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Erie County Medical Center Corporation Operating and Capital Budgets

For the year ending 2016





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Management Discussion and Analysis

Management Discussion and Analysis
September 30, 2016

The 2016 Operating and Capital Budget (the “Budget”) presented in the following pages was developed by the Executive Leadership Team of Erie County Medical Center Corporation (“ECMCC”) and its management personnel. The Budget is consistent with the ECMCC Strategic Plan and reflects investments made or to be made over the budget year. Investment returns, of course, are not only measured in financial terms, but also in terms of achieving the ECMCC mission, improving clinical quality, service excellence, and the health of the communities ECMCC serves.

Budgetary assumptions are a key component of the process that was followed in developing the Budget. The following summarizes Management’s perspective in the development of these assumptions.



Management Discussion and Analysis

Budget Goals:

The achievement of an operating margin is a critical factor in generating sufficient cash flows to support the investment of capital in new programs and services. As a result of the institution's mission to serve those unable to pay and reimbursement rate pressures that have lowered payment ECMCC has budgeted an operating margin of 0.3% which is an improvement from the projected 2015 operating margin of 0.2%. This level of operating margin will allow ECMC to meet its obligations, and continue to invest in new capital.

Activity Levels:

The Budget has been prepared on a consistent basis with current and prior year actual results. Further consideration was given to historical trends, the changes in evidence based medicine supporting clinical practice utilization rates, the goals of the NYS Medicaid Redesign effort, including the Delivery System Reform Incentive Payment program (DSRIP), changing regulations and payer payment policies, and other factors. Management believes that the levels of activity contained within the Budget are attainable.



Management Discussion and Analysis

Revenue and Reimbursement:

Gross revenue price increases have not been factored into the budget as a result of data analysis indicating that such increases may not be supported by market factors. Management also recognizes that many persons covered under health insurance programs are facing increasing responsibility for co insurance and deductible amounts and is mindful of the pressure that increasing prices places on the health care consumer, noting that there is potential for volume growth for persons with increases in their out of pocket expenses. Most payers do not pay based on gross fees established and the impact of a lack of price increase has been deemed immaterial to the results of operations of ECMCC. Reimbursement from government payers has been incorporated based on current regulations and, where Management has evaluated as probable, proposed regulations. Reimbursement from commercial payers has been incorporated into the Budget based on current contracts, or at rates that Management has evaluated as probable for contracts currently being negotiated. Increases in net revenue associated with revenue cycle improvement initiatives have also been incorporated at levels that Management believes are readily attainable. Other Operating Revenue has been budgeted based on historical experience and adjusted for new developments. Disproportionate Share, IGT and UPL payments have been budgeted based on the most current information available to Management at the time the Budget has been prepared.



Management Discussion and Analysis

Operating Expenses:

Operating expenses have been budgeted based on the volume of anticipated activity and adjusted for salary rate increases consistent with collective bargaining agreements, estimated benefit cost increases, supply and other expense inflation rates as well as impacts of critical performance improvement initiatives. Management believes that the expenses contained in the Budget are reasonable and attainable.

Non-Operating Revenue:

Non-Operating Revenues have been budgeted based on interest and dividend income only and do not consider realized or unrealized investment gains or losses associated with market movements.





Management Discussion and Analysis

Cash Flows:

Operating expenses have been budgeted based on the volume of anticipated activity and adjusted for salary rate increases consistent with collective bargaining agreements, estimated benefit cost increases, supply and other expense inflation rates as well as impacts of critical performance improvement initiatives. Management believes that the expenses contained in the Budget are reasonable and attainable.

Range of Outcomes and Contingency Plans:

Management has considered the sensitivity of each material assumption within the Budget and has included a schedule quantifying the range of potential outcomes for those assumptions. Management believes that the Budget is reasonably positioned within the range of potential outcomes and recognizes its responsibility for achieving these results. To this end, Management is actively engaged in developing plans to mitigate any unfavorable impact from potential events.





Regulatory Budget Reporting Requirements

- All Requirements have been met
 - NYCRR, Part 203, Chapter V, Title 2
 - This package communicates each of the 18 requirements
- New York State Office Of The State Comptroller
 - ECMCC Developed Best Practice Checklist
- PARIS Submission and Certification





Budget Process

- Executive Leadership (ELT) Adopt Budget Schedule and Goals
- Review Budget Schedule, Goal and Macro Assumptions with Finance Committee of ECMCC Board
- ELT and Department / Service Line Leadership (D/SLL) Develop Patient Volumes
- Using Patient Volumes, Revenue Budget is prepared and D/SLL Prepare Detailed Expense Budgets
- ELT Sequestered Meetings to Manage to Challenge Budgets and Make Decisions to Achieve Goals
- ELT Budget Recommendation Reviewed by Finance Committee of ECMCC Board
- Budget Recommendation Reviewed by ECMCC Board



Key Financial Ratios

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>Projected</u> <u>2015</u> | <u>Budget</u> <u>2016</u> |
|---|-------------|-------------|-------------|-------------|---------------------------------|------------------------------|
| Operating Margin % | 0.3% | 0.3% | 0.2% | 0.2% | 0.2% | 0.3% |
| Moody's Median | 2.6% | 2.5% | 2.0% | 2.6% | 2.6% | 2.6% |
| Operating EBITDA % | 5.1% | 5.5% | 6.3% | 7.5% | 7.0% | 6.7% |
| Moody's Median | 9.5% | 9.6% | 9.0% | 9.6% | 9.6% | 9.6% |
| FTE's | 2,751 | 2,733 | 2,823 | 2,902 | 3,012 | 3,139 |
| Days Cash On Hand | 187.0 | 139.3 | 112.8 | 75.3 | 65.4 | 67.5 |
| Moody's Median | 174.4 | 191.3 | 201.4 | 205.8 | 205.8 | 205.1 |
| Debt Covenant | 57 | 57 | 57 | 57 | 57 | 57 |
| Debt Service Coverage | 2.3 | 2.0 | 1.9 | 2.3 | 2.0 | 2.0 |
| Moody's Median | 4.2 | 4.3 | 4.2 | 4.6 | 4.6 | 4.6 |
| Debt Covenant | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Debt to Total Capitalization | 68.7% | 65.9% | 63.2% | 61.8% | 61.6% | 59.5% |
| Moody's Median | 39.3% | 38.5% | 35.2% | 33.7% | 33.7% | 33.7% |
| Salaries, Wages & Benefits % of Revenue | 73.5% | 69.5% | 73.4% | 65.7% | 65.8% | 65.8% |
| Supply Expense % of Revenue | 17.2% | 17.5% | 17.4% | 16.0% | 15.2% | 14.9% |
| Benefit % of Salaries and Wages | 63.2% | 63.5% | 57.2% | 54.7% | 53.7% | 48.0% |
| Days In Accounts Receivable, net | 41.8 | 41.9 | 48.0 | 43.5 | 54.6 | 57.6 |
| Moody's Median | 45.2 | 50.2 | 49.9 | 49.5 | 49.5 | 49.5 |



