

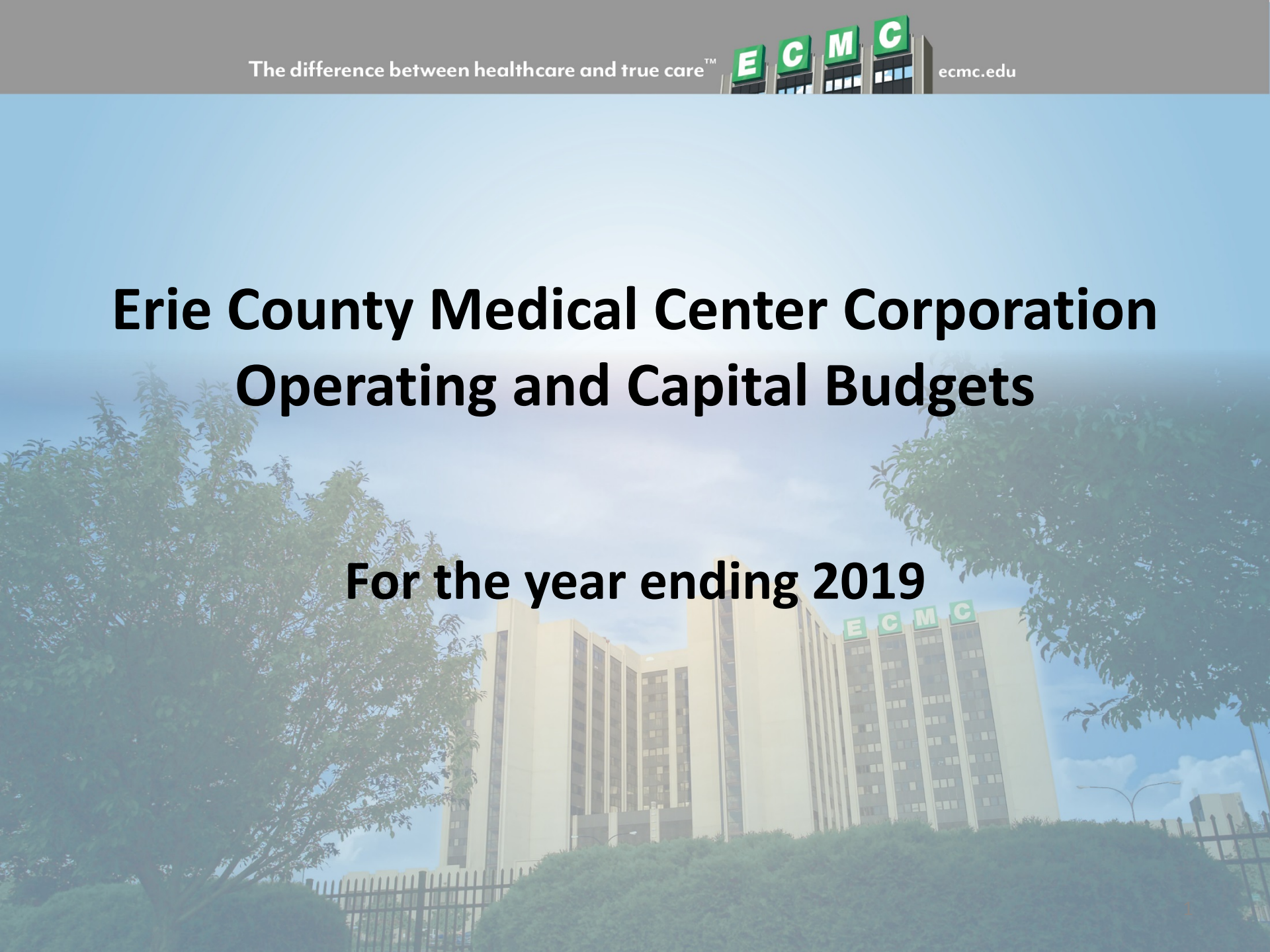
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# **Erie County Medical Center Corporation Operating and Capital Budgets**

## **For the year ending 2019**





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# Management Discussion and Analysis

## September 30, 2019

The 2019 Operating and Capital Budgets (the “Budget”), together with five year financial projections, presented in the following pages were developed by the Erie County Medical Center Corporation (“ECMCC”). 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 ECMCC's mission to serve those unable to pay and expense inflation greater than reimbursement rate growth an operating margin of 0.4% has been budgeted. This level of performance is relatively and conservatively consistent with recent historical operating margin performance, which allows ECMCC to meet its obligations, and continue to invest in new programs and services for the communities we serve.

