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Erie County Medical Center Corporation Operating and Capital Budgets

For the year ending 2017





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Management Discussion and Analysis

Management Discussion and Analysis
September 30, 2017

The 2017 Operating and Capital Budgets (the “Budget”) presented in the following pages was developed by the Executive Leadership Team of Erie County Medical Center Corporation (“ECMCC”) and its management staff. 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, expense inflation greater than reimbursement rate growth ECMCC has budgeted an operating margin of 0.2%. This level of performance is consistent with the projected 2016 operating margin and 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 analysis indicating that such increases are not supported by market factors. With increasing consumer responsibility for healthcare costs such price increases may hinder access to ECMC and volume growth. Most insurers do not pay based on gross fees established, however in many cases co-insurance and deductible amounts are based on gross fees, and management has determined the impact of a lack of price increase on revenues is out weighed by the potential growth and the overall 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 attainable. Other Operating Revenue has been budgeted based on historical experience. Disproportionate Share 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:

Cash Flows have been budgeted on the result of operations, investments in capital assets, required principal payments on Long-Term debt and funding of employee benefits plans consistent with GASB 45 and GASB 68, and a stable net working capital position.

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.



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
- Authority Budget Office
- 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 Meetings 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>2013</u> | <u>2014</u> | <u>2015</u> | <u>Projected</u> <u>2016</u> | <u>Budget</u> <u>2017</u> |
|---|-------------|-------------|-------------|---------------------------------|------------------------------|
| Operating Margin % | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| NYS PBC Average % | -5.5% | -3.0% | -5.8% | -6.1% | -6.1% |
| Operating EBITDA % | 6.3% | 7.5% | 6.7% | 6.4% | 6.8% |
| NYS PBC Average % | 1.2% | 3.6% | 0.9% | 0.0% | 0.0% |
| FTE's | 2,823 | 2,902 | 3,153 | 3,194 | 3,258 |
| Days Cash On Hand | 122.6 | 84.3 | 71.9 | 65.1 | 57.1 |
| Debt Covenant | 57.0 | 57.0 | 57.0 | 57.0 | 57.0 |
| NYS PBC Average | 42.9 | 57.0 | 45.4 | 50.2 | 50.2 |
| Debt Service Coverage | 1.9 | 2.6 | 2.4 | 1.9 | 1.7 |
| Debt Covenant | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| NYS PBC Average | 0.9 | 1.8 | 0.8 | 0.3 | 0.3 |
| Debt to Total Capitalization | 63.2% | 61.8% | 66.8% | 76.4% | 75.3% |
| NYS PBC Average % | 258.7% | 268.9% | 296.8% | 201.9% | 201.9% |
| Salaries, Wages & Benefits % of Revenue | 73.4% | 65.7% | 63.7% | 64.9% | 64.1% |
| Supply Expense % of Revenue | 17.4% | 16.0% | 15.9% | 16.3% | 15.7% |
| Benefit % of Salaries and Wages | 57.2% | 54.7% | 47.4% | 49.9% | 47.9% |
| Days In Accounts Receivable, net | 48.0 | 43.5 | 52.9 | 51.1 | 50.9 |
| NYS PBC Average | 54.1 | 45.9 | 41.5 | 39.2 | 39.2 |



Statement of Revenues and Expenses

(Thousands)

| | <u>2015 Audited</u> | | <u>2016 Projected</u> | | <u>2017 Budget</u> | | <u>Increase (Decrease)</u> | |
|---|---------------------|---------------|-----------------------|---------------|--------------------|---------------|----------------------------|---------------|
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Net Patient Revenue | 465,083 | 100.0% | 484,856 | 100.0% | 509,502 | 100.0% | 24,646 | 5.1% |
| Disproportionate Share / IGT and UPL Payments | 59,237 | 12.7% | 63,717 | 13.1% | 63,717 | 12.5% | - | 0.0% |
| Other Operating Revenues | <u>26,089</u> | <u>5.6%</u> | <u>35,499</u> | <u>7.3%</u> | <u>42,751</u> | <u>8.4%</u> | <u>7,252</u> | <u>20.4%</u> |
| Total Operating Revenues | <u>550,409</u> | <u>118.3%</u> | <u>584,072</u> | <u>120.5%</u> | <u>615,970</u> | <u>120.9%</u> | <u>31,898</u> | <u>5.5%</u> |
| Operating Expenses | | | | | | | | |
| Salaries and Benefits | 296,405 | 63.7% | 314,459 | 64.9% | 326,687 | 64.1% | 12,228 | 3.9% |
| Physician Fees & Professional Services | 113,509 | 24.4% | 108,885 | 22.5% | 117,142 | 23.0% | 8,257 | 7.6% |
| Supplies | 73,762 | 15.9% | 78,798 | 16.3% | 79,895 | 15.7% | 1,097 | 1.4% |
| Other Expenses | 29,863 | 6.4% | 44,523 | 9.2% | 50,663 | 9.9% | 6,140 | 13.8% |
| Depreciation | 27,906 | 6.0% | 28,371 | 5.9% | 28,087 | 5.5% | (284) | -1.0% |
| Interest | <u>8,233</u> | <u>1.8%</u> | <u>8,036</u> | <u>1.7%</u> | <u>12,496</u> | <u>2.5%</u> | <u>4,460</u> | <u>55.5%</u> |
| Total Operating Expenses | <u>549,678</u> | <u>118.2%</u> | <u>583,072</u> | <u>120.3%</u> | <u>614,970</u> | <u>120.7%</u> | <u>31,898</u> | <u>81.2%</u> |
| Income from Operations | 731 | 0.2% | 1,000 | 0.2% | 1,000 | 0.2% | - | 0.0% |
| Non Operating Revenues | <u>2,611</u> | <u>0.6%</u> | <u>(1,579)</u> | <u>-0.3%</u> | <u>1,278</u> | <u>0.3%</u> | <u>2,857</u> | <u>180.9%</u> |
| Excess of Revenues Over Expenses | <u>3,342</u> | <u>0.7%</u> | <u>(579)</u> | <u>-0.1%</u> | <u>2,278</u> | <u>0.4%</u> | <u>2,857</u> | <u>493.4%</u> |