Statement of Revenues and Expenses (Thousands)

| | 2014 Audited | | 2015 Projected Actual | | 2016 Budget | | Increase (Decrease) | |
|---|-----------------|---------------|-----------------------|---------------|----------------|---------------|---------------------|---------------|
| | Actual | % | Projected | % | Budget | % | | % |
| Net Patient Revenue | 457,121 | 100.0% | 460,216 | 100.0% | 487,584 | 100.0% | 27,368 | 5.9% |
| Provision for Uncollectable Accounts | <u>(25,397)</u> | <u>-5.6%</u> | <u>(8,782)</u> | <u>-1.9%</u> | <u>(9,183)</u> | <u>-1.9%</u> | <u>(401)</u> | <u>4.6%</u> |
| Adjusted Net Patient Revenue | 431,724 | 94.4% | 451,434 | 98.1% | 478,401 | 98.1% | 26,967 | 6.0% |
| Disproportionate Share / IGT and UPL Payments | 65,883 | 15.3% | 60,566 | 13.4% | 61,232 | 12.8% | 666 | 1.1% |
| Other Operating Revenues | <u>17,082</u> | <u>4.0%</u> | <u>23,662</u> | <u>5.2%</u> | <u>15,176</u> | <u>3.2%</u> | <u>(8,486)</u> | <u>-35.9%</u> |
| Total Operating Revenues | <u>514,689</u> | <u>119.2%</u> | <u>535,662</u> | <u>118.7%</u> | <u>554,809</u> | <u>116.0%</u> | <u>19,147</u> | <u>3.6%</u> |
| Operating Expenses | | | | | | | | |
| Salaries and Wages | 183,473 | 42.5% | 193,415 | 42.8% | 212,713 | 44.5% | 19,298 | 10.0% |
| Employee Benefits | 100,296 | 23.2% | 103,777 | 23.0% | 102,037 | 21.3% | (1,740) | -1.7% |
| Physician & Resident Fees | 65,971 | 15.3% | 67,004 | 14.8% | 70,360 | 14.7% | 3,356 | 5.0% |
| Purchased Services | 42,104 | 9.8% | 41,645 | 9.2% | 37,091 | 7.8% | (4,554) | -10.9% |
| Supplies | 68,933 | 16.0% | 68,616 | 15.2% | 71,164 | 14.9% | 2,548 | 3.7% |
| Other Expenses | 15,452 | 3.6% | 23,955 | 5.3% | 24,166 | 5.1% | 211 | 0.9% |
| Depreciation | 29,168 | 6.8% | 28,258 | 6.3% | 27,759 | 5.8% | (499) | -1.8% |
| Interest | <u>8,350</u> | <u>1.9%</u> | <u>8,112</u> | <u>1.8%</u> | <u>8,019</u> | <u>1.7%</u> | <u>(93)</u> | <u>-1.1%</u> |
| Total Operating Expenses | <u>513,747</u> | <u>119.0%</u> | <u>534,782</u> | <u>118.5%</u> | <u>553,309</u> | <u>115.7%</u> | <u>18,527</u> | <u>4.1%</u> |
| Income from Operations | 942 | 0.2% | 880 | 0.2% | 1,500 | 0.3% | 620 | 70.5% |
| Non Operating Revenues | <u>3,184</u> | <u>0.7%</u> | <u>3,726</u> | <u>0.8%</u> | <u>3,000</u> | <u>0.6%</u> | <u>(726)</u> | <u>-19.5%</u> |
| Excess of Revenues Over Expenses | <u>4,126</u> | <u>1.0%</u> | <u>4,606</u> | <u>1.0%</u> | <u>4,500</u> | <u>0.9%</u> | <u>(106)</u> | <u>-2.3%</u> |



Balance Sheets

(Thousands)

| | <u>2014 Audited</u> | | <u>2015 Projection</u> | | <u>2016 Budget</u> | | <u>Increase (Decrease)</u> | |
|--|-----------------------|----------------------|------------------------|----------------------|-----------------------|----------------------|----------------------------|---------------------|
| | <u>12/31/2014</u> | <u>%</u> | <u>12/31/2015</u> | <u>%</u> | <u>12/31/2016</u> | <u>%</u> | | <u>%</u> |
| Assets | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and Investments | 9,521 | 1.7% | 19,754 | 3.4% | 22,558 | 3.9% | 2,804 | 14.2% |
| Patient Accounts Receivable, Net | 51,491 | 8.9% | 67,516 | 11.7% | 75,481 | 13.1% | 7,965 | 11.8% |
| Other Current Assets | <u>89,459</u> | <u>15.5%</u> | <u>64,831</u> | <u>11.2%</u> | <u>65,027</u> | <u>11.3%</u> | <u>196</u> | <u>0.3%</u> |
| Total Current Assets | <u>150,471</u> | <u>26.1%</u> | <u>152,101</u> | <u>26.4%</u> | <u>163,066</u> | <u>28.2%</u> | <u>10,965</u> | <u>7.2%</u> |
| Assets Whose Use Is Limited | | | | | | | | |
| Self Insurance Programs | 58,242 | 10.1% | 36,801 | 6.4% | 39,268 | 6.8% | 2,467 | 6.7% |
| Restricted Under Third Party Agreements | 26,089 | 4.5% | 60,346 | 10.5% | 61,663 | 10.7% | 1,317 | 2.2% |
| Designated Long Term Investments | <u>21,837</u> | <u>3.8%</u> | <u>23,228</u> | <u>4.0%</u> | <u>24,389</u> | <u>4.2%</u> | <u>1,161</u> | <u>5.0%</u> |
| Total Assets Whose Use Is Limited | <u>106,168</u> | <u>18.4%</u> | <u>120,375</u> | <u>20.9%</u> | <u>125,320</u> | <u>21.7%</u> | <u>4,945</u> | <u>4.1%</u> |
| Property and Equipment, Net | 288,997 | 50.1% | 272,801 | 47.3% | 257,621 | 44.6% | (15,180) | -5.6% |
| Other Assets | <u>31,286</u> | <u>5.4%</u> | <u>31,952</u> | <u>5.5%</u> | <u>31,919</u> | <u>5.5%</u> | <u>(33)</u> | <u>-0.1%</u> |
| Total Assets | <u>576,922</u> | <u>100.0%</u> | <u>577,229</u> | <u>100.0%</u> | <u>577,926</u> | <u>100.0%</u> | <u>697</u> | <u>0.1%</u> |
| Liabilities and Net Assets | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Current Portion of Long Term Debt | 8,137 | 1.4% | 10,169 | 1.8% | 10,711 | 1.9% | 542 | 5.3% |
| Accounts Payable and Accrued Expenses | 97,282 | 16.9% | 84,201 | 14.6% | 85,073 | 14.7% | 872 | 1.0% |
| Liability to Third Party Payers, Net | <u>20,511</u> | <u>3.6%</u> | <u>11,403</u> | <u>2.0%</u> | <u>14,352</u> | <u>2.5%</u> | <u>2,949</u> | <u>25.9%</u> |
| Total Current Liabilities | <u>125,930</u> | <u>21.8%</u> | <u>105,773</u> | <u>18.3%</u> | <u>110,136</u> | <u>19.1%</u> | <u>4,363</u> | <u>4.1%</u> |
| Long Term Debt | 166,579 | 28.9% | 165,883 | 28.7% | 155,172 | 26.8% | (10,711) | -6.5% |
| Self Insurance Liabilities | <u>165,382</u> | <u>28.7%</u> | <u>183,052</u> | <u>31.7%</u> | <u>186,713</u> | <u>32.3%</u> | <u>3,661</u> | <u>2.0%</u> |
| Total Liabilities | <u>457,891</u> | <u>79.4%</u> | <u>454,708</u> | <u>78.8%</u> | <u>452,021</u> | <u>78.2%</u> | <u>(7,050)</u> | <u>-1.6%</u> |
| Net Assets | | | | | | | | |
| Unrestricted | 107,830 | 18.7% | 111,320 | 19.3% | 114,704 | 19.8% | 3,384 | 3.0% |
| Restricted | <u>11,201</u> | <u>1.9%</u> | <u>11,201</u> | <u>1.9%</u> | <u>11,201</u> | <u>1.9%</u> | <u>-</u> | <u>0.0%</u> |
| Total Net Assets | <u>119,031</u> | <u>20.6%</u> | <u>122,521</u> | <u>21.2%</u> | <u>125,905</u> | <u>21.8%</u> | <u>3,384</u> | <u>2.8%</u> |
| Total Liabilities and Net Assets | <u>576,922</u> | <u>100.0%</u> | <u>577,229</u> | <u>100.0%</u> | <u>577,926</u> | <u>100.0%</u> | <u>697</u> | <u>0.1%</u> |