## Activity Levels:

The Budget has been prepared on a consistent basis with current and prior year activity levels. Further consideration was given to 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:

Management has completed a review of ECMCC's charge master and pricing schemes. The evaluation of gross revenue prices compared to market factors is currently in process, which management expects to be completed by the fourth quarter of 2018. The budget reflects an overall gross revenue increase consistent with broad market observations. The increasing consumer responsibility for healthcare costs and pricing transparency are also being considered as part of this overall evaluation.

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.

## Net Position:

The Net Position presented at December 31, 2018, and in future periods, has been adjusted to reflect the adoption of GASB75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

# Management Discussion and Analysis

## Cash Flows:

Cash Flows have been budgeted based on the results of operations, investments in capital assets, required principal payments on long-term debt, funding of employee benefit plans 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. 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 Team (ELT) adopt budget schedule and goals
- Budget schedule reviewed with Finance Committee of Board
- Using the year to date 2018 performance budget and known/anticipated budget variances a baseline budget and financial projections were prepared
- Budget assumptions reviewed with Finance Committee of Board
- ELT meetings with department managers to align goals with operational performance
- Budget status report to Finance Committee of Board
- ELT meetings to challenge baseline budgets and make decisions to achieve goals
- ELT budget recommendation reviewed and approved by Finance Committee of ECMCC Board
- Budget recommendation reviewed and approved by ECMCC Board



# Key Financial Ratios

|   | <u>2016</u> | <u>2017</u> | <u>Projected</u><br><u>2018</u> | <u>Budget</u><br><u>2019</u> |
|---|-------------|-------------|---------------------------------|------------------------------|
| Operating Margin %                      | 0.3%        | 0.5%        | 0.5%                            | 0.4%                         |
| NYS PBC Average %                       | -3.8%       | -5.2%       |                                 |                              |
| Operating EBITDA %                      | 6.3%        | 6.2%        | 5.8%                            | 5.6%                         |
| NYS PBC Average %                       | 2.2%        | 0.7%        |                                 |                              |
| FTE's                                   | 3,204       | 3,230       | 3,326                           | 3,519                        |
| FTE's per Adjusted Occupied bed         | 3.94        | 3.94        | 3.95                            | 4.07                         |
| Days Cash On Hand                       | 68.3        | 98.9        | 104.7                           | 94.6                         |
| NYS PBC Average                         | 49.1        | 58.4        |                                 |                              |
| Debt Service Coverage                   | 2.2         | 2.2         | 2.3                             | 2.2                          |
| NYS PBC Average                         | 1.0         | 0.7         |                                 |                              |
| Salaries, Wages & Benefits % of Revenue | 64.2%       | 68.0%       | 63.9%                           | 64.8%                        |
| Supply Expense % of Revenue             | 16.0%       | 16.5%       | 16.2%                           | 16.0%                        |
| Benefit % of Salaries and Wages         | 47.7%       | 52.1%       | 51.0%                           | 48.2%                        |
| Days In Accounts Receivable, net        | 50.2        | 69.1        | 68.0                            | 58.0                         |