Balance Sheets

(Thousands)

| | <u>2015 Audited</u> | | <u>2016 Projected</u> | | <u>2017 Budget</u> | | <u>Increase (Decrease)</u> | |
|--|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|----------------------------|---------------------|
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Assets | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and Investments | 40,885 | 6.6% | 36,045 | 4.5% | 27,926 | 3.6% | (8,119) | -22.5% |
| Patient Accounts Receivable, Net | 67,529 | 10.9% | 67,867 | 8.4% | 71,051 | 9.3% | 3,184 | 4.7% |
| Other Current Assets | <u>64,154</u> | <u>10.3%</u> | <u>59,377</u> | <u>7.3%</u> | <u>47,572</u> | <u>6.2%</u> | <u>(11,805)</u> | <u>-19.9%</u> |
| Total Current Assets | 172,568 | 27.8% | 163,289 | 20.2% | 146,549 | 19.1% | (16,740) | -10.3% |
| Total Assets Whose Use Is Limited | 124,922 | 20.1% | 220,841 | 27.3% | 164,432 | 21.4% | (56,409) | -25.5% |
| Property and Equipment, Net | 279,525 | 45.1% | 255,154 | 31.5% | 293,697 | 38.3% | 38,543 | 15.1% |
| Other Assets | <u>43,023</u> | <u>6.9%</u> | <u>169,537</u> | <u>21.0%</u> | <u>162,537</u> | <u>21.2%</u> | <u>(7,000)</u> | <u>-4.1%</u> |
| Total Assets | <u>620,038</u> | <u>100.0%</u> | <u>808,821</u> | <u>100.0%</u> | <u>767,215</u> | <u>100.0%</u> | <u>(41,606)</u> | <u>-5.1%</u> |
| Liabilities and Net Assets | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Current Portion of Long Term Debt | 10,620 | 1.7% | 10,711 | 1.3% | 10,791 | 1.4% | 80 | 0.7% |
| Accounts Payable and Accrued Expenses | 87,933 | 14.2% | 63,934 | 7.9% | 64,614 | 8.4% | 680 | 1.1% |
| Liability to Third Party Payers, Net | <u>2,777</u> | <u>0.4%</u> | <u>11,403</u> | <u>1.4%</u> | <u>11,983</u> | <u>1.6%</u> | <u>580</u> | <u>5.1%</u> |
| Total Current Liabilities | 101,330 | 16.3% | 86,048 | 10.6% | 87,388 | 11.4% | 1,340 | 1.6% |
| Other Liabilities | 56,957 | 9.2% | 154,317 | 19.1% | 122,137 | 15.9% | (32,180) | -20.9% |
| Long Term Debt | 165,883 | 26.8% | 267,172 | 33.0% | 254,293 | 33.1% | (12,879) | -4.8% |
| Self Insurance Liabilities | <u>175,977</u> | <u>28.4%</u> | <u>183,052</u> | <u>22.6%</u> | <u>183,967</u> | <u>24.0%</u> | <u>915</u> | <u>0.5%</u> |
| Total Liabilities | 500,147 | 80.7% | 690,589 | 85.4% | 647,785 | 84.4% | (42,804) | -6.2% |
| Total Net Assets | 119,891 | 19.3% | 118,232 | 14.6% | 119,430 | 15.6% | 1,198 | 1.0% |
| Total Liabilities and Net Assets | <u>620,038</u> | <u>100.0%</u> | <u>808,821</u> | <u>100.0%</u> | <u>767,215</u> | <u>100.0%</u> | <u>(41,606)</u> | <u>-5.1%</u> |



Statement of Cash Flow

(Thousands)

| | <u>Audited</u> <u>2015</u> | <u>Projected</u> <u>2016</u> | <u>Budget</u> <u>2017</u> |
|--|-------------------------------|---------------------------------|------------------------------|
| Cash Flows From Operating Activities | | | |
| Excess of Revenues Over Expenses | 3,342 | (579) | 2,278 |
| Depreciation & Amortization | 27,906 | 28,371 | 28,087 |
| (Increase) Decrease in Patient Accounts Receivable, Net | (16,038) | (338) | (3,184) |
| (Increase) Decrease in Other Current Assets | 12,718 | (121,737) | 18,805 |
| Increase (Decrease) in Accounts Payable and Accrued Exp. | 38,501 | (23,999) | 680 |
| Increase (Decrease) in Third Party Payer Settlements | (17,734) | 8,626 | 580 |
| Increase (Decrease) in Self Insurance Liabilities | 7,230 | 7,075 | 915 |
| Increase (Decrease) in Other Liabilities | <u>12,472</u> | <u>97,360</u> | <u>(32,180)</u> |
| Net Cash Provided By (Used In) Operating Activities | <u>68,397</u> | <u>(5,221)</u> | <u>15,981</u> |
| Cash Flows From Investing Activities | | | |
| (Increase) Decrease in Assets Whose Use is Limited | (17,954) | (95,919) | 56,409 |
| Cash Flows From Financing Activities | | | |
| Additions to Property and Equipment | (18,384) | (4,000) | (66,630) |
| Principal Payments on Long Term Debt | 1,787 | 101,380 | (12,799) |
| Other Financing Activities, Net | <u>(2,482)</u> | <u>(1,080)</u> | <u>(1,080)</u> |
| Net Cash (Used In) Financing Activities | <u>(19,079)</u> | <u>96,300</u> | <u>(80,509)</u> |
| Net Increase (Decrease) in Cash and Investments | 31,364 | (4,840) | (8,119) |
| Cash and Investments, Beginning | <u>9,521</u> | <u>40,885</u> | <u>36,045</u> |
| Cash and Investments, Ending | <u>40,885</u> | <u>36,045</u> | <u>27,926</u> |



Operating Performance Reconciliation

(Thousands)

| | <u>Operating Revenues</u> | <u>Operating Expenses</u> | <u>Operating Income</u> |
|---|-------------------------------|-------------------------------|-----------------------------|
| Projected 2016 Operating Income | 584,072 | 583,072 | 1,000 |
| Payor Rate Increases/Decreases, Net of Bad Debt | 4,734 | | 4,734 |
| Volume Changes, Net | 13,109 | 5,681 | 7,428 |
| Revenue Cycle Improvements | 6,000 | | 6,000 |
| DSRIP/IAAF/ Planning Grant Revenue | 7,578 | 6,835 | 743 |
| Reduction in Overtime | | (220) | 220 |
| Wage Increases and Other Salary Changes | | 7,452 | (7,452) |
| Benefits Changes, Net | | 1,110 | (1,110) |
| Physician Fees | | 5,647 | (5,647) |
| Increase in Purchased Services | | 2,610 | (2,610) |
| Increase in Interest Expense | | 4,460 | (4,460) |
| Supply Chain Initiatives | | (2,200) | 2,200 |
| Supply and Pharmacy Cost Inflation | | 2,905 | (2,905) |
| All Other, Net | <u>477</u> | <u>(2,382)</u> | <u>2,859</u> |
| Budgeted 2017 Operating Income | <u>615,970</u> | <u>614,970</u> | <u>1,000</u> |



