



Not-for-Profit Hospital
FY 2018 Budget
Board of Directors Presentation

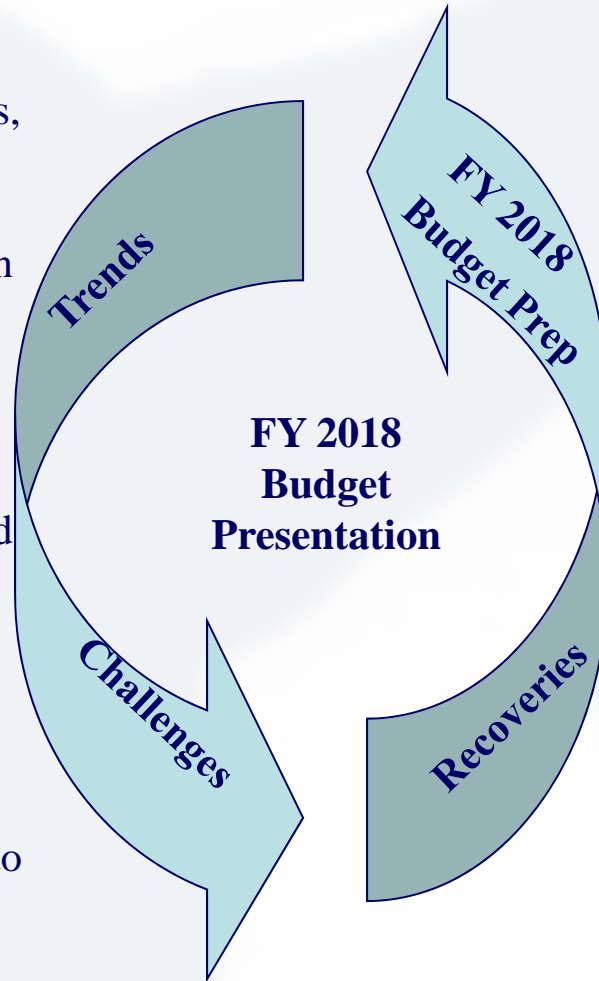
Contents

- **FY 2018 Budget Process**
- **Statistics**
- **Revenue Assumptions**
- **Expense Assumptions**
- **FY 2018 Budget Summary**
- **Challenges/Opportunities**

FY 2018 Budget: Objectives

Budget Development

- Worked with Vice Presidents, Hospital Line Managers & Executive Leadership Team (ELT) to develop and lead an integrated budget development process.
- Department Directors and managers inputted the statistics and FTEs requested to run departments and own the budgets developed
- Use historical trend to guide expense reductions.
- Support departments in developing operating plans to improve efficiency, quality and cost effectiveness.



Budget Implementation

- Worked with Executive Leadership on key assumptions of the budget process to create “What if” scenarios.
- Provided training on Premier Healthcare Insights for two (2) weeks to allow budgets to be built.
- Work with department managers, vice presidents, and executive leadership to track financial performance against budgets.
- Developed support reporting to aid hospital managers in the maintenance of their budgets.
- Will continue ongoing training to ensure that all new and current managers are budget savvy.

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FY 2018 Budget Process



Activity	2017							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Budget Kickoff	▲							
Volume Projections	→							
Volume Budget Completion		→						
Budget Workshop		→						
Budget Cuts 1st Round		▲						
Budget 1st Draft Complete		→						
Budget Cuts 2nd Round		→						
Budget 2nd Draft Complete			→					
Executive Team Preliminary			▲					
District City Council Presentation			▲					
Finance Committee Approval								▲
Board of Directors' Approval								▲