Statement of Cash Flow

(Thousands)

| | <u>Audited 2014</u> | <u>Projected 2015</u> | <u>Budget 2016</u> |
|--|-------------------------|---------------------------|------------------------|
| Cash Flows From Operating Activities | | | |
| Excess of Revenues Over Expenses | 4,126 | 4,606 | 4,500 |
| Depreciation & Amortization | 29,168 | 28,258 | 27,759 |
| (Increase) Decrease in Patient Accounts Receivable, Net | (1,487) | (16,025) | (7,965) |
| (Increase) Decrease in Other Current Assets | (18,522) | 23,962 | (163) |
| Increase (Decrease) in Accounts Payable and Accrued Exp. | 3,040 | (6,669) | 872 |
| Increase (Decrease) in Third Party Payer Settlements | (1,623) | (9,108) | 2,949 |
| Increase (Decrease) in Self Insurance Liabilities | 4,375 | 17,670 | 3,661 |
| Increase (Decrease) in Other Liabilities | <u>15,152</u> | <u>(6,412)</u> | <u>-</u> |
| Net Cash Provided By (Used In) Operating Activities | <u>34,229</u> | <u>36,282</u> | <u>31,613</u> |
| Cash Flows From Investing Activities | | | |
| (Increase) Decrease in Assets Whose Use is Limited | 22,523 | (14,207) | (4,945) |
| Cash Flows From Financing Activities | | | |
| Additions to Property and Equipment | (29,552) | (12,062) | (12,579) |
| Principal Payments on Long Term Debt | (5,639) | 1,336 | (10,169) |
| Other Financing Activities, Net | <u>(22,669)</u> | <u>(1,116)</u> | <u>(1,116)</u> |
| Net Cash (Used In) Financing Activities | <u>(57,860)</u> | <u>(11,842)</u> | <u>(23,864)</u> |
| Net Increase (Decrease) in Cash and Investments | (1,108) | 10,233 | 2,804 |
| Cash and Investments, Beginning | <u>10,629</u> | <u>9,521</u> | <u>19,754</u> |
| Cash and Investments, Ending | <u>9,521</u> | <u>19,754</u> | <u>22,558</u> |



Operating Performance Reconciliation

(Thousands)

| | <u>Operating Revenues</u> | <u>Operating Expenses</u> | <u>Operating Income</u> |
|---|-------------------------------|-------------------------------|-----------------------------|
| Projected 2015 Operating Income | 535,662 | 534,782 | 880 |
| Payor Rate Increases/Decreases, Net of Bad Debt | 1,308 | | 1,308 |
| Volume Changes, Net | 15,169 | 8,116 | 7,053 |
| Revenue Cycle Improvements | 5,845 | 767 | 5,078 |
| Incremental Professional Fees Revenue | 6,274 | 570 | 5,704 |
| DSRIP/IAAF/ Planning Grant Revenue | (6,676) | | (6,676) |
| Reduction in Overtime | | (1,170) | 1,170 |
| Wage Increases and Other Salary Changes | | 15,855 | (15,855) |
| Benefits Changes, Net | | (1,740) | 1,740 |
| Physician Fees | | 3,357 | (3,357) |
| Reduction in Consulting and purchases services | | (5,246) | 5,246 |
| Discretionary Spend Reduction | | (1,502) | 1,502 |
| Supply Chain Initiatives | | (1,700) | 1,700 |
| Supply and Pharmacy Cost Inflation | | 745 | (745) |
| All Other, Net | <u>(2,616)</u> | <u>632</u> | <u>(3,248)</u> |
| Budgeted 2016 Operating Income | <u>554,966</u> | <u>553,466</u> | <u>1,500</u> |



Principal Assumptions

- Volume
- Patient Revenue and Reimbursement
- IGT / UPL Payments
- Other Revenues
- Expenses
- Cash Flows





Volume Assumptions

| | 2014 | 2015 | 2016 | <u>Increase (Decrease)</u> | |
|--------------------------|----------------|-------------------|----------------|----------------------------|-------------|
| | <u>Actual</u> | <u>Projection</u> | <u>Budget</u> | <u>15 - 16</u> | <u>%</u> |
| Discharges | 17,796 | 18,703 | 19,020 | 317 | 1.7% |
| Average Length of Stay | | | | | |
| Acute | 6.4 | 6.6 | 5.9 | (0.7) | -10.6% |
| Behavioral Health | 12.3 | 12.0 | 11.5 | (0.5) | -4.2% |
| Observation | 2,369 | 2,219 | 2,226 | 7 | 0.3% |
| Outpatient Visits | | | | | |
| Clinics | 105,178 | 109,561 | 118,146 | 8,585 | 7.8% |
| Behavioral Health | 86,494 | 87,095 | 87,363 | 268 | 0.3% |
| Dialysis | 21,270 | 22,914 | 25,722 | 2,808 | 12.3% |
| Therapies | 47,423 | 55,012 | 55,012 | - | 0.0% |
| Diagnostic Procedures | 48,712 | 44,278 | 44,448 | 170 | 0.4% |
| Other | 8,101 | 8,209 | 8,209 | - | 0.0% |
| Total | <u>317,178</u> | <u>327,069</u> | <u>338,900</u> | <u>11,831</u> | <u>3.6%</u> |
| Surgical Cases | | | | | |
| Inpatient | 5,668 | 5,988 | 6,252 | 264 | 4.4% |
| Outpatient | <u>7,700</u> | <u>8,273</u> | <u>8,973</u> | <u>700</u> | <u>8.5%</u> |
| Total | <u>13,368</u> | <u>14,261</u> | <u>15,225</u> | <u>964</u> | <u>6.8%</u> |
| Emergency Visits | 54,297 | 54,039 | 54,211 | 172 | 0.3% |
| CPEP Visits | 12,121 | 12,686 | 12,718 | 32 | 0.3% |
| Terrace View Occupancy % | 97.9% | 97.7% | 97.7% | 0% | 0.0% |



