

Lee Health

FY 2020 Operating and Capital Budgets

Fiscal Year Ending September 30, 2020

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FY 2020 Operating and Capital Budgets

Topics:

- Budget Assumptions
- Inpatient & Outpatient Volume Summary
- Medicare & Medicaid Impact
- Strong Financial Results
- Income Statement Summary
- Financial Ratios
- Capital Budget & Cash Flow Available for Capital

Budget Assumptions

Net Revenue	Rate Increase (Per CMI Adjusted Admit)	0.6%
Salaries	Merit Increase Average	3.0%
Staffing Level	Salaries % of Net Operating Revenue	45.5%
Investments	Investment Return Net of Fees	5.4%
Profitability Ratios	Operating Margin	3.0%
	Excess Margin	5.8%
Capital Expenditures	Capital Budget as a % of Cashflow	45.0%
	Capital Budget	\$ 144,150,000

Inpatient Volume Summary

	FY 2018 Actual	FY 2019 Projected	FY 2020 Budget	% Variance
Admissions				
Acute	76,040	77,301	76,472	-1.1%
Post Acute	2,707	3,035	3,870	27.5%
Total Acute & Post Acute	78,747	80,336	80,342	0.0%
Newborns	6,143	6,087	6,055	-0.5%
Total Admissions	84,890	86,423	86,397	0.0%
Patient Days				
Acute	345,947	364,552	351,090	-3.7%
Post Acute	58,271	62,590	77,056	23.1%
Total Acute & Post Acute	404,218	427,142	428,146	0.2%
Newborns	12,975	12,086	12,045	-0.3%
Total Patient Days	417,193	439,228	440,191	0.2%
Average Length of Stay				
Acute	4.55	4.72	4.59	-2.6%
Post Acute	21.53	20.62	19.91	-3.5%
Total Acute & Post Acute	5.13	5.32	5.33	0.2%
Newborns	2.11	1.99	1.99	0.2%
Total Average Length of Stay	4.91	5.08	5.09	0.2%
Short Stay Days (OBS days)	59,084	62,365	60,367	-3.2%
Average Daily Census	1,269	1,341	1,335	-0.5%
<i>Includes IP and OBS days</i>				

Outpatient Volume Summary

	FY 2018 Actual	FY 2019 Projected	FY 2020 Budget	% Variance
OP Registrations				
Emergency Room	229,410	244,983	250,784	2.4%
OP Surgery Cases	24,823	24,269	30,323	24.9%
Subtotal	254,233	269,252	281,107	4.4%
Visits / Encounters				
Home Health Visits	58,686	68,143	81,000	18.9%
Physician Encounters	1,455,332	1,475,489	1,625,888	10.2%
Trauma Services District	11,032	12,211	12,285	0.6%
Subtotal	1,525,050	1,555,843	1,719,173	10.5%
Total Outpatient	1,779,283	1,825,095	2,000,280	9.6%

Medicare, Medicaid & Special Payments Updates

Medicare:

- Expected Rate Increase of 5%*
 - Uncompensated Care Payment Increase
 - Market Basket Increase
 - Wage Index Increase 2%

Medicaid Fee For Service (FFS):

- Expected to remain relatively flat

Low Income Pool (LIP) / Disproportionate Share Hospital (DSH):

- Expected Increase of \$9 million

Graduate Medical Education (GME) Program:

- Renewal of one-time \$100 thousand per resident
- \$1.2 million after IGT's

*Rates Effective October 1st, 2019

Medicare Value Based Program Impact

	FFY 2019	FFY 2020
Base Operating Dollars Subject to Quality Programs	\$242,144,500	\$255,429,100
Value Based Purchasing Program Impact	(\$724,400)	(\$712,000)
Readmissions Reduction Program Impact	(\$1,844,000)	(\$1,947,500)
HAC Reduction Program Impact	\$0	\$0
Net Impact of Quality Programs	(\$2,568,400)	(\$2,659,500)



Strong Financial Results

We will assure financial viability by lowering cost and growing revenues

Strategies:

- Diversify and grow revenue streams
- Optimize revenue cycle
- Continuous Process Improvements

Measures:

- Operating Margin
- Year Over Year Net Patient Revenue Growth
- Operating Cost Per Patient Encounter

Revenue Growth & Diversification

Medicare Next Generation Accountable Care Organization:

- Final Year



Vivida Medicaid Provider Service Network:

- 2nd year
- New membership assignment method and potential Molina redistribution



Medicare Advantage Plan:

- Effective January 1, 2020
- Forecast of 6,000 members
- 1st year start up investment estimated at \$8 million



Innovatus Health:

- Effective September 2019
- Transformation of Physician Hospital Organization to Clinically Integrated Network