Principal Assumptions

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





Volume Assumptions

| | 2015 <u>Actual</u> | 2016 <u>Projection</u> | 2017 <u>Budget</u> | <u>Increase (Decrease)</u> <u>16 - 17</u> <u>%</u> | |
|------------------------|-----------------------|---------------------------|-----------------------|---|--------------------|
| Discharges | 18,378 | 18,732 | 18,755 | 23 | 0.1% |
| Average Length of Stay | | | | | |
| Acute | 6.3 | 6.6 | 6.3 | (0.3) | -4.5% |
| Other | <u>11.1</u> | <u>10.7</u> | <u>10.9</u> | <u>0.2</u> | <u>1.9%</u> |
| Total | <u><u>8.1</u></u> | <u><u>7.8</u></u> | <u><u>7.8</u></u> | <u><u>-</u></u> | <u><u>0.0%</u></u> |
| Observation | 4,421 | 4,483 | 4,483 | - | 0.0% |
| Outpatient Visits | | | | | |
| Clinics | 107,040 | 110,341 | 121,412 | 11,071 | 10.0% |
| Behavioral Health | 32,978 | 35,210 | 35,560 | 350 | 1.0% |
| Chemical Dependency | 53,592 | 51,406 | 51,406 | - | 0.0% |
| Dialysis | 25,036 | 27,340 | 28,584 | 1,244 | 4.6% |
| Therapies | 71,425 | 70,000 | 73,271 | 3,271 | 4.7% |
| Transplant/Vascular | <u>5,147</u> | <u>6,508</u> | <u>6,821</u> | <u>313</u> | <u>4.8%</u> |
| Total | <u><u>295,218</u></u> | <u><u>300,805</u></u> | <u><u>317,054</u></u> | <u><u>16,249</u></u> | <u><u>5.4%</u></u> |
| Surgical Cases | | | | | |
| Inpatient | 5,525 | 5,814 | 5,916 | 102 | 1.8% |
| Outpatient | 6,763 | 7,369 | 7,868 | 499 | 6.8% |
| Ancillary | <u>1,283</u> | <u>1,474</u> | <u>1,474</u> | <u>-</u> | <u>0.0%</u> |
| Total | <u><u>13,571</u></u> | <u><u>14,657</u></u> | <u><u>15,258</u></u> | <u><u>601</u></u> | <u><u>4.1%</u></u> |
| Emergency Visits | 54,854 | 57,225 | 57,225 | - | 0.0% |
| CPEP Visits | 12,434 | 12,312 | 12,312 | - | 0.0% |
| Terrace View ADC | 381 | 377 | 386 | 9 | 2.4% |



Revenue and Reimbursement Assumptions

Hospital Services

- Medicare
 - Rates based on FFY 2017 final rule; 1.22% market basket increase
 - Continued reductions in outlier payments and others
 - Final DRG weight (case mix) change +.0047
- Medicaid
 - 0.8% increase in operating rates
 - Continued capital payment
- Workers' Comp / No Fault
 - 1.0% increase in operating rates
- Other Payers
 - Per contracts in effect
 - Commercial increase range 1.7% to 4.75%
 - Medicare plans range -2.0% to 2.0%
 - Medicaid plans range 0.0% to 1.0%
 - \$987 Thousand value based purchasing incentives



Revenue and Reimbursement Assumptions

Terrace View Services

- Medicare
 - 2.4% rate increase
- Medicaid
 - No increase to rates
 - CMI budget at 1.1
- Commercial Payers
 - Per contracts in effect





IGT and UPL Revenue

| | Audited <u>2015</u> | Projected <u>2016</u> | Budget <u>2017</u> |
|-------|--------------------------------|----------------------------------|-------------------------------|
| IGT | 42,503 | 50,777 | 50,777 |
| UPL | 16,734 | 12,940 | 12,940 |
| Total | <u>59,237</u> | <u>63,717</u> | <u>63,717</u> |





Other Revenues

| | 2015 | 2016 | 2017 |
|--|----------------------|-------------------------|----------------------|
| | <u>Actual</u> | <u>Projected</u> | <u>Budget</u> |
| Rent Revenue | 2,823 | 1,180 | 1,306 |
| Grant Revenue | 3,352 | 2,690 | 2,370 |
| IAAF Grant Award | 5,400 | - | - |
| DSRIP Grant Revenue | 5,143 | 23,719 | 31,297 |
| Planning Grant Award | 1,579 | - | - |
| I.T. Meaningful Use Incentive Award | 324 | 375 | - |
| Parking Revenues | 277 | 267 | 272 |
| Local Payer Quality Incentive Payments | 614 | 963 | 987 |
| Other | 6,522 | 6,305 | 6,519 |
| | 26,034 | 35,499 | 42,751 |



Millennium Collaborative Care

| | 2016 | | 2017 | |
|----------------------------------|---------------------|--------------------|---------------------|--------------------|
| | <u>Projected</u> | <u>%</u> | <u>Budget</u> | <u>%</u> |
| Grant Revenue | 23,719 | 100.0% | 31,297 | 100.0% |
| Grant Expenses: | | | | |
| To DSRIP participating providers | 14,921 | 62.9% | 21,371 | 68.3% |
| DSRIP administrative expenses | <u>7,710</u> | <u>32.5%</u> | <u>8,096</u> | <u>25.9%</u> |
| Total Expense's | <u>22,631</u> | <u>95.4%</u> | <u>29,466</u> | <u>94.1%</u> |
| Net Distribution to ECMCC | <u><u>1,088</u></u> | <u><u>4.6%</u></u> | <u><u>1,831</u></u> | <u><u>5.9%</u></u> |



Salary Expense Reconciliation

| | <u>FTE's</u> | <u>Thousands of \$</u> |
|--|--------------|------------------------|
| Projected 2016 FTE's / Salaries and Wages | 3,194 | 209,845 |
| Increases In Staffing | <u>65</u> | <u>3,878</u> |
| Collective Barginning Agreement Increases | | |
| 95.2% of Employees | 3,103 | |
| Step Increases (1.4%) | | 2,646 |
| Pay Increases per CBA's (2.3%) | | <u>4,257</u> |
| Total Collective Barginning Agreement Increases (3.7%) | | <u>6,903</u> |
| Management Confidential Increases (2.0%) | | |
| 4.8% of Employees | 156 | 549 |
| Reduction in Overtime | <u>-</u> | <u>(220)</u> |
| Budget 2017 FTE's / Salaries and Wages | <u>3,259</u> | <u>220,955</u> |



Benefits Expense

Benefits:

- Net increase of \$1.1 Million or (1.1%)
 - 49.9% of salaries to 47.9% of salaries
- Increases:
 - Health insurance – active and retiree's
 - 5% increase on Health/Dental insurance
 - 10% increase in Pharmacy
 - Payroll taxes on increased salaries
- Decreases:
 - Workers' Compensation



Other Operating Expenses

Physician & Residents:

- Net increase of \$5.6 Million (8.3%)
 - Increases in contractual obligations offset by growth in professional fee revenue
 - Increases in number of physicians offset by enhanced revenue
 - \$3.1 Million for continued funding of Advanced Medical Home

Contractual Fees:

- Net increase of \$2.6 Million (6.4%)
 - Reduction in consulting, purchased services and maintenance contracts
 - Increase in Information Technology

Medical Supplies:

- Net increase of \$1.1 Million (1.4%)
 - 1.0% increase in pharmaceuticals, 10% inflation offset by anticipated utilization and cost saving measures
 - \$2.2 Million projected decrease in costs due to GPO contract
 - \$3.3 Million increase in Transplant related volume increase



Cash Flow Assumptions

- Net decrease in cash of \$8 Million (22.5%)
 - 65.1 days cash to 57.1 days cash
- Accounts receivable increase of \$3.1 Million (4.7%)
 - 51.1 days to 50.9 days
- Consistent other Net Working Capital accounts
- No change in actuarial positions
- Capital budget spend of \$7.5 Million plus carryover of \$6M for a total of \$13.6M
- Long Term Debt repayments per debt agreements
- New Long Term Debt to support capital projects



Range of Assumptions Impact Analysis

(Thousands)

| | Worst <u>Case</u> | <u>Budget</u> | Best <u>Case</u> |
|------------------------------|----------------------|----------------------|----------------------|
| Revenue Cycle Improvement | 3,000 | 6,000 | 9,000 |
| Medicare Rate Update 10/1/17 | - | - | 400 |
| IGT/UPL Payments | 61,000 | 63,717 | 66,000 |
| Overtime Management | - | 220 | 2,000 |
| PTO Adjustment for Retirees | 600 | 1,200 | 1,900 |
| HRIS Implementation Savings | - | 400 | 800 |
| Terrace View Pharmacy RFP | 420 | 840 | 1,000 |
| Supply Chain Savings | <u>500</u> | <u>2,200</u> | <u>4,000</u> |
| Totals | <u>65,520</u> | <u>74,577</u> | <u>85,100</u> |

Range of Outcomes \$ 19,580

% Into Range 46%



Performance Improvement Opportunities

- High reliability organization focus
- HRIS implementation
- Selective coordination of support services functions across Great Lakes Health
- Structured budget tools and monitoring process with manager accountability
- GPO contractual risk for achievement of supply chain savings
- Clinical process variation analysis



Emerging Issues and Accounting Pronouncements

- DSRIP
- Debt Issuance
- Medicare Bundled Payment Project/CJR
- Managed Care Requirement for LTC
- GASB 45/75 Transition
- GASB 68 Assumptions
- ASC 605 & ASU-2014-09 – Revenue Recognition
- ASC 842 – Leases Exposure Draft – Accounting for Leases



Capital Budget Summary

- \$13.6 Million spend
 - \$6.1 Million carry-over projects
 - \$7.5 Million new spend
- Contingency fund allocation of new spend





Financing Transaction

- Goals
 - Provide capital for critical projects on ECMC campus
 - Maintain affordable Debt Service structure
- Structure
 - Erie County stronger credit rating provides favorable interest rate
 - Refinance 2011 debt in addition to providing new money
 - Maintain current debt service profile



5 Year Financial Projections

- Phase in to a 0.45% Operating Margin
- Volume adjusted for anticipated completion of Emergency Department
- Reimbursement rate increases
- IGT/UPL increases based on current projections
- Continued trend in benefits % of salary expense reduction
- Supply and other expense inflation consistent with current trend



Statement of Revenues and Expenses – Projected (Thousands)

| | Audited <u>2015</u> | Projected <u>2016</u> | Budget <u>2017</u> | <u>2018</u> | <u>2019</u> | Projected <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|------------------------|--------------------------|-----------------------|----------------|----------------|--------------------------|----------------|----------------|
| Net Patient Service Revenue | 465,083 | 484,856 | 509,502 | 521,189 | 542,830 | 563,311 | 581,134 | 594,086 |
| Disproportionate Share, IGT and UPL Revenue | 59,237 | 63,717 | 63,717 | 69,582 | 73,218 | 76,892 | 80,602 | 84,341 |
| Other Operating Revenue | <u>26,089</u> | <u>35,499</u> | <u>42,751</u> | <u>41,734</u> | <u>39,898</u> | <u>38,062</u> | <u>36,226</u> | <u>34,390</u> |
| Total Operating Revenue | <u>550,409</u> | <u>584,072</u> | <u>615,970</u> | <u>632,505</u> | <u>655,946</u> | <u>678,265</u> | <u>697,962</u> | <u>712,817</u> |
| Operating Expenses | | | | | | | | |
| Salaries and Benefits | 296,405 | 314,459 | 326,687 | 338,858 | 351,711 | 367,329 | 382,340 | 391,434 |
| Physician Fees and Professional Services | 113,509 | 108,885 | 117,142 | 120,071 | 123,072 | 126,149 | 129,303 | 132,535 |
| Supplies | 73,762 | 78,798 | 79,895 | 83,749 | 87,738 | 92,048 | 96,017 | 99,250 |
| Other Expenses | 29,863 | 44,523 | 50,663 | 49,909 | 48,611 | 47,274 | 45,896 | 44,477 |
| Depreciation and Amortization | 27,906 | 28,371 | 28,087 | 26,363 | 26,406 | 26,849 | 26,446 | 27,383 |
| Interest | <u>8,233</u> | <u>8,036</u> | <u>12,496</u> | <u>11,974</u> | <u>16,440</u> | <u>16,241</u> | <u>15,167</u> | <u>14,530</u> |
| Total Operating Expenses | <u>549,678</u> | <u>583,072</u> | <u>614,970</u> | <u>630,924</u> | <u>653,978</u> | <u>675,891</u> | <u>695,170</u> | <u>709,609</u> |
| Income From Operations | 731 | 1,000 | 1,000 | 1,581 | 1,968 | 2,374 | 2,792 | 3,208 |
| Non Operating Revenues | <u>2,611</u> | <u>(1,579)</u> | <u>1,278</u> | <u>1,278</u> | <u>1,278</u> | <u>1,278</u> | <u>1,278</u> | <u>1,278</u> |
| Excess of Revenues Over Expenses | <u>3,342</u> | <u>(579)</u> | <u>2,278</u> | <u>2,859</u> | <u>3,246</u> | <u>3,652</u> | <u>4,070</u> | <u>4,486</u> |
| Operating Margin % | 0.13% | 0.17% | 0.16% | 0.25% | 0.30% | 0.35% | 0.40% | 0.45% |