Revenue and Reimbursement Assumptions

Hospital Services

- Medicare
 - Rates based on FFY 2016 Regulation– 1.9% market basket increase
 - Rate updated for Readmission Factor, VBP Adjustment Factor
 - Wage Index/GAF Factors, IME and DSH per Regulation
- Medicaid
 - 2016 base rate at most current information available
 - No increase to rates
- Local Commercial Payers
 - No increase to contract rates
- Other Commercial Payers
 - No increases to contract rates
- Other Payers
 - No increases to contract rates
- Bad Debt and Charity Care – 1.8 % of net patient revenue



Revenue and Reimbursement Assumptions

Terrace View Services

- Medicare
 - 3.0% rate increase
 - 2.5% rate increase due to patient complexity
- Medicaid
 - 3.0% rate increase due to patient complexity
- Local Commercial Payers
 - No increase to contract rates
- Other Commercial Payers
 - No increase to contract rates
- Other Payers
 - No increase to contract rates
- Bad Debt - 3.0 % of net patient revenue



IGT and UPL Revenue

| | Audited <u>2014</u> | Projected <u>2015</u> | Budget <u>2016</u> |
|-------|--------------------------------|----------------------------------|-------------------------------|
| IGT | 52,143 | 49,965 | 49,491 |
| UPL | 13,740 | 10,601 | 11,741 |
| Total | <u><u>65,883</u></u> | <u><u>60,566</u></u> | <u><u>61,232</u></u> |





Other Revenues

| | 2014 <u>Actual</u> | 2015 <u>Projected</u> | 2016 <u>Budget</u> |
|--|-------------------------------------|--|-------------------------------------|
| Rent Revenue | 961 | 981 | 1,420 |
| Grant Revenue | 5,477 | 3,971 | 3,774 |
| IAAF Grant Award | 3,084 | 5,400 | - |
| DSRIP Grant Revenue | - | 2,670 | 3,617 |
| Planning Grant Award | 577 | 2,223 | - |
| I.T. Meaningful Use Incentive Award | 700 | 375 | 200 |
| Parking Revenues | 318 | 295 | 228 |
| Local Payer Quality Incentive Payments | 960 | 376 | 575 |
| Other | 5,005 | 7,371 | 5,520 |
| | <u>17,082</u> | <u>23,662</u> | <u>15,334</u> |



DSRIP

- Revenue recognized to offset:
 - Direct MCC program expense
 - Direct ECMCC program expense
 - Allocated ECMCC support services
- Conduit revenue and expense for other MCC participants have net zero impact to ECMCC





Salary Expense

Salaries & Wages:

- Increase of \$19.3 Million or 10.0%
- Assumptions
 - Net increase of 127 FTE's
 - 2.0% wage increase for MC
 - Wage/step increases per agreements with; NYSNA, AFSCME and CSEA
 - 2.25% Average inflation rate, 5.2% total with step increases
 - Overtime reduction from 4.0% of hours to 3.8% of hours



Salary Expense Reconciliation

| | <u>FTE's</u> | <u>Thousands of \$</u> |
|---|--------------|------------------------|
| Projected 2015 FTE's / Salaries and Wages | 3,012 | 193,415 |
| Increases In Staffing Levels | | |
| Due to Patient Volume | 71 | 4,613 |
| Contract Labor / DSRIP | | 663 |
| Other | <u>66</u> | <u>4,834</u> |
| Total Increases In Staffing | <u>137</u> | <u>10,110</u> |
| Collective Barginning Agreement Increases | | |
| Step Increases (3.0%) | | 5,635 |
| Inflation Increases (2.1%) | | <u>4,226</u> |
| Total Collective Barginning Agreement Increases | | <u>9,861</u> |
| Management / Confidential Inflation Increase (2.0%) | | 497 |
| Reduction in Overtime | <u>(10)</u> | <u>(1,170)</u> |
| Budget 2016 FTE's / Salaries and Wages | <u>3,139</u> | <u>212,713</u> |



Benefits Expense

Benefits:

- Net decrease of \$1.7 Million or (1.2%)
- Increases:
 - Health insurance – active and retiree's
 - Payroll taxes on increased salaries
- Decreases:
 - New York State Pension due to GASB 68 Adoption
 - Post Retiree Health Insurance due to GASB 45/75
 - Workers' Compensation
- Assumptions
 - 6% Health/Dental insurance rate increase



Other Operating Expenses

Physician & Residents:

- Net increase of \$3.4 Million (5.0%)
 - Increases in contractual obligations offset by growth in professional fee revenue
 - \$5 Million for continued funding of Advanced Medical Home

Contractual Fees:

- Net decrease of \$4.4 Million (10.6%)
 - Reduction in consulting and purchases services
 - \$1.5 Million reduction for anticipated management initiatives
 - Increase in Information Technology

Medical Supplies:

- Net increase of \$2.5 Million (3.7%)
 - 4.0% increase in pharmaceuticals
 - \$1.7 Million projected decrease in costs due to GPO contract
 - \$3.5 Million increase in Transplant related volume increase
 - 2.0% increase in other supplies





Cash Flow Assumptions

- Net increase in cash of \$2.8 Million (15.4%)
 - 65.4 days cash to 67.5 days cash
- Accounts receivable increase of \$7.9 Million (11.8%)
 - 54.6 days to 57.6 days due to ICD-10 transition
- Consistent other Net Working Capital accounts
- No change in actuarial positions
- Capital budget spend of \$8.6 Million
- Long Term Debt repayments per debt agreements



Range of Assumptions Impact Analysis (Thousands)

| | <u>Worst Case</u> | <u>Budget</u> | <u>Best Case</u> |
|-----------------------------------|----------------------|----------------------|----------------------|
| Volume | 3,527 | 7,053 | 14,106 |
| Revenue Cycle Improvement | 2,923 | 5,845 | 5,845 |
| Professional Billings Improvement | 1,273 | 2,545 | 2,545 |
| Medicare Reimbursement | 1,137 | 1,137 | 1,421 |
| Advanced Medical Home | (5,000) | (5,000) | (3,750) |
| ICD 10 | TBD | TBD | TBD |
| DRG Weight Changes | TBD | TBD | TBD |
| IGT/UPL Payments | (3,000) | - | - |
| Other Operating Revenue - Rent | 400 | 400 | 686 |
| Overtime Management | - | 1,170 | 2,340 |
| Vacancy Factor | 6,650 | 9,500 | 9,500 |
| Workers Comp Initiatives | - | 650 | 1,355 |
| GASB 68 | 3,500 | 3,500 | 4,500 |
| GASB 45 | - | 2,000 | 4,000 |
| Discretionary Spend Reduction | 750 | 1,502 | 2,250 |
| Supply Chain Savings | <u>1,000</u> | <u>1,700</u> | <u>4,500</u> |
| Totals | <u>13,159</u> | <u>32,002</u> | <u>49,298</u> |