## Statement of Revenues and Expenses (Thousands)

|   | 2017 Audited   |             | 2018 Projected |             | 2019 Budget    |             | Increase (Decrease) |               |
|---|----------------|-------------|----------------|-------------|----------------|-------------|---------------------|---------------|
|   | \$             | %           | \$             | %           | \$             | %           |                     | %             |
| Net Patient Revenue                           | 506,842        | 100%        | 551,157        | 100%        | 572,359        | 100%        | 21,202              | 3.8%          |
| Disproportionate Share / IGT and UPL Payments | 67,411         | 13%         | 70,151         | 13%         | 70,151         | 12%         | -                   | 0.0%          |
| Other Operating Revenues                      | <u>73,120</u>  | <u>14%</u>  | <u>65,652</u>  | <u>12%</u>  | <u>56,286</u>  | <u>10%</u>  | <u>(9,366)</u>      | <u>-14.3%</u> |
| Total Operating Revenues                      | <u>647,373</u> | <u>128%</u> | <u>686,960</u> | <u>125%</u> | <u>698,796</u> | <u>122%</u> | <u>11,836</u>       | <u>1.7%</u>   |
| Operating Expenses                            |                |             |                |             |                |             |                     |               |
| Salaries and Wages                            | 226,649        | 45%         | 233,548        | 42%         | 250,331        | 44%         | 16,783              | 7.2%          |
| Employee Benefits                             | 118,136        | 23%         | 119,132        | 22%         | 120,752        | 21%         | 1,620               | 1.4%          |
| Physician & Resident Fees                     | 76,552         | 15%         | 87,288         | 16%         | 87,835         | 15%         | 547                 | 0.6%          |
| Purchased Services                            | 53,352         | 11%         | 52,534         | 10%         | 48,616         | 8%          | (3,918)             | -7.5%         |
| Supplies                                      | 83,616         | 16%         | 89,604         | 16%         | 91,730         | 16%         | 2,126               | 2.4%          |
| Other Expenses                                | 48,985         | 10%         | 65,169         | 12%         | 60,706         | 11%         | (4,463)             | -6.8%         |
| Depreciation                                  | 28,740         | 6%          | 28,608         | 5%          | 28,550         | 5%          | (58)                | -0.2%         |
| Interest                                      | <u>8,159</u>   | <u>2%</u>   | <u>7,739</u>   | <u>1%</u>   | <u>7,276</u>   | <u>1%</u>   | <u>(463)</u>        | <u>-6.0%</u>  |
| Total Operating Expenses                      | <u>644,189</u> | <u>127%</u> | <u>683,622</u> | <u>124%</u> | <u>695,796</u> | <u>122%</u> | <u>12,174</u>       | <u>1.8%</u>   |
| Operating Income                              | 3,184          | 1%          | 3,338          | 1%          | 3,000          | 1%          | (338)               | -10.1%        |
| Non Operating Revenues                        | <u>1,860</u>   | <u>0%</u>   | <u>3,567</u>   | <u>1%</u>   | <u>7,217</u>   | <u>1%</u>   | <u>3,650</u>        | <u>102.3%</u> |
| Excess of Revenues Over Expenses              | <u>5,044</u>   | <u>1%</u>   | <u>6,905</u>   | <u>1%</u>   | <u>10,217</u>  | <u>2%</u>   | <u>3,312</u>        | <u>48.0%</u>  |

## Net Position Reconciliation

(Thousands)

|                                    |                         |
|------------------------------------|-------------------------|
| Net Position at 12/31/17           | 123,547                 |
| Impact of Adoption of GASB 75      | <u>(258,265)</u>        |
| Adjusted Net Position at 12/31/17  | (134,718)               |
| Projected Net Income 2018          | <u>6,905</u>            |
| Net Position Projected at 12/31/18 | (127,813)               |
| Budgeted Net Income 2019           | <u>10,217</u>           |
| Net Position Projected at 12/31/19 | <u><u>(117,596)</u></u> |