Balance Sheet – Projected

(Thousands)

| | Audited <u>2015</u> | Projected <u>2016</u> | Budget <u>2017</u> | <u>2018</u> | <u>2019</u> | Projected <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---|------------------------|--------------------------|-----------------------|----------------|----------------|--------------------------|----------------|----------------|
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash | 40,885 | 36,045 | 27,926 | 35,160 | 27,156 | 20,986 | 25,626 | 34,131 |
| Patient Accounts Receivable | 67,529 | 67,867 | 71,051 | 70,111 | 71,535 | 72,690 | 74,990 | 76,662 |
| Other Current Assets | <u>64,154</u> | <u>59,377</u> | <u>47,572</u> | <u>47,772</u> | <u>47,977</u> | <u>48,187</u> | <u>48,402</u> | <u>48,623</u> |
| Total Current Assets | <u>172,568</u> | <u>163,289</u> | <u>146,549</u> | <u>153,042</u> | <u>146,667</u> | <u>141,863</u> | <u>149,018</u> | <u>159,415</u> |
| Assets Whose Use Is Limited | 124,922 | 220,841 | 164,432 | 115,693 | 105,231 | 98,557 | 95,936 | 96,313 |
| Property and Equipment | 279,525 | 255,154 | 293,697 | 330,654 | 327,868 | 313,089 | 301,392 | 290,616 |
| Other Assets | <u>43,023</u> | <u>169,537</u> | <u>162,537</u> | <u>46,541</u> | <u>39,691</u> | <u>32,941</u> | <u>26,291</u> | <u>19,741</u> |
| Total Assets | <u>620,038</u> | <u>808,821</u> | <u>767,215</u> | <u>645,931</u> | <u>619,458</u> | <u>586,450</u> | <u>572,638</u> | <u>566,085</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Accounts Payable and Accrued Expenses | 87,933 | 63,934 | 64,614 | 65,759 | 66,847 | 68,095 | 69,253 | 70,678 |
| Estimated Third Party Payer Settlements | 2,777 | 11,403 | 11,983 | 12,257 | 12,766 | 13,248 | 13,667 | 13,972 |
| Current Portion of Long Term Debt | <u>10,620</u> | <u>10,711</u> | <u>10,791</u> | <u>11,223</u> | <u>10,506</u> | <u>9,768</u> | <u>10,202</u> | <u>10,660</u> |
| Total Current Liabilities | <u>101,330</u> | <u>86,048</u> | <u>87,388</u> | <u>89,240</u> | <u>90,119</u> | <u>91,111</u> | <u>93,122</u> | <u>95,310</u> |
| Long Term Debt | 165,883 | 267,172 | 254,293 | 240,918 | 228,195 | 216,144 | 203,588 | 190,503 |
| Self Insurance Reserves | 175,977 | 183,052 | 183,967 | 184,887 | 185,812 | 186,741 | 187,674 | 188,613 |
| Other Liabilities | <u>56,957</u> | <u>154,317</u> | <u>122,137</u> | <u>99,677</u> | <u>71,957</u> | <u>46,507</u> | <u>39,317</u> | <u>39,317</u> |
| Total Liabilities | <u>500,147</u> | <u>690,589</u> | <u>647,785</u> | <u>614,722</u> | <u>576,083</u> | <u>540,503</u> | <u>523,701</u> | <u>513,743</u> |
| Net Position | 119,891 | 118,232 | 119,430 | 31,209 | 43,375 | 45,947 | 48,937 | 52,343 |
| Total Liabilities and Net Assets | <u>620,038</u> | <u>808,821</u> | <u>767,215</u> | <u>645,931</u> | <u>619,458</u> | <u>586,450</u> | <u>572,638</u> | <u>566,085</u> |



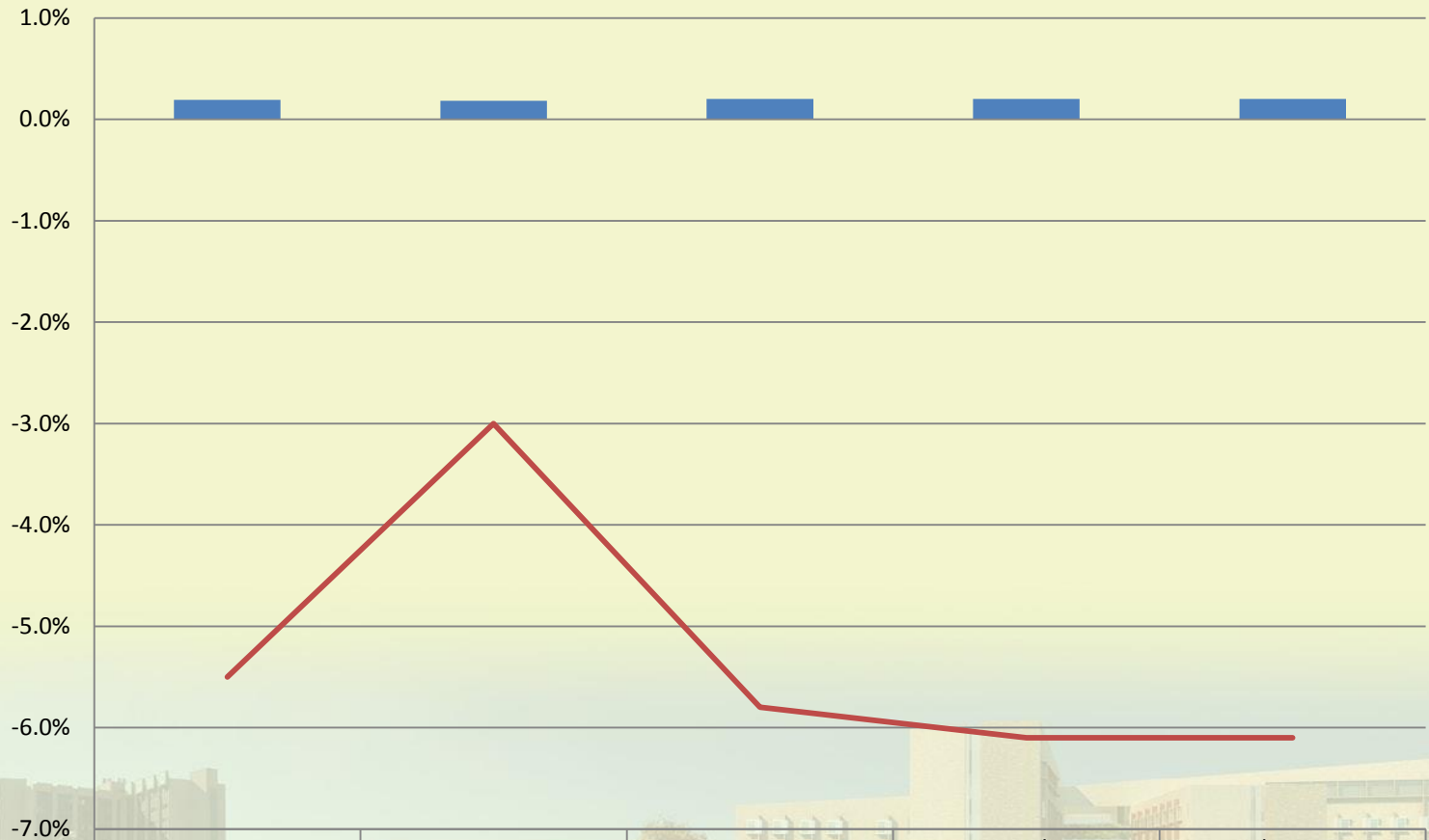
Statement of Cash Flow - Projected

(Thousands)