FY 2018 Budget Process Enhancements



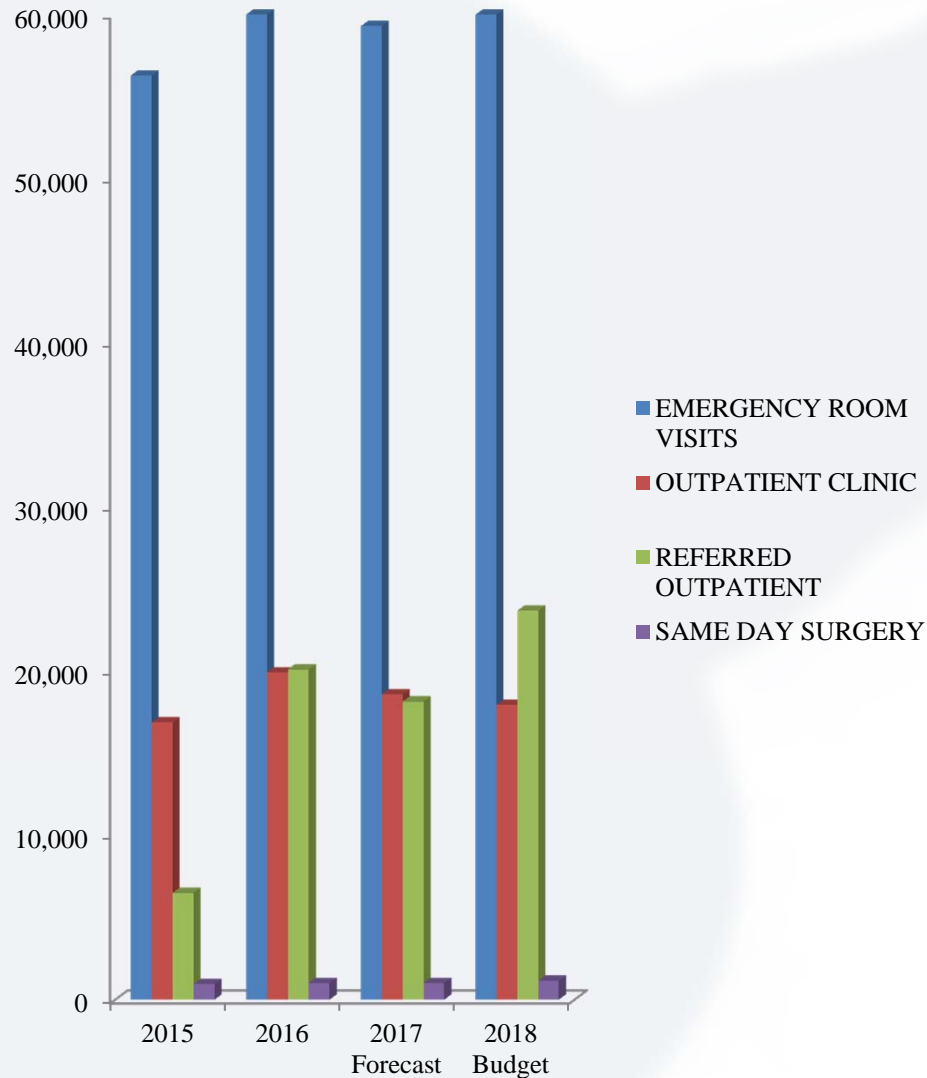
Year	2016	2017								
	Dec	Jan	Mar	Apr	May	Jun	Jul	Aug	Sep	

- Solicited Vice Presidents and Department Heads to provide empirical data, as well as detailed assumptions and caveats relating to their volume projections.
- Conducted two weeks of Budget Workshops to improve departmental budget preparation and empower budget preparers with the tools necessary to master their budgets and enter the data.
- Used historical trend analysis to identify opportunities to reduce expenses.
- Incorporated agreed upon Gap Initiatives per the Executive Leadership Team as identified.
- Conducted various rounds of budget revisions with managers and executive leadership.

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FY 2018 Budget: Volume Summary



- Vice Presidents and Department Heads provided FY 2018 Volume Projections.
- All volumes are contingent upon the implementation of key initiatives.
- Volumes are 5.2% lower for outpatient volumes and 8.1% lower for acute inpatient volumes and 7.3% lower on aggregate with SNF included.

FY 2018 Budget: Volume Assumptions



Assumptions

Contingent Volume

Medicine

- Assumes a reduction in admission due to OB program eliminations and negative publicity.
- Reduction is as follows: 20% in Oct & Nov; 15% in Dec; 10% in Jan; and 5% in Feb from current projections for FY 2017.
- Assumes a no volume deterioration for Skilled Nursing Facility.

- No contingent Volume provided

Psychiatry

- The budget assumes a 10.6% increase in volume. The department plans to add additional beds and operate at 30 beds with an average daily census of 26. Additional physicians to accommodate this increase will be provided via its purchased services contract with a Psych company.
- An RFP for a new operator is currently being worked through

- No contingent volumes provided.

FY 2018 Budget: Volume Assumptions



Assumptions

Contingent Volume

Emergency Dept.