Range of Outcomes \$ 36,140

% Into Range 52%



Mitigating Factors and Contingency Plans

- HRIS selection and implementation
- Project Management Office and Department “SWAT” team for ongoing 2015 and 2016 improvement initiatives
- Recruited Business Intelligence leader for timely service line evaluation and ongoing measurement
- Selective coordination of support services functions across Great Lakes Health
- Dedicated budget staff and developing structured monitoring process with manager accountability
- GPO contractual risk for achievement of supply chain savings
- Phase in to capital budget funding at 100% of prior year depreciation expense



Emerging Issues and Accounting Pronouncements

- DSRIP
- Medicare Bundled Payment Project
- Aligned Incentive Programs
- Managed Care Requirement for LTC
- ICD-10 Implementation (10/1/15)
- GASB 45/75 Transition
- ASC 605 & ASU-2014-09 – Revenue Recognition
- ASC 842 – Leases Exposure Draft – Accounting for Leases



Capital Budget Summary

- \$8.7 Million spend
 - \$4 Million carry-over projects
 - \$4.7 Million new spend
- Contingency fund allocation of new spend
- \$6 Million additional spend available with meeting specific financial performance criteria
- \$3.7 Million remaining Lease Line availability



Calculation of Capital Budget Availability for 2016

| | | |
|--|-----------------|---------------------|
| Budgeted Operating Income Target | | 1,500 |
| Depreciation Expense | | 27,759 |
| Pension Expense | 22,000 | |
| Pension Funding | <u>(25,100)</u> | |
| Net Pension Use of Cash | | (3,100) |
| Principal Payments on Long Term Debt | | (10,169) |
| The Grider Initiative Equity Transfer | | (1,116) |
| GASB 45 Funding Policy | | <u>(5,995)</u> |
| Gross Amount Available for Capital Budget | | 8,879 |
| Current Committed Construction Renovation Projects | | <u>(4,000)</u> |
| Net Capital Available | | <u><u>4,879</u></u> |



5 Year Financial Projections

- Phase in to a 1% Operating Margin
- Current volume levels
- Flat reimbursement Rates; Payer reductions offset by Revenue Cycle improvements
- Current level of IGT/UPL payments
- Continued trend in benefits % of salary expense reduction
- Supply and other expense inflation consistent with current trend
- Sets framework for Management Action Plan



Statement of Revenues and Expenses – Projected

(Thousands)

| | Audited <u>2014</u> | Projected <u>2015</u> | Budget <u>2016</u> | <u>2017</u> | <u>2018</u> | Projected <u>2019</u> | <u>2020</u> | <u>2021</u> |
|--|------------------------|--------------------------|-----------------------|----------------|----------------|--------------------------|----------------|----------------|
| Net Patient Service Revenue | 414,885 | 451,434 | 478,401 | 486,010 | 493,650 | 501,315 | 508,998 | 517,529 |
| Disproportionate Share, IGT and UPL Revenue | 65,883 | 60,566 | 61,232 | 61,232 | 61,232 | 61,232 | 61,232 | 61,232 |
| Other Operating Revenue | 33,921 | 23,663 | 15,176 | 15,480 | 15,789 | 16,105 | 16,427 | 16,756 |
| Total Operating Revenue | 514,689 | 535,663 | 554,809 | 562,722 | 570,671 | 578,652 | 586,657 | 595,516 |
| Operating Expenses | | | | | | | | |
| Salaries and Benefits | 283,769 | 297,192 | 314,750 | 322,905 | 331,164 | 339,687 | 348,428 | 357,566 |
| Supplies | 68,932 | 68,616 | 71,164 | 74,483 | 77,956 | 81,589 | 85,392 | 89,516 |
| Physician Fees and Professional Services | 108,075 | 108,648 | 107,450 | 110,137 | 112,891 | 115,713 | 118,606 | 121,571 |
| Other Expenses | 15,453 | 23,959 | 24,167 | 24,406 | 24,650 | 24,896 | 25,145 | 25,397 |
| Depreciation and Amortization | 29,168 | 28,258 | 27,759 | 25,599 | 23,130 | 22,802 | 23,830 | 25,512 |
| Interest | 8,350 | 8,111 | 8,019 | 7,524 | 7,104 | 6,671 | 6,225 | 5,801 |
| Total Operating Expenses | 513,747 | 534,784 | 553,309 | 565,054 | 576,893 | 591,359 | 607,626 | 625,362 |
| Income (Loss) Before Management Actions | 942 | 879 | 1,500 | (2,332) | (6,222) | (12,707) | (20,970) | (29,846) |
| Increase Revenue / Reduced Expense Requirement | - | - | - | 5,146 | 10,217 | 18,493 | 26,837 | 35,801 |
| Income From Operations | 942 | 879 | 1,500 | 2,814 | 3,995 | 5,787 | 5,867 | 5,955 |
| Non Operating Revenues | 3,184 | 3,726 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Excess of Revenues Over Expenses | 4,126 | 4,605 | 4,500 | 5,814 | 6,995 | 8,787 | 8,867 | 8,955 |
| Operating Margin % | 0.2% | 0.2% | 0.3% | 0.5% | 0.7% | 1.0% | 1.0% | 1.0% |



Balance Sheet – Projected

(Thousands)