| | Audited <u>2015</u> | Projected <u>2016</u> | Budget <u>2017</u> | <u>2018</u> | <u>2019</u> | Projected <u>2020</u> | <u>2021</u> | <u>2022</u> |
|--|------------------------|--------------------------|-----------------------|------------------|-----------------|--------------------------|-----------------|-----------------|
| Cash Flows From Operating Activities | | | | | | | | |
| Excess of Revenues Over Expenses | 3,342 | (579) | 2,278 | 2,859 | 3,246 | 3,652 | 4,070 | 4,486 |
| Depreciation & Amortization | 27,906 | 28,371 | 28,087 | 26,363 | 26,406 | 26,849 | 27,697 | 30,776 |
| (Increase) Decrease in Patient Accounts Receivable, Net | (16,038) | (338) | (3,184) | 940 | (1,424) | (1,156) | (2,300) | (1,671) |
| (Increase) Decrease in Other Current Assets | 12,718 | (121,737) | 18,805 | 115,796 | 6,645 | 6,540 | 6,435 | 6,329 |
| Increase (Decrease) in Accounts Payable and Accrued Exp. | 38,501 | (23,999) | 680 | 1,145 | 1,087 | 1,248 | 1,158 | 1,425 |
| Increase (Decrease) in Third Party Payer Settlements | (17,734) | 8,626 | 580 | 275 | 509 | 482 | 419 | 305 |
| Increase (Decrease) in Self Insurance Liabilities | 7,230 | 7,075 | 915 | 920 | 924 | 929 | 934 | 938 |
| Increase (Decrease) in Other Liabilities | <u>12,472</u> | <u>97,360</u> | <u>(32,180)</u> | <u>(22,460)</u> | <u>(27,720)</u> | <u>(25,450)</u> | <u>(7,190)</u> | <u>-</u> |
| Net Cash Provided By (Used In) Operating Activities | <u>68,397</u> | <u>(5,221)</u> | <u>15,981</u> | <u>125,838</u> | <u>9,674</u> | <u>13,094</u> | <u>31,222</u> | <u>42,588</u> |
| Cash Flows From Investing Activities | | | | | | | | |
| | (17,954) | (95,919) | 56,409 | 48,739 | 10,462 | 6,675 | 2,620 | (377) |
| Cash Flows From Financing Activities | | | | | | | | |
| Additions to Property and Equipment | (18,384) | (4,000) | (66,630) | (63,320) | (23,620) | (12,070) | (16,000) | (20,000) |
| Principal Payments on Long Term Debt | 1,787 | 101,380 | (12,799) | (12,943) | (13,440) | (12,789) | (12,122) | (12,627) |
| Other Financing Activities, Net | <u>(2,482)</u> | <u>(1,080)</u> | <u>(1,080)</u> | <u>(91,080)</u> | <u>8,920</u> | <u>(1,080)</u> | <u>(1,080)</u> | <u>(1,080)</u> |
| Net Cash (Used In) Financing Activities | <u>(19,079)</u> | <u>96,300</u> | <u>(80,509)</u> | <u>(167,343)</u> | <u>(28,140)</u> | <u>(25,939)</u> | <u>(29,202)</u> | <u>(33,707)</u> |
| Net Increase (Decrease) in Cash and Investments | 31,364 | (4,840) | (8,119) | 7,234 | (8,004) | (6,170) | 4,640 | 8,504 |
| Cash and Investments, Beginning | <u>9,521</u> | <u>40,885</u> | <u>36,045</u> | <u>27,926</u> | <u>35,160</u> | <u>27,156</u> | <u>20,986</u> | <u>25,626</u> |
| Cash and Investments, Ending | <u>40,885</u> | <u>36,045</u> | <u>27,926</u> | <u>35,160</u> | <u>27,156</u> | <u>20,986</u> | <u>25,626</u> | <u>34,131</u> |