- Assumptions provided by hospital operations.
- Assumes a 4% reduction from October –March from FY 2017 projected volumes experience.
- Amounts to a 3.1% reduction from FY 2017 on aggregate
- Assumes current, negative media coverage of UMC will affect volumes for 6 months.

- No contingent volumes projected.

Surgery Dept.

- Assume a 14.40% increase in volume. Primarily due to the addition of the orthopedic services group which will bring back orthopedic procedures that are currently being diverted.

- No contingent volume provided. However the team will monitor the growth of this department once all renovations are completed to see growth from new physicians added.

FY 2018 Budget: Volume Assumptions



Assumptions

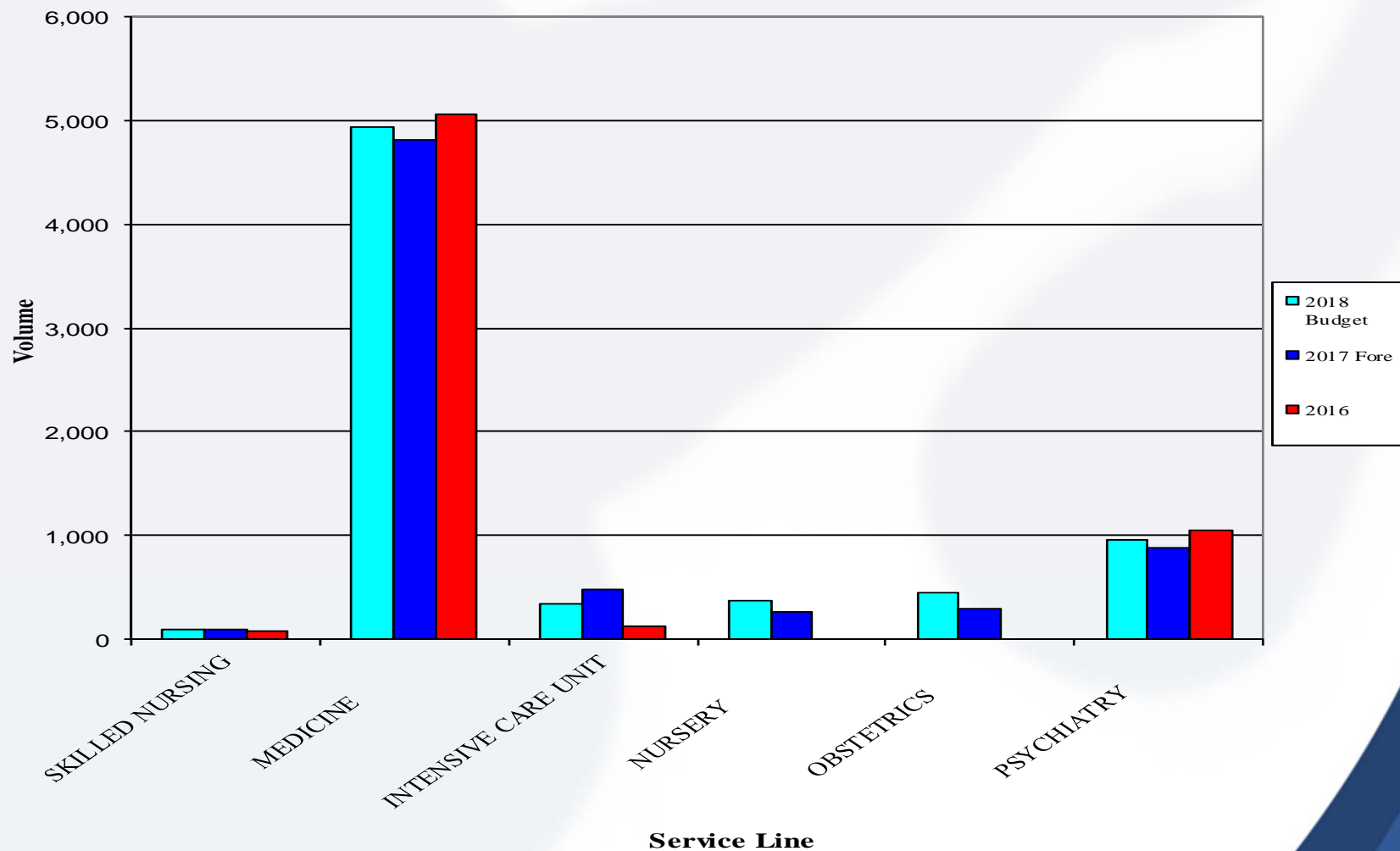
Contingent Volume

Radiology

- Assumes inpatient volume decreases in Ultrasound based on OB program removal.
 - Assumes a 7.5% decrease in outpatient volumes from FY 2017 Forecast due mainly to OB program removal.
- No contingent volume provided
 - The department purchased some new capital equipment, which are awaiting installation, which will increase its outpatient volume because they will be able to perform new and/or currently outsourced procedures. However no contingent volumes provided.

