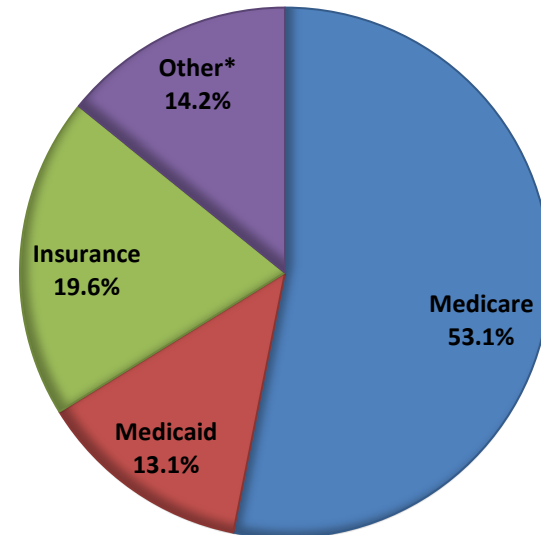
(Based on Gross Charges)

No major shifts in payor mix are expected in FY 2019

Projection 2018



Budget 2019



*Other: LHS Employee Health Plan, State, Champus, Non-Contracted Commercial Self Pay and Charity

Medicare IP Payment Updates

Market Basket Update	2.2%
Affordable Care Act Mandated Reduction	-1.4%
21 st Century Cures Act Mandated Coding Adjustment	0.4%
Wage Index	0.5%
DSH Uncompensated Care Payment Changes	1.6%
MS – DRG Updates	0.1%
Quality Based Payment Adjustments	0.6%
Net % Increase	<u>4.0%</u>
\$ Increase	\$11.8 Million

Quality Based Payment Adjustments

	FY 2018	FY 2019	Change
Value Based Purchasing	(1,344,200)	(822,000)	522,200
Readmission Reductions	(3,348,400)	(3,664,600)	(316,200)
Hospital Acquired Conditions	(1,380,800)	0	1,380,800
Total Payment Reduction	(6,073,400)	(4,486,600)	1,586,800
Medicare Outpatient Payments	0.6% Increase or \$593,000		

Medicaid and Low Income Pool

Low Income Pool Net Change	+ 4.2 million
Medicaid Disproportionate Share Increase	+ 0.6 million
<u>Medicaid Hospital Rate Increase</u>	<u>+ 5.4 million</u>
Net Increase	\$ 10.2 million

Inpatient Volume Summary

	FY 2017 Actual	FY 2018 Projected	FY 2019 Budget	% Variance
Admissions				
Adults	73,143	71,346	71,326	0.0%
Pediatrics	3,562	3,725	3,848	3.3%
NICU	815	883	899	1.8%
Post Acute	2,532	2,724	3,313	21.6%
Total Adult & Peds	80,052	78,678	79,386	0.9%
Newborns	6,119	6,167	6,150	-0.3%
Total Admissions	86,171	84,845	85,536	0.8%
Patient Days				
Adults	323,337	318,218	317,372	-0.3%
Pediatrics	12,550	12,301	12,927	5.1%
NICU	17,331	18,524	18,765	1.3%
Post Acute	56,398	60,281	73,837	22.5%
Total Adult & Peds	409,616	409,324	422,901	3.3%
Newborns	13,914	13,376	13,322	-0.4%
Total Patient Days	423,530	422,700	436,223	3.2%
Average Length of Stay				
Adults	4.42	4.46	4.45	-0.2%
Pediatrics	3.52	3.30	3.36	1.7%
NICU	21.27	20.98	20.87	-0.5%
Post Acute	22.27	22.13	22.29	0.7%
Total Adult & Peds	5.12	5.20	5.33	2.4%
Newborns	2.27	2.17	2.17	-0.1%
Total Average Length of Stay	4.91	4.98	5.10	2.4%
Short Stay Days (OBS days)	56,384	56,292	56,607	0.6%
Average Daily Census	1,277	1,276	1,314	3.0%

Includes IP and OBS days

Outpatient Volume Summary

	FY 2017 Actual	FY 2018 Projected	FY 2019 Budget	% Variance
OP Registrations				
Emergency Room	218,773	228,584	243,994	6.7%
OP Surgery Cases	22,829	25,320	28,358	12.0%
Subtotal	241,602	253,904	272,352	7.3%
Visits / Encounters				
Home Health Visits	65,083	59,123	64,089	8.4%
Physician Encounters	1,363,913	1,465,703	1,567,443	6.9%
Trauma Services District	11,780	11,274	11,534	2.3%
Subtotal	1,440,776	1,536,100	1,643,066	7.0%
Total Outpatient	1,682,378	1,790,004	1,915,418	7.0%