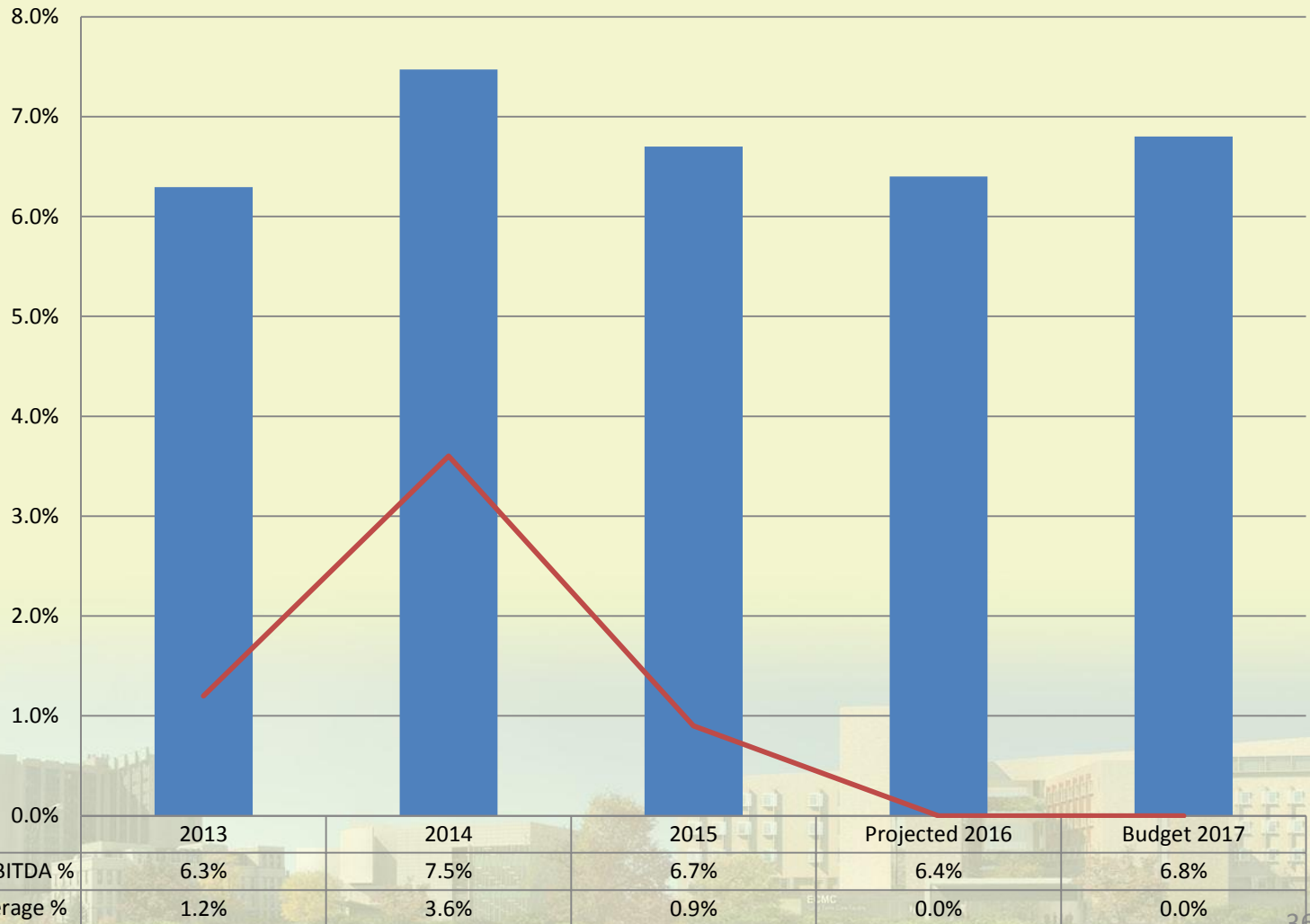
Operating Margin



| | 2013 | 2014 | 2015 | Projected 2016 | Budget 2017 |
|--------------------|-------|-------|-------|----------------|-------------|
| Operating Margin % | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| NYS PBC Average % | -5.5% | -3.0% | -5.8% | -6.1% | -6.1% |