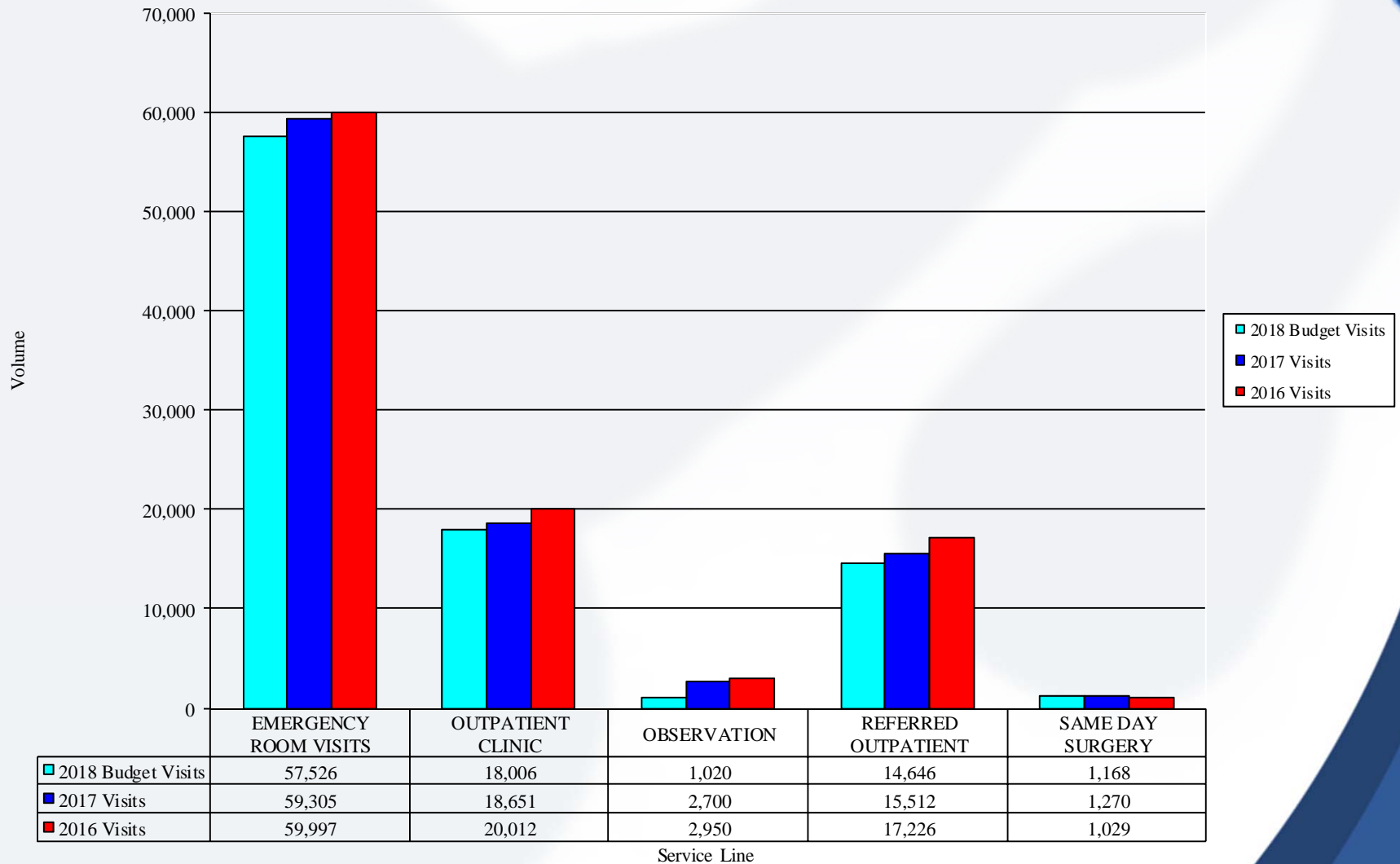
FY 2018 Budget: Inpatient Volume

2016-2018 Inpatient Volume by Service



FY 2018 Budget: Outpatient Volume

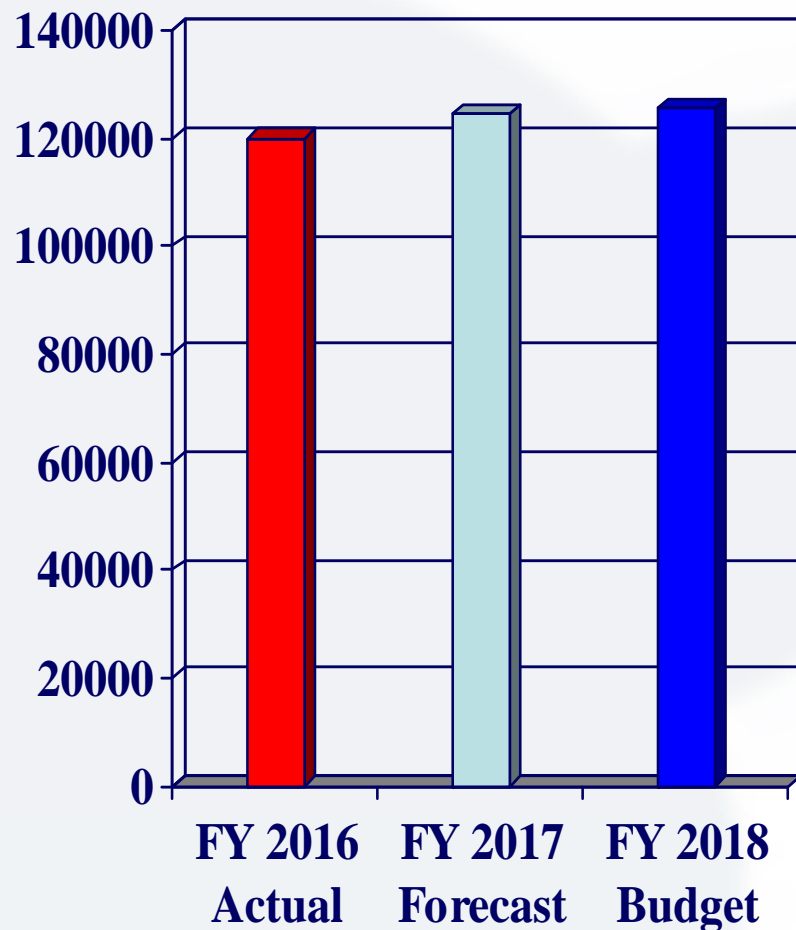
2016-2018 Outpatient Volume by Service



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FY 2017 Budget: Revenue Summary



- Operating Revenue (\$125.4 Million)
 - ✓ Based on Operator's provided volumes and volume assumptions.
 - ✓ Net Patient Revenue @ \$116.0 million.
 - ✓ DSH Revenue @ \$0 dollars.
 - ✓ Other Revenue @ \$9.5 million.
 - ☐ Includes Children's Hospital Clinics. \$3.0M
 - ☐ Includes funding for Hospital Operator's Contract. \$3.2M

FY 2018 Budget: Revenue Assumptions



Assumptions

Initiatives/Risks

Charges

- Assumes an overall 5.00% increase in Charges.
- Revenues determined by department volumes of in and outpatient services.

- Clinical documentation initiatives to enhance charge capturing.

Case Mix

- Current trend of Hospital CMI of 1.0700 with a Medicare Case Mix of 1.5900 and a Medicaid Case Mix of .9300.

- Improper documentation of case severity.
- Incomplete patient files at discharge resulting in patients being discharged not coded to be billed.

Length Of Stay (LOS)

- Assumes a LOS of 5.8 with Days of 36,064 of acute days
- LOS Calculation = Total Inpatient days (acute)/ Total Inpatient discharges (acute)

- Contingent upon timely discharge and proper case management execution as detailed in our initiatives.
- Additional hospitalists to do more rounding for discharging.

FY 2018 Budget: Revenue Assumptions



Assumptions

Initiatives/Risks

Payor Mix

- Assumes Payor Mix will be consistent with FY2017 with major contracts being reviewed and renegotiated.

- Emphasis needs to be placed on payor contacts renegotiations.
- Financial modeling will be provided to better guide the decision making.