| | Audited <u>2014</u> | Projected <u>2015</u> | Budget <u>2016</u> | <u>2017</u> | <u>2018</u> | Projected <u>2019</u> | <u>2020</u> | <u>2021</u> |
|---|------------------------|--------------------------|-----------------------|----------------|----------------|--------------------------|----------------|----------------|
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash | 9,521 | 19,754 | 22,558 | 27,821 | 26,915 | 26,111 | 24,858 | 21,344 |
| Patient Accounts Receivable | 51,491 | 67,516 | 75,481 | 74,019 | 74,641 | 75,251 | 75,846 | 76,550 |
| Other Current Assets | 89,459 | 64,831 | 65,027 | 65,228 | 65,434 | 65,645 | 65,861 | 66,083 |
| Total Current Assets | <u>150,471</u> | <u>152,101</u> | <u>163,066</u> | <u>167,068</u> | <u>166,990</u> | <u>167,007</u> | <u>166,565</u> | <u>163,977</u> |
| Assets Whose Use Is Limited | 106,168 | 120,375 | 125,320 | 132,213 | 139,450 | 147,049 | 155,028 | 163,406 |
| Property and Equipment | 288,997 | 272,801 | 257,621 | 247,289 | 240,799 | 235,344 | 230,895 | 229,214 |
| Other Assets | 31,286 | 31,952 | 31,919 | 31,919 | 31,919 | 31,919 | 31,919 | 31,919 |
| Total Assets | <u>576,922</u> | <u>577,229</u> | <u>577,926</u> | <u>578,488</u> | <u>579,158</u> | <u>581,319</u> | <u>584,408</u> | <u>588,516</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts Payable and Accrued Expenses | 56,350 | 49,681 | 50,553 | 53,166 | 54,711 | 56,309 | 57,960 | 59,699 |
| Estimated Third Party Payer Settlements | 20,511 | 11,403 | 14,352 | 14,580 | 14,809 | 15,039 | 15,270 | 15,526 |
| Current Portion of Long Term Debt | 8,137 | 10,169 | 10,711 | 10,791 | 11,223 | 10,506 | 9,768 | 10,202 |
| Total Current Liabilities | <u>84,998</u> | <u>71,253</u> | <u>75,616</u> | <u>78,538</u> | <u>80,743</u> | <u>81,855</u> | <u>82,998</u> | <u>85,426</u> |
| Long Term Debt | 166,579 | 165,883 | 155,172 | 144,381 | 133,157 | 122,651 | 112,884 | 102,682 |
| Self Insurance Reserves | 165,382 | 183,052 | 186,713 | 190,447 | 194,256 | 198,141 | 202,104 | 206,146 |
| Other Liabilities | 40,932 | 34,520 | 34,520 | 34,520 | 34,520 | 34,520 | 34,520 | 34,520 |
| Total Liabilities | <u>457,891</u> | <u>454,708</u> | <u>452,021</u> | <u>447,886</u> | <u>442,677</u> | <u>437,167</u> | <u>432,506</u> | <u>428,775</u> |
| Net Assets | | | | | | | | |
| Unrestricted | 107,830 | 111,320 | 114,704 | 119,402 | 125,280 | 132,951 | 140,701 | 148,541 |
| Restricted | 11,201 | 11,201 | 11,201 | 11,201 | 11,201 | 11,201 | 11,201 | 11,201 |
| Total Net Assets | <u>119,031</u> | <u>122,521</u> | <u>125,905</u> | <u>130,603</u> | <u>136,481</u> | <u>144,152</u> | <u>151,902</u> | <u>159,742</u> |
| Total Liabilities and Net Assets | <u>576,922</u> | <u>577,229</u> | <u>577,926</u> | <u>578,489</u> | <u>579,158</u> | <u>581,319</u> | <u>584,408</u> | <u>588,516</u> |



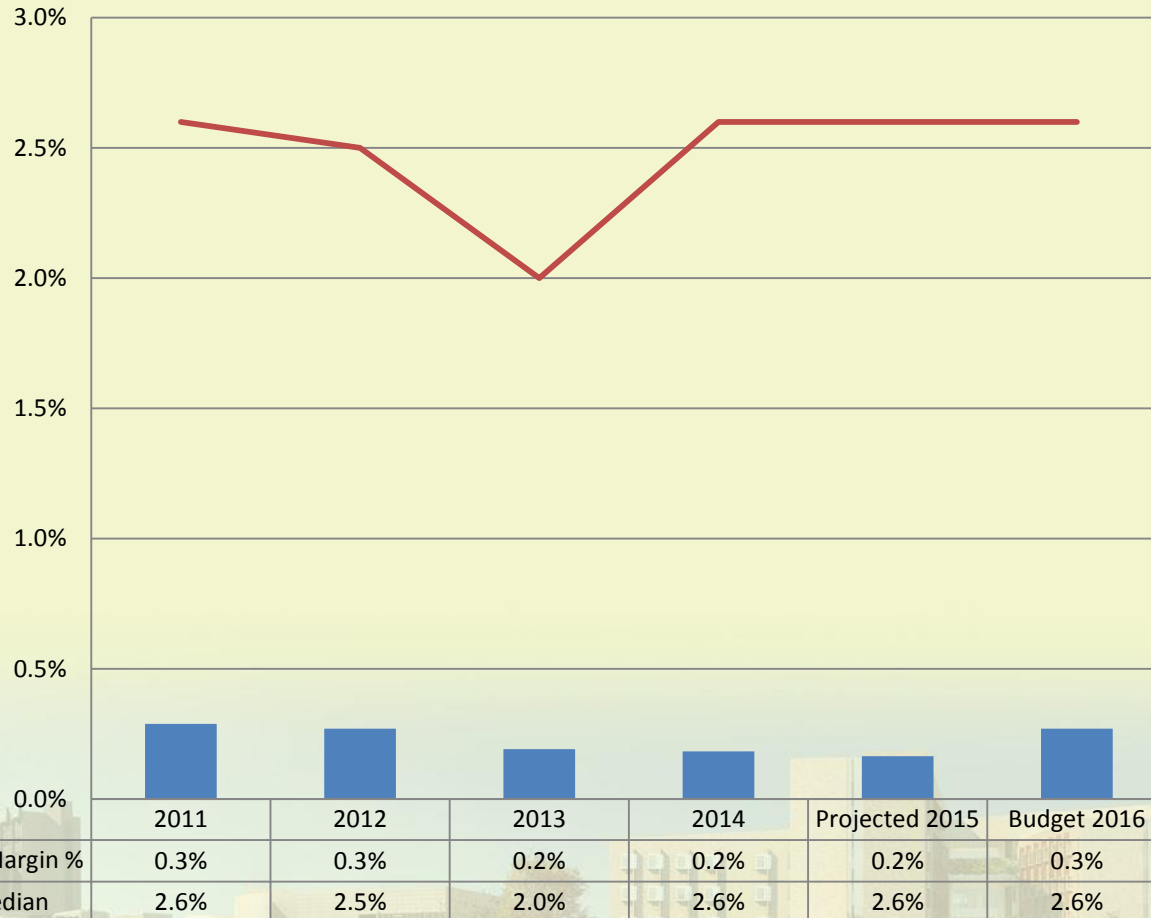
Statement of Cash Flow - Projected

(Thousands)