# Balance Sheets

## (Thousands)

|   | <u>2017 Audited</u> |               | <u>2018 Projection</u> |               | <u>2019 Budget</u> |               | <u>Increase (Decrease)</u> |               |
|---|---------------------|---------------|------------------------|---------------|--------------------|---------------|----------------------------|---------------|
|   | <u>\$</u>           | <u>%</u>      | <u>\$</u>              | <u>%</u>      | <u>\$</u>          | <u>%</u>      |                            | <u>%</u>      |
| <b>Assets</b>                           |                     |               |                        |               |                    |               |                            |               |
| <b>Current Assets</b>                   |                     |               |                        |               |                    |               |                            |               |
| Cash and Investments                    | 65,973              | 7.7%          | 85,555                 | 9.1%          | 68,836             | 7.5%          | (16,719)                   | -19.5%        |
| Patient Accounts Receivable, Net        | 95,974              | 11.2%         | 102,681                | 10.9%         | 90,944             | 9.9%          | (11,737)                   | -11.4%        |
| Other Current Assets                    | <u>136,558</u>      | <u>15.9%</u>  | <u>116,442</u>         | <u>12.3%</u>  | <u>110,137</u>     | <u>11.9%</u>  | <u>(6,305)</u>             | <u>-5.4%</u>  |
| Total Current Assets                    | <u>298,505</u>      | <u>34.9%</u>  | <u>304,678</u>         | <u>32.3%</u>  | <u>269,917</u>     | <u>29.3%</u>  | <u>(34,761)</u>            | <u>-11.4%</u> |
| <b>Assets Whose Use Is Limited</b>      |                     |               |                        |               |                    |               |                            |               |
| Self Insurance Programs                 | 30,355              | 3.5%          | 30,355                 | 3.2%          | 30,659             | 3.3%          | 304                        | 1.0%          |
| Restricted for Capital Projects         | 99,041              | 11.6%         | 65,441                 | 6.9%          | -                  | 0.0%          | (65,441)                   | -100.0%       |
| Restricted Under Third Party Agreements | 42,742              | 5.0%          | 51,706                 | 5.5%          | 48,223             | 5.2%          | (3,483)                    | -6.7%         |
| Designated Long Term Investments        | <u>18,595</u>       | <u>2.2%</u>   | <u>18,595</u>          | <u>2.0%</u>   | <u>18,595</u>      | <u>2.0%</u>   | <u>-</u>                   | <u>0.0%</u>   |
| Total Assets Whose Use Is Limited       | <u>190,733</u>      | <u>22.3%</u>  | <u>166,097</u>         | <u>17.6%</u>  | <u>97,477</u>      | <u>10.6%</u>  | <u>(68,620)</u>            | <u>-41.3%</u> |
| Property and Equipment, Net             | 248,005             | 29.0%         | 284,303                | 30.1%         | 366,953            | 39.8%         | 82,650                     | 29.1%         |
| Other Assets                            | <u>119,222</u>      | <u>13.9%</u>  | <u>189,305</u>         | <u>20.0%</u>  | <u>187,305</u>     | <u>20.3%</u>  | <u>(2,000)</u>             | <u>-1.1%</u>  |
| <b>Total Assets</b>                     | <u>856,465</u>      | <u>100.0%</u> | <u>944,383</u>         | <u>100.0%</u> | <u>921,652</u>     | <u>100.0%</u> | <u>(22,731)</u>            | <u>-2.4%</u>  |
| <b>Liabilities and Net Assets</b>       |                     |               |                        |               |                    |               |                            |               |
| <b>Current Liabilities</b>              |                     |               |                        |               |                    |               |                            |               |
| Current Portion of Long Term Debt       | 10,307              | 1.2%          | 9,429                  | 1.0%          | 10,654             | 1.2%          | 1,225                      | 13.0%         |
| Accounts Payable and Accrued Expenses   | 142,094             | 16.6%         | 141,582                | 15.0%         | 117,206            | 12.7%         | (24,376)                   | -17.2%        |
| Liability to Third Party Payers, Net    | <u>22,521</u>       | <u>2.6%</u>   | <u>22,279</u>          | <u>2.4%</u>   | <u>23,136</u>      | <u>2.5%</u>   | <u>857</u>                 | <u>3.8%</u>   |
| Total Current Liabilities               | <u>174,922</u>      | <u>20.4%</u>  | <u>173,290</u>         | <u>18.3%</u>  | <u>150,996</u>     | <u>16.4%</u>  | <u>(22,294)</u>            | <u>-12.9%</u> |
| Long Term Debt                          | 262,199             | 30.6%         | 247,097                | 26.2%         | 236,443            | 25.7%         | (10,654)                   | -4.3%         |
| Deferred Inflows                        | 19,617              | 2.3%          | 87,326                 | 9.2%          | 87,326             | 9.5%          | -                          | 0.0%          |
| Self Insurance Liabilities              | <u>276,180</u>      | <u>32.2%</u>  | <u>564,483</u>         | <u>59.8%</u>  | <u>564,483</u>     | <u>61.2%</u>  | <u>-</u>                   | <u>0.0%</u>   |
| Total Liabilities                       | <u>732,918</u>      | <u>85.6%</u>  | <u>1,072,196</u>       | <u>113.5%</u> | <u>1,039,248</u>   | <u>112.8%</u> | <u>(32,948)</u>            | <u>-3.1%</u>  |
| Net Position                            | <u>123,547</u>      | <u>14.4%</u>  | <u>(127,813)</u>       | <u>-13.5%</u> | <u>(117,596)</u>   | <u>-12.8%</u> | <u>10,217</u>              | <u>-44.9%</u> |
| <b>Total Liabilities and Net Assets</b> | <u>856,465</u>      | <u>100.0%</u> | <u>944,383</u>         | <u>100.0%</u> | <u>921,652</u>     | <u>100.0%</u> | <u>(22,731)</u>            | <u>-2.4%</u>  |