Disproportionate Share Hospital (DSH)

- Assumes DSH payments will be \$0 based on the discontinuation of the OB program post Department of Health suspension. The loss is \$4.6M

- Continuous assessment of the status of DSH eligibility is ongoing.

Contractual Allowance (Collection Rate)

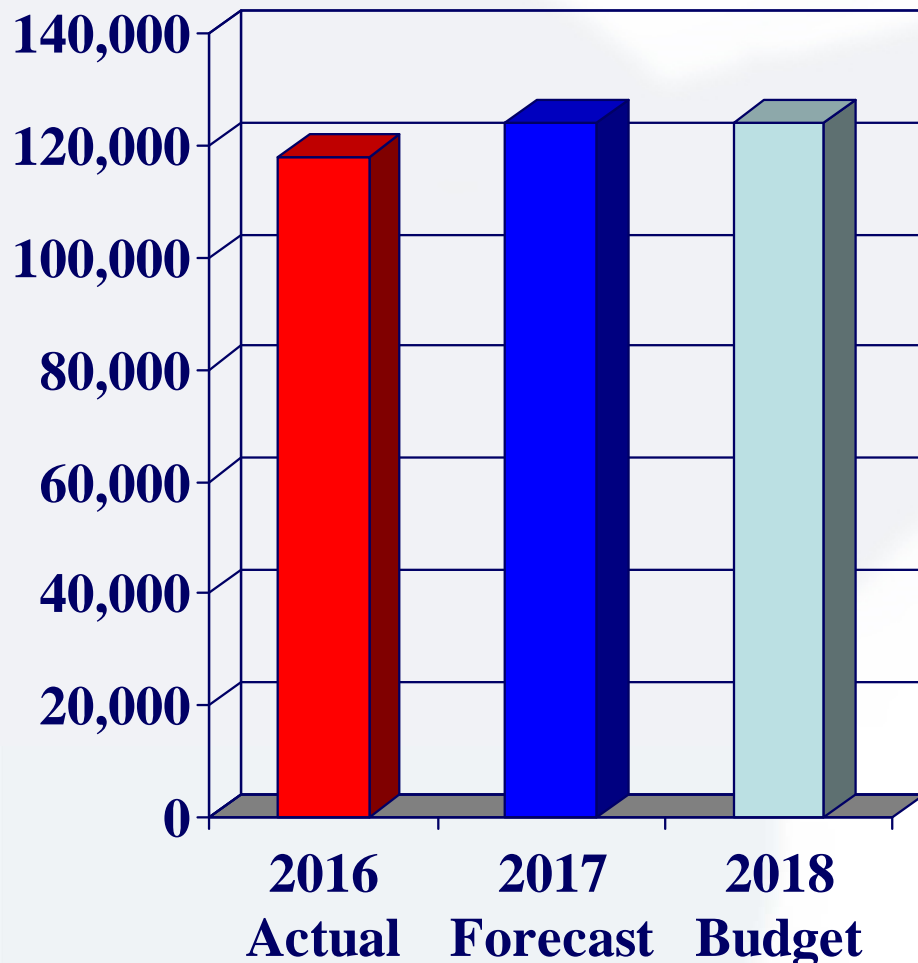
- Assumes a contractual allowance with 32.3% collections experience, with revenue cycle enhancements and medical necessity improvements.

- Opportunity exists as management continues its efforts to improve documentation and proper admissions.
- Proper differentiation of Inpatient Admissions and Observation (Proper Classification)

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FY 2018 Budget: Expense Summary



- Fiscal 2018 Expenses are based on FY 2017 expense per unit of service cost by area and uses FY 2018 volumes based on adjusted patient days.
- Salary Expenses have increased by \$1.75M which includes DCNA union increases.
- Expenses will be monitored monthly for negative variances compared to budget and quarterly to compare to activity trend.

FY 2018 Budget: Expense Assumptions



Assumptions

Initiatives

Labor Expense

- Contracted Union Increases (DCNA, SEIU, UFSPSO, IUOE) are projected based on current contracts or best final offer rates.
- Increases in employee benefits due to escalating healthcare insurance costs at 16.5%, pending approval of direction, and workers comp costs.
- Contract labor adjusted to reflect allowance for staffing gaps in nursing and other hard to fill departments.
- In FY 2018 the Physical Therapy services will be moved to purchased services from contract labor

- Vice Presidents and Directors signed off on the required staffing levels based on best practices, benchmarking, historical and activity trends.
- Management initiatives and the associated staffing needed to accomplish these initiatives were incorporated into the labor expenses.
- Addressing recruitment efforts to address vacancy issue.
- Retro payments for DCNA contingent upon positive FY 2017 operating income.