| | Audited <u>2014</u> | Projected <u>2015</u> | Budget <u>2016</u> | <u>2017</u> | <u>2018</u> | Projected <u>2019</u> | <u>2020</u> | <u>2021</u> |
|--|------------------------|--------------------------|-----------------------|-----------------|-----------------|--------------------------|-----------------|-----------------|
| Cash Flows From Operating Activities | | | | | | | | |
| Excess of Revenues Over Expenses | 4,126 | 4,606 | 4,500 | 5,814 | 6,995 | 8,787 | 8,867 | 8,955 |
| Depreciation & Amortization | 29,168 | 28,258 | 27,759 | 25,599 | 23,130 | 22,802 | 23,830 | 25,512 |
| (Increase) Decrease in Patient Accounts Receivable, Net | (1,487) | (16,025) | (7,965) | 1,463 | (623) | (610) | (595) | (704) |
| (Increase) Decrease in Other Current Assets | (18,522) | 23,962 | (163) | (201) | (206) | (211) | (216) | (222) |
| Increase (Decrease) in Accounts Payable and Accrued Exp. | 3,040 | (6,669) | 872 | 2,613 | 1,545 | 1,598 | 1,651 | 1,739 |
| Increase (Decrease) in Third Party Payer Settlements | (1,623) | (9,108) | 2,949 | 228 | 229 | 230 | 230 | 256 |
| Increase (Decrease) in Self Insurance Liabilities | 4,375 | 17,670 | 3,661 | 3,734 | 3,809 | 3,885 | 3,963 | 4,042 |
| Increase (Decrease) in Other Liabilities | 15,152 | (6,412) | - | - | - | - | - | - |
| Net Cash Provided By (Used In) Operating Activities | <u>34,229</u> | <u>36,282</u> | <u>31,613</u> | <u>39,250</u> | <u>34,879</u> | <u>36,481</u> | <u>37,729</u> | <u>39,578</u> |
| Cash Flows From Investing Activities | | | | | | | | |
| (Increase) Decrease in Assets Whose Use is Limited | 22,523 | (14,207) | (4,945) | (6,893) | (7,237) | (7,599) | (7,979) | (8,378) |
| Cash Flows From Financing Activities | | | | | | | | |
| Additions to Property and Equipment | (29,552) | (12,062) | (12,579) | (15,267) | (16,640) | (17,347) | (19,382) | (23,830) |
| Principal Payments on Long Term Debt | (5,639) | 1,336 | (10,169) | (10,711) | (10,792) | (11,223) | (10,505) | (9,768) |
| Other Financing Activities, Net | (22,669) | (1,116) | (1,116) | (1,116) | (1,116) | (1,116) | (1,116) | (1,116) |
| Net Cash (Used In) Financing Activities | <u>(57,860)</u> | <u>(11,842)</u> | <u>(23,864)</u> | <u>(27,094)</u> | <u>(28,548)</u> | <u>(29,686)</u> | <u>(31,003)</u> | <u>(34,714)</u> |
| Net Increase (Decrease) in Cash and Investments | (1,108) | 10,233 | 2,804 | 5,263 | (906) | (804) | (1,253) | (3,514) |
| Cash and Investments, Beginning | <u>10,629</u> | <u>9,521</u> | <u>19,754</u> | <u>22,558</u> | <u>27,821</u> | <u>26,915</u> | <u>26,111</u> | <u>24,858</u> |
| Cash and Investments, Ending | <u>9,521</u> | <u>19,754</u> | <u>22,558</u> | <u>27,821</u> | <u>26,915</u> | <u>26,111</u> | <u>24,858</u> | <u>21,344</u> |