Strong Financial Results

We will assure financial viability by lowering cost and growing revenues

Strategies:

- Diversify and grow revenue streams
- Optimize revenue cycle
- Sustain cost transformation

Measures:

- Year-over-year freestanding outpatient net revenue growth
- Operating margin %

Revenue Growth & Diversification



Revenue Cycle Optimization

- Physician documentation & coding improvement
- Denial management/Improve insurance verification and authorization strategies
- Centralize EPIC billing/Single Billing Office
- My Chart enhancements
- Kiosks

Sustain Cost Transformation

Labor Savings:

- 4% Productivity Improvement
- LINK Process & Policy Improvements

Benefits Savings:

- Conversion to Magellan PBM Contract
- 340B Savings

Supply Savings:

- CSF/Vizient GPO
- Supply Utilization & Standardization
- Conversion to Cardinal
- Meds to Beds
- Contract Pharmacies

Purchased Services Savings:

- Contract Renegotiations/Terminations

Income Statement Summary

	FY 2017 Actual	FY 2018 Projected	FY 2019 Budget	Variance	
				Budget 2019 \$	vs Proj 2018 %
Net Patient Revenue	1,695,451	1,750,120	1,828,083	77,963	4.5%
Other Operating Revenue	39,742	39,673	111,695	72,022	181.5%
Total Operating Revenue	1,735,193	1,789,793	1,939,777	149,984	8.4%
Operating Expenses					
Salaries & Wages	819,804	844,632	889,847	45,215	5.4%
Fringe Benefits	128,723	141,287	147,386	6,099	4.3%
Health Care Assessment	19,446	20,284	21,509	1,225	6.0%
Supplies	327,518	344,408	365,257	20,849	6.1%
Other Services	80,674	81,195	86,873	5,678	7.0%
Purchased Services	172,867	186,038	236,576	50,538	27.2%
Total Operating Expenses	1,549,033	1,617,844	1,747,448	129,604	8.0%
EBITDA	186,161	171,949	192,330	20,381	11.9%
Depreciation/ Amortization	96,003	98,336	110,678	12,342	12.6%
Interest Expense	21,415	22,283	24,204	1,921	8.6%
Gain (loss) from Operations	68,743	51,330	57,448	6,118	11.9%
Operating Margin %	4.0%	2.9%	3.0%		
Total Non Operating Revenue	100,531	26,279	58,306	32,027	121.9%
Excess of Revenue/Expenses	169,274	77,609	115,754	38,145	49.2%

Financial Ratios

	<u>LHS</u> <u>2019</u> <u>GOALS</u>	<u>A</u> <u>MOODY'S</u> <u>MEDIANS</u>	<u>AUDIT</u> <u>2017</u>	<u>PROJ</u> <u>2018</u>	<u>BUDGET</u> <u>2019</u>
Profitability Ratios:					
Operating Margin	3.0%	2.3%	4.0%	2.9%	3.0%
Excess Margin	5.3%	5.2%	9.2%	4.3%	5.8%
Operating Cash Flow Margin	9.8%	8.6%	10.7%	9.7%	9.9%
Liquidity Ratios:					
Days Cash on Hand	195.8	226.5	231.6	202.9	190.4
Cushion Ratio	13.2	23.9	16.2	13.5	13.5
Cash to Debt	141.5%	169.6%	146.5%	135.2%	143.4%
Capital Ratios:					
Debt to Capitalization (%)	28.9%	32.9%	32.4%	30.9%	28.8%
Annual Debt Service Coverage	2.9	5.4	4.2	2.9	3.1
Debt to Cash Flow	3.6	3.0	3.1	3.9	3.3

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

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

Capital Budget & Cash Flow

Acute Care	10,800,000
Lab Services	1,202,630
Subs & Corporate	705,856
Post Acute	442,782
Outpatient	4,652,209
LPG/MSO	648,958
Surgical Services	6,986,833
Radiology	2,609,765
Contingency	1,500,000
Routine	<u>29,549,031</u>
Facilities	13,602,016
Relocations/Consolidations	3,400,000
Information Systems	8,000,000
GEAC Replacement	3,000,000
Strategic Innovation/Automation	6,000,000
LeeSar Culinary Expansion	1,000,000
Security	2,000,000
Strategic Program Development	16,948,953
Total Proposed Capital Budget FY 2019	<u>83,500,000</u>
Cashflow from Operations Available for Capital	182,119,620
Capital Budget as a % of Cashflow	45.8%
Excess (Deficit)	<u>98,619,620</u>