Overtime Expense

- 25 FTE dollars have been budgeted in FY 2018 for delayed hiring.
- If volume increases above budgeted levels, overtime funding will be available from additional revenues from volume increase.

- Aggressive monitoring of overtime and agency use will be employed.

FY 2018 Budget: Expense Assumptions



Assumptions

Initiatives

Physician Costs

- Hospital continues to pay for hospital based physicians and surgeons.
 - Hospital projects to pay Physicians \$8.5 million for contracted services.
 - OB physicians costs were excluded. The savings was \$1.6M.
- Hospital continues to offset physician expenses with revenue generated by their services. It will continue to monitor the net return on our investments into the existing and future service lines by physician/physician group to ensure proper returns.
 - Additional Hospitalists were added to help with 24/7 coverage. \$500K was added to accommodate this.

FY 2018 Budget: Expense Assumptions



Assumptions

Initiatives

Supplies

- Supplies expenses assume a \$1M savings initiative or 7.5% and a \$1.2M or 8.6% related volume decrease to obtain a total of 16.1% decrease in total supply costs. This is driven by a reduction in patient activities year over year.
- A new GPO contract is being implemented to reduce this expense and the savings will be staggered throughout the fiscal year based on management's best projections.

- The Hospital is looking for opportunities to use value analysis and other supply chain processes to control expenses.
- Preliminary meetings and conversations with managers suggests that the hospital has an opportunity to significantly reduce both its medical and non-medical supplies (radiology, pharmacy, interventional radiology, and surgery).

Bad Debt

- Has remained flat when compared with FY 2017.

- Will continue to be impacted by the eligibility program currently in place. The hospital has a number of revenue cycle enhancements that are expected to continue to improve our collection percentage throughout FY 2018.

FY 2018 Budget: Expense Assumptions



Assumptions

Initiatives

Purchased Services

- Increased by 21.9% due to the reclassification of the Physical Therapy vendor of \$1.9M.
- Legal counsel for Union Contract Negotiations expense is also included.

- Cost containment initiatives for legal fees has been entered into to limit the use of legal counsel without the approval of the CEO.

General Expense

- Business operating insurances are budgeted at a 4.0% increase based on USI preliminary projections.
- Repairs and Maintenance expense are expected to continue at its 2017 pace due to the deferring of some capital improvement projects.
- 2.5% increase has been factored in Utilities for FY 2018.

- UMC benchmarking analysis has identified opportunities to reduce expenses within specific operating departments.
- The renewal of our energy cost saving initiative with PEPCO and DC WASA could be potential savings.
- The Hospital is evaluating all current department budgets to better coordinate group/bulk spending to reduce general expenses.

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FY 2018 Budget: Consolidated Stats



Dollars in Thousands

	2018	2017	2016	New Budget to Forecast		
	Proposed Budget	Forecast	Actual	\$ Var	% Var	
Capacity and Utilization:						
Acute Licensed Beds	210	222	234	(12)	-5.7%	
SNF Total Licensed Beds	120	120	120	-	0.0%	
Total Licensed Beds	330	342	354	(12)	-3.6%	
Acute average patient stay	5.8	5.7	5.5	0.1	2.1%	
Acute admissions	6,221	6,723	7,064	(502)	-8.1%	
SNF admissions	84	85	91	(1)	-1.2%	
Total Admissions	6,305	6,808	7,155	(503)	-8.0%	
Acute patient days	36,064	38,152	38,757	(2,088)	-5.8%	
SNF resident days	42,340	41,134	39,416	1,206	2.8%	
Total Patient Days	78,404	79,286	78,173	(882)	-1.1%	
Adjusted patient days	77,626	78,364	82,703	(737)	-0.9%	
Emergency room visits	57,526	59,305	59,997	(1,779)	-3.1%	
Other outpatient visits	34,840	38,133	41,217	(3,293)	-9.5%	
Full time equivalents	887	857	874	30	3.4%	
Deliveries	-	312	448	(312)	0.0%	
Surgeries	2,880	2,466	1,972	414	14.4%	
Acute FTEs per adjusted occupied bed	3.6	3.5	3.4	0.2	5.0%	
Total Collection Rate	32.4%	31.5%	31.9%	1.0%	3.0%	