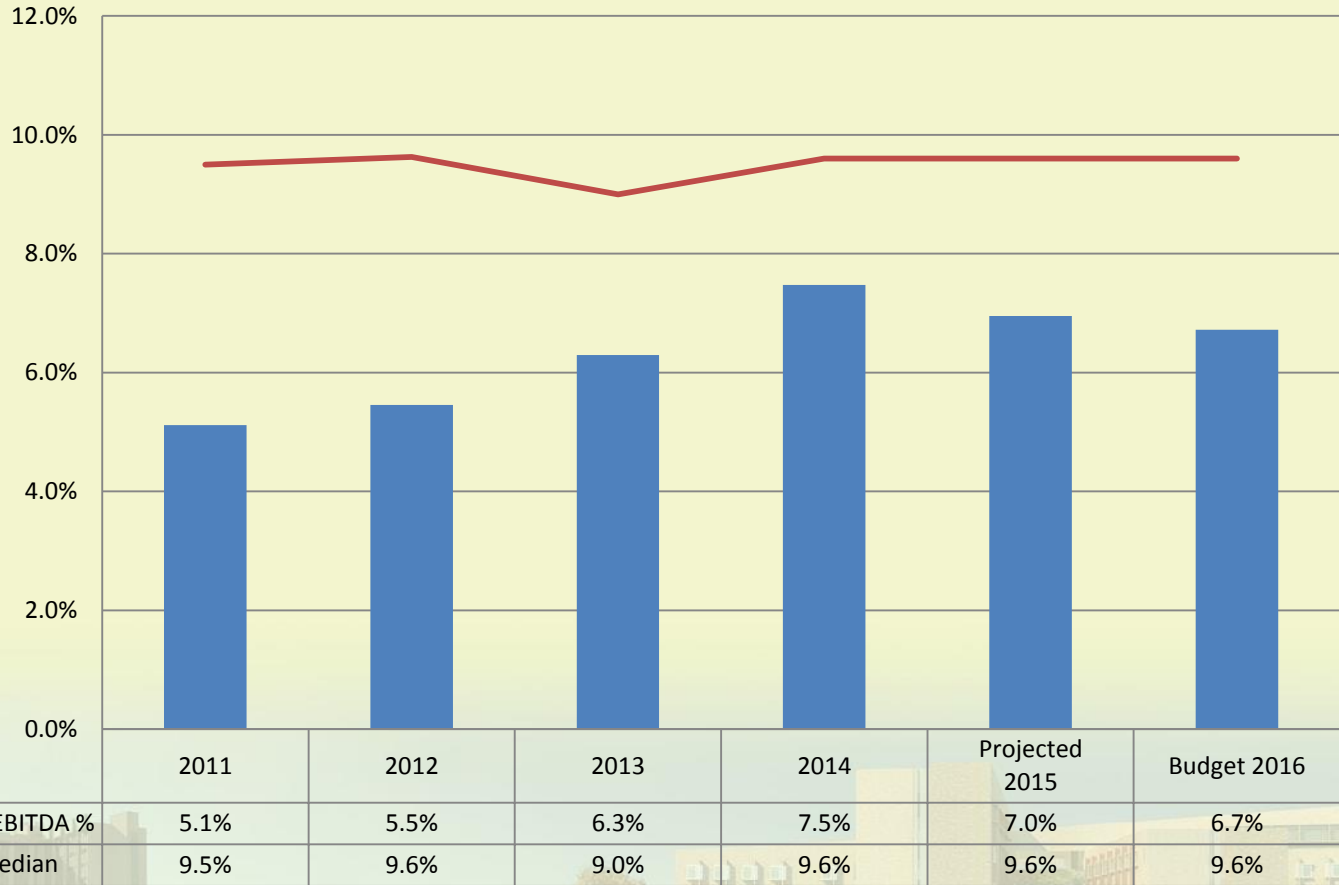


Operating Margin



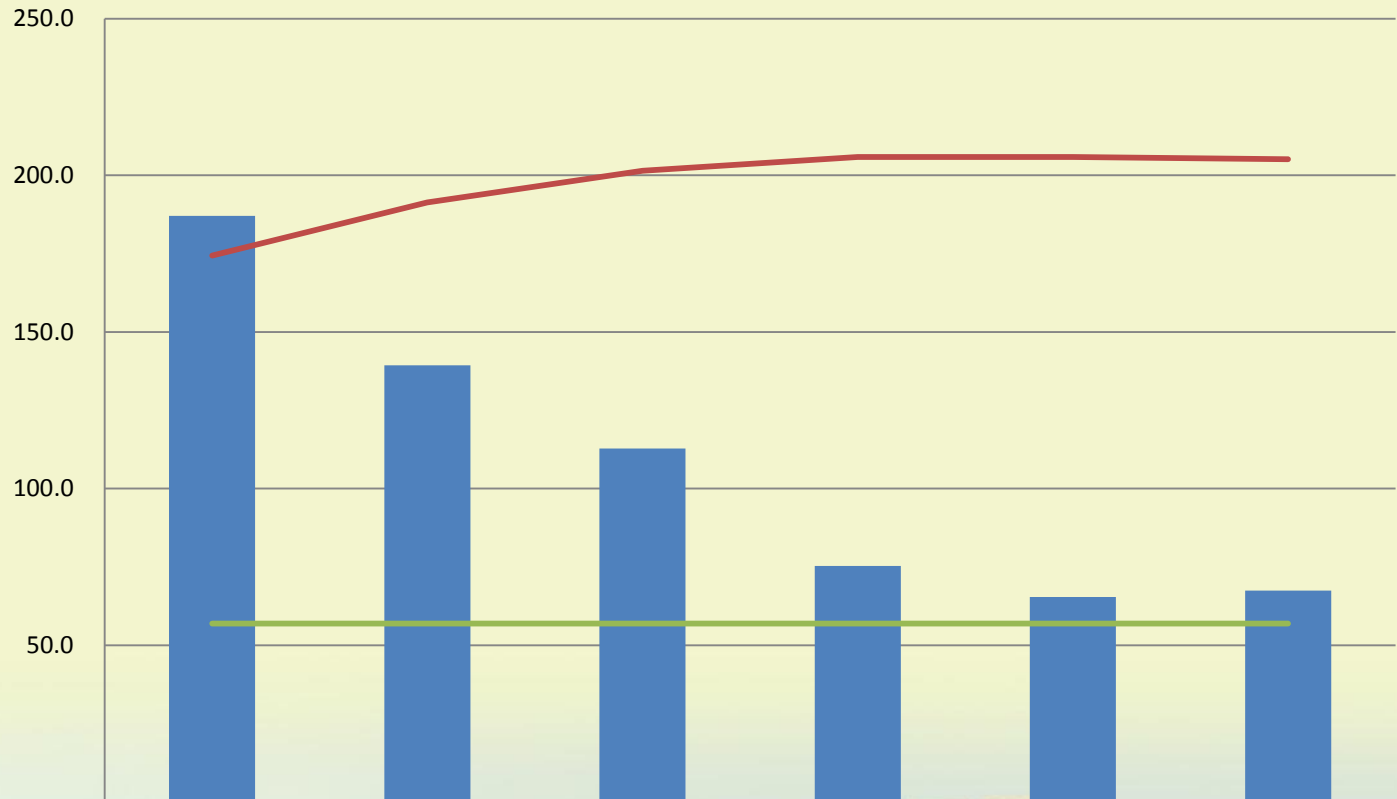


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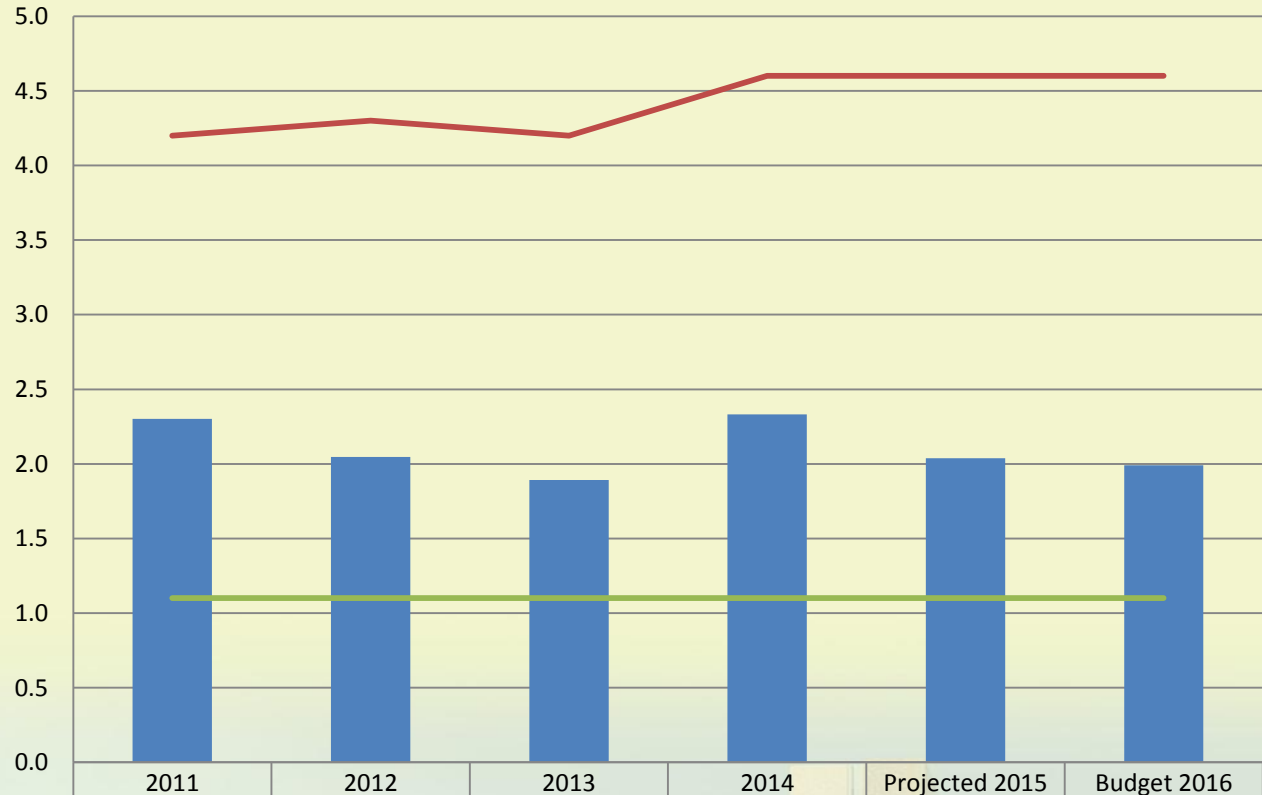
Days Cash on Hand



| | 2011 | 2012 | 2013 | 2014 | Projected 2015 | Budget 2016 |
|-------------------|-------|-------|-------|-------|----------------|-------------|
| Days Cash On Hand | 187.0 | 139.3 | 112.8 | 75.3 | 65.4 | 67.5 |
| Moody's Median | 174.4 | 191.3 | 201.4 | 205.8 | 205.8 | 205.1 |
| Debt Covenant | 57 | 57 | 57 | 57 | 57 | 57 |



Debt Service Coverage



| | | | | | | |
|-----------------------|-----|-----|-----|-----|-----|-----|
| Debt Service Coverage | 2.3 | 2.0 | 1.9 | 2.3 | 2.0 | 2.0 |
| Moody's Median | 4.2 | 4.3 | 4.2 | 4.6 | 4.6 | 4.6 |
| Debt Covenant | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |



Debt to Capitalization