Revenue Growth & Diversification

340B Contract Pharmacy Revenues – estimated net impact of \$6.4 million

Walgreens

Publix

CVS/CVS Specialty

Diplomat

Accredo/Express Scripts

Avella/Briola

Walmart

Lee Health Foundation Targets \$15 million in 2020

Because You Care

LEE MEMORIAL
HEALTH SYSTEM

FOUNDATION

"Funding Tomorrow's Healthcare Today"



Revenue Cycle Optimization

Case Mix Index (CMI):

- Physician documentation and coding improvement

Denial Management:

- Eligibility, authorization and medical necessity improvement

Improve insurance verification and authorization strategies

Contract rate improvements / regulatory payment increases

Continuous Process Improvements

FY 2020 Strategic Initiatives to develop an effective & efficient cost structure – the pathway to Medicare Break-Even by 2022

Improve Patient Flow

- 0.13 ALOS Reduction = \$10 million in savings
 - Care Management/Utilization Management Redesign
 - Gulf Coast Skilled Nursing Unit (SNU)
 - Implementation of Xsolis
 - Expand Patient Flow initiative beyond LMH

Improve Operational Processes

- 1% Improvement = \$9 million in savings
 - Drive out waste of unnecessary costs in all departments through process improvement



Continuous Process Improvements

Benefit Cost Management

- \$3 million in savings
 - Employee Health Plan savings, workers compensation and 340B optimization

Surgical Services Transformation

- \$9 million in savings
 - Procedure card standardization and process improvements

Supply & Pharmacy Savings

- Via rate and utilization improvements = \$10 million in savings
 - CSF/Vizient contract alignment
 - Standardization and value analysis redesign



Income Statement Summary

	FY 2018 Actual	FY 2019 Projected	FY 2020 Budget	Variance	
				Budget 2020 vs \$	Proj 2019 %
Net Patient Revenue	1,750,494	1,873,596	1,974,691	101,095	5.4%
Other Operating Revenue	39,488	74,096	141,656	67,560	91.2%
Total Operating Revenue	1,789,982	1,947,692	2,116,346	168,654	8.7%
Operating Expenses					
Salaries & Wages	839,206	879,684	962,646	82,962	9.4%
Fringe Benefits	137,404	147,134	157,353	10,219	6.9%
Health Care Assessment	20,249	21,962	22,768	806	3.7%
Supplies	346,082	364,472	379,142	14,670	4.0%
Other Services	83,894	95,049	90,255	(4,794)	-5.0%
Purchased Services	187,941	233,891	283,087	49,196	21.0%
Total Operating Expenses	1,614,777	1,742,192	1,895,251	153,059	8.8%
EBITDA	175,205	205,500	221,096	15,596	7.6%
Depreciation/ Amortization	100,366	114,839	128,884	14,045	12.2%
Interest Expense	20,996	22,763	28,974	6,211	27.3%
Gain (loss) from Operations	53,843	67,898	63,239	(4,659)	-6.9%
Operating Margin %	3.0%	3.5%	3.0%		
Total Non Operating Revenue	47,196	20,699	62,961	42,262	204.2%
Excess of Revenue/Expenses	101,039	88,597	126,200	37,603	42.4%

Financial Ratios

	LHS 2020 GOALS	A MOODY'S MEDIANS	AUDIT 2018	PROJ 2019	BUDGET 2020	
Profitability Ratios:						
Operating Margin	3.0%	2.3%	3.0%	3.5%	3.0%	+
Excess Margin	5.7%	5.2%	5.5%	4.5%	5.8%	+
Operating Cash Flow Margin	10.6%	8.6%	9.8%	10.6%	10.4%	+
Liquidity Ratios:						
Days Cash on Hand	202.2	226.5	195.6	216.1	205.3	+
Cushion Ratio	14.4	23.9	13.1	14.3	14.8	+
Cash to Debt	141.0%	169.6%	133.2%	132.5%	135.6%	+
Capital Ratios:						
Debt to Capitalization (%)	30.4%	32.9%	30.5%	33.2%	31.8%	(-)
Annual Debt Service Coverage	3.7	5.4	3.1	3.5	3.8	+
Debt to Cash Flow	3.3	3.0	3.6	3.6	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	10,000,000
Lab Services	1,000,000
Subs & Corporate	500,000
Post Acute	650,000
Outpatient	7,000,000
LPG/MSO	1,000,000
Surgical Services	7,000,000
Radiology	7,500,000
Contingency	1,500,000
Routine	<u>36,150,000</u>
Facilities	15,000,000
Information Systems	16,000,000
Strategic Program Development	
Strategic Growth Capital - RAC	25,000,000
New Business Acquisitions/Real Estate Lease Conversions	52,000,000
Total Proposed Capital Budget FY 2020	<u>144,150,000</u>
Cashflow from Operations Available for Capital	204,762,685
Capital Budget (excluding projects to be financed)	92,150,000
Capital Budget as a % of Cashflow	45.0%