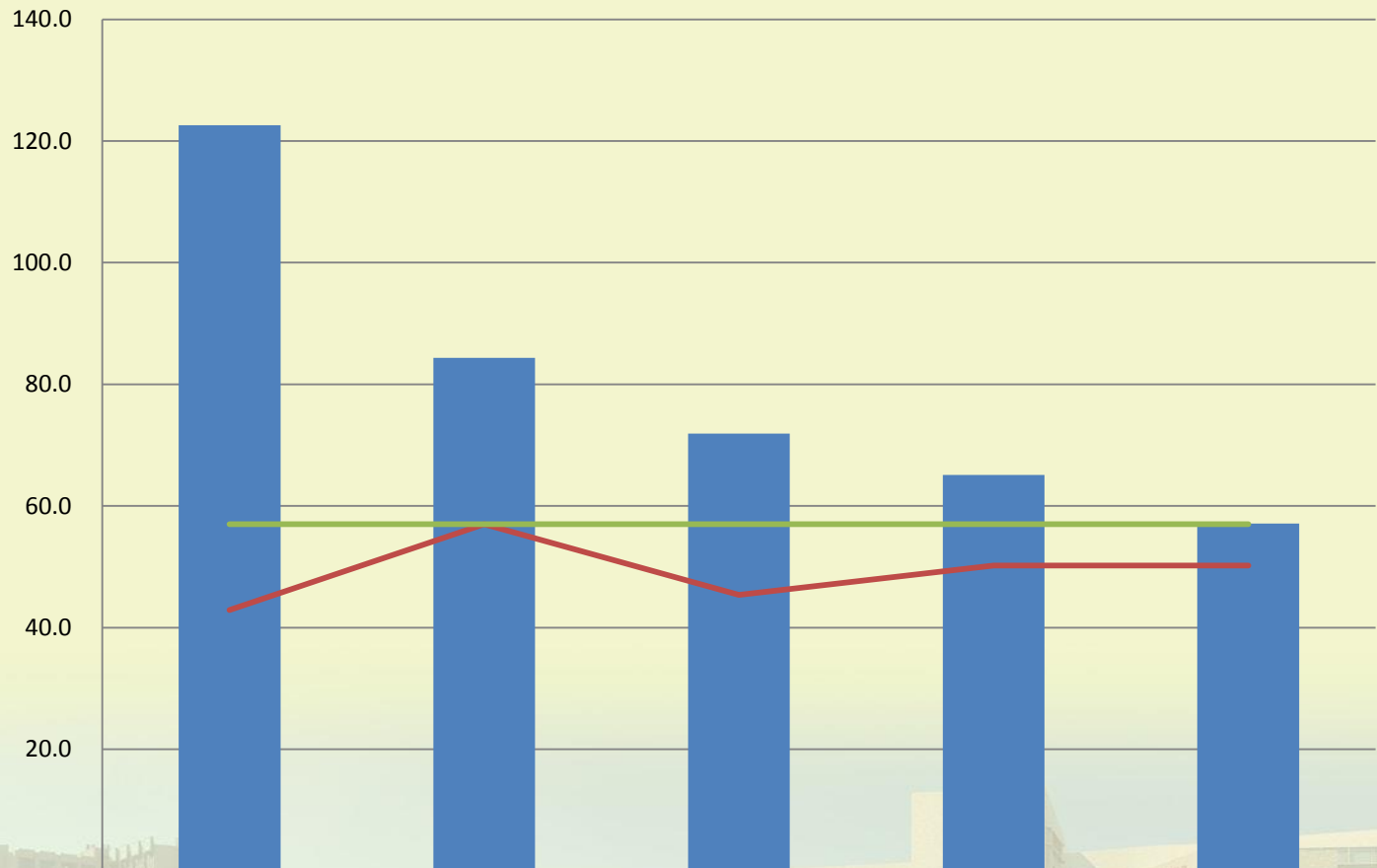


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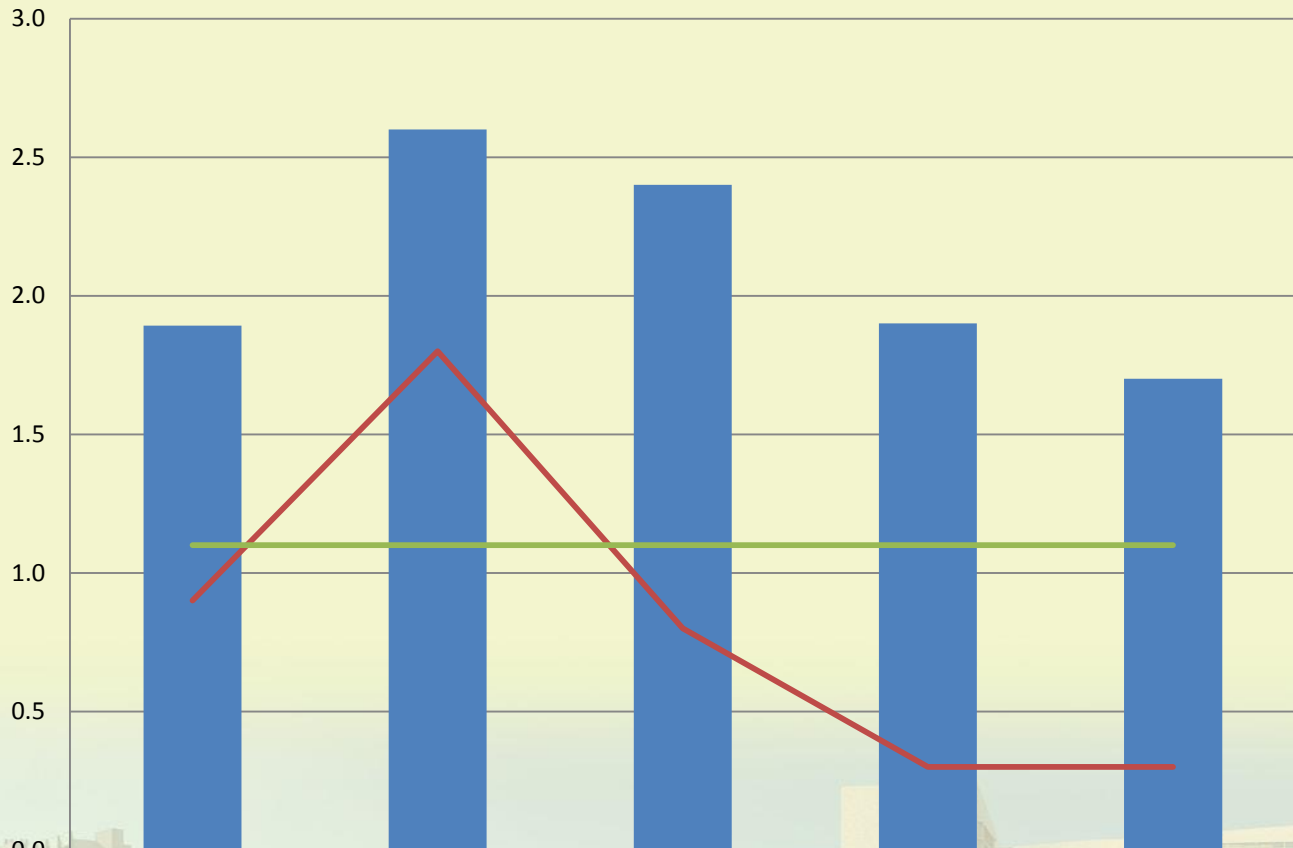
Days Cash on Hand



| | 2013 | 2014 | 2015 | Projected 2016 | Budget 2017 |
|-------------------|-------|------|------|----------------|-------------|
| Days Cash On Hand | 122.6 | 84.3 | 71.9 | 65.1 | 57.1 |
| NYS PBC Average | 42.9 | 57.0 | 45.4 | 50.2 | 50.2 |
| Debt Covenant | 57 | 57 | 57 | 57 | 57 |



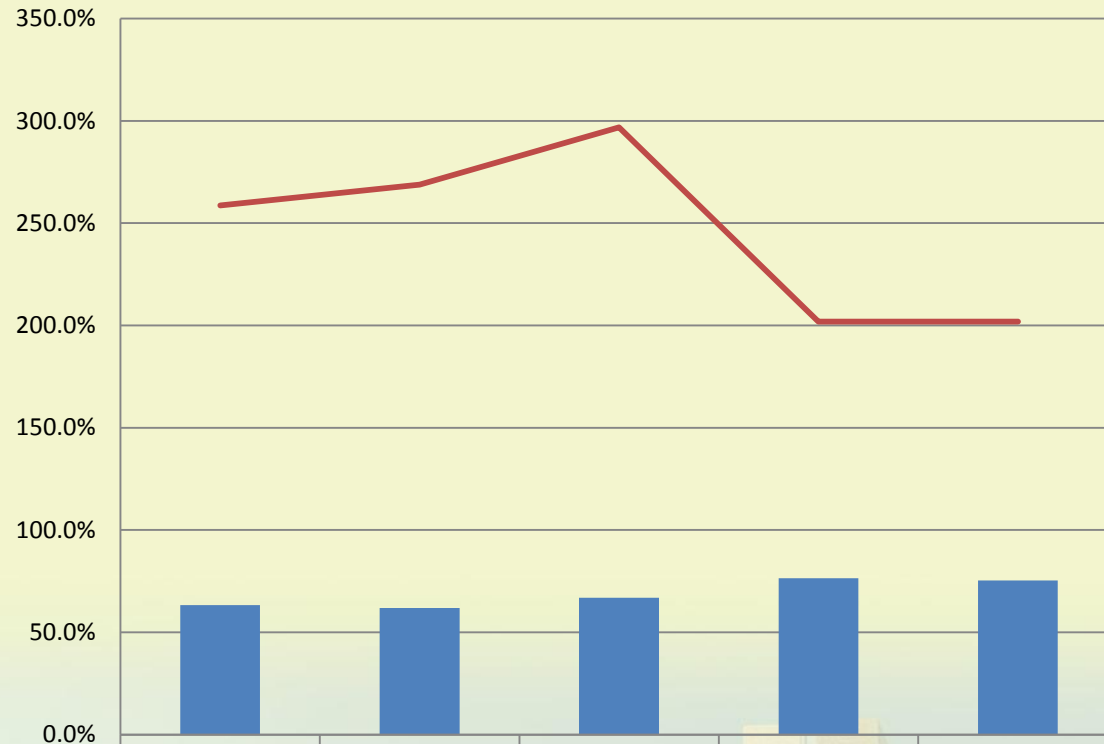
Debt Service Coverage



| | 2013 | 2014 | 2015 | Projected 2016 | Budget 2017 |
|-----------------------|------|------|------|----------------|-------------|
| Debt Service Coverage | 1.9 | 2.6 | 2.4 | 1.9 | 1.7 |
| NYS PBC Average | 0.9 | 1.8 | 0.8 | 0.3 | 0.3 |
| Debt Covenant | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |



Debt to Capitalization



| | 2013 | 2014 | 2015 | Projected 2016 | Budget 2017 |
|------------------------------|--------|--------|--------|----------------|-------------|
| Debt to Total Capitalization | 63.2% | 61.8% | 66.8% | 76.4% | 75.3% |
| NYS PBC Average % | 258.7% | 268.9% | 296.8% | 201.9% | 201.9% |