FY 2018 Budget: Outpatient Statistics



Dollars in Thousands

	2018	2017	2016	Budget to Forecast	
	Proposed Budget	Forecast	Actual	\$ Var	% Var
Outpatient Visits					
Emergency room	57,526	59,305	59,997	(1,779)	-3.1%
Clinic/Ancillary visits	18,006	18,651	20,012	(645)	-3.6%
Radiology visits	11,650	12,524	13,759	(874)	-7.5%
Laboratory visits	2,201	2,392	2,772	(191)	-8.7%
Same Day Surgery visits	1,168	1,270	1,029	(102)	-8.7%
Observation visits	1,020	2,700	2,950	(1,680)	-164.7%
Mobile Clinics	795	596	695	199	25.0%
Total Outpatient Visits	92,366	97,438	101,214	(5,072)	-5.5%

FY 2018 Budget: Income Statement



Consolidated Statement of Operations

Dollars in Thousands

	Proposed FY 2018	Forecast FY 2017	Actual FY 2016
Statistics:			
Admissions	6,305	6,808	7,155
ER visits	57,526	59,305	59,997
Clinic Visits	34,840	38,133	41,217
Average acute patient stay	5.8	5.7	5.5
Revenues:			
Net patient services revenue	\$ 115,971	\$ 106,637	\$ 104,730
Disproportionate share receipts	-	3,909	6,943
CNMC revenue	3,023	2,562	2,329
Other revenues	6,436	11,316	5,905
Total revenues	<u>\$ 125,430</u>	<u>\$ 124,424</u>	<u>\$ 119,907</u>
Operating cost:			
Salaries	\$ 58,016	\$ 55,770	\$ 54,391
Benefits	14,476	14,778	14,146
Contract labor	2,560	5,352	3,938
Medical & Non-Medical Supplies	13,319	15,469	15,466
Professional Fees	8,473	9,027	8,640
Purchased Services	18,857	14,727	13,432
Other Expenses	8,454	8,893	7,877
Total operating cost	<u>\$ 124,155</u>	<u>\$ 124,016</u>	<u>\$ 117,890</u>
Operating Income (loss)	<u>\$ 1,275</u>	<u>\$ 409</u>	<u>\$ 2,017</u>

FY 2018 Budget: Key Initiatives

A blue stethoscope is positioned in the top right corner of the slide, partially overlapping the dark blue header bar. The stethoscope is shown from a slightly elevated angle, with its chest piece and earpieces visible.

Revenue Enhancements

- Medical Necessity(Documentation)—\$3.0M
- Revenue Cycle Management—\$6.0M

Expense Reduction/Savings

- Contract Labor Management—\$1.0M
- Supply Chain Management—\$1.0M

**Total Initiatives Included in FY
2018 Budget \$11.0M**

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FY 2018 Budget: Challenges



Enterprise System Implementation

- The current Meditech system is in need of replacement to help in the proper capturing of revenues.

Hospital Initiatives

- Commitment to implement identified key initiative to realize revenue opportunities and cost savings..

Overtime Monitoring and Mitigation

- Controlling overtime will require management's aggressive monitoring to achieve FY 2018 budget projections.
- Implement a consistent process to identify and alert management of overtime use and abuse.

Compliance/Quality/Risk Program Implementation.

- Focusing on required Compliance, Quality, and Risk mitigation must continue to in order to achieve successful outcomes.

Inpatient Volumes

- Commitment to providing services as planned with no unforeseen set-backs is key
- Properly assessing patient admissions to identify them as either inpatient or observation.

Outpatient Volumes

- Successful implementation of ECW outpatient clinic system to appropriately capture associated revenue.

Not-for-Profit Hospital Corporation

FY 2018 Budget To Be Approved

Consolidated Statement of Operations

Dollars in Thousands

	Proposed FY 2018
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ER visits	57,526
Clinic Visits	34,840
Average acute patient stay	5.8
Revenues:	
Net patient services revenue	\$ 115,971
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Other revenues	6,436
Total revenues	<u>\$ 125,430</u>
Operating cost:	
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Professional Fees	8,473
Purchased Services	18,857
Other Expenses	8,454
Total operating cost	<u>\$ 124,155</u>
Operating Income (loss)	<u>\$ 1,275</u>

FY 2018 Budget—Any Questions