# Statement of Cash Flow

## (Thousands)

|  | <u>Audited</u><br><u>2017</u> | <u>Projected</u><br><u>2018</u> | <u>Budget</u><br><u>2019</u> |
|--|-------------------------------|---------------------------------|------------------------------|
| <b>Cash Flows From Operating Activities</b>              |                               |                                 |                              |
| Excess of Revenues Over Expenses                         | 5,044                         | 6,905                           | 10,217                       |
| Depreciation & Amortization                              | 28,740                        | 28,608                          | 28,550                       |
| (Increase) Decrease in Patient Accounts Receivable, Net  | (28,600)                      | (6,707)                         | 11,737                       |
| (Increase) Decrease in Current and Other Assets          | 61,367                        | (49,967)                        | 8,305                        |
| Increase (Decrease) in Accounts Payable and Accrued Exp. | 5,033                         | (512)                           | (24,376)                     |
| Increase (Decrease) in Third Party Payer Settlements     | 17,397                        | (242)                           | 857                          |
| Increase (Decrease) in Deferred In-Flows                 | (986)                         | 67,709                          | -                            |
| Increase (Decrease) in Self Insurance Liabilities        | <u>11,099</u>                 | <u>30,038</u>                   | <u>-</u>                     |
| Net Cash Provided By (Used In) Operating Activities      | <u>99,094</u>                 | <u>75,832</u>                   | <u>35,290</u>                |
| <b>Cash Flows From Investing Activities</b>              |                               |                                 |                              |
| (Increase) Decrease in Assets Whose Use is Limited       | (118,063)                     | 24,636                          | 68,620                       |
| <b>Cash Flows From Financing Activities</b>              |                               |                                 |                              |
| Additions to Property and Equipment                      | (11,930)                      | (64,906)                        | (111,200)                    |
| Changes in Long Term Debt                                | <u>81,483</u>                 | <u>(15,980)</u>                 | <u>(9,429)</u>               |
| Net Cash (Used In) Financing Activities                  | <u>69,553</u>                 | <u>(80,886)</u>                 | <u>(120,629)</u>             |
| <b>Net Increase (Decrease) in Cash and Investments</b>   | 50,584                        | 19,582                          | (16,719)                     |
| <b>Cash and Investments, Beginning</b>                   | <u>15,389</u>                 | <u>65,973</u>                   | <u>85,555</u>                |
| <b>Cash and Investments, Ending</b>                      | <u>65,973</u>                 | <u>85,555</u>                   | <u>68,836</u>                |

# Operating Performance Reconciliation

## (Thousands)

|   | <u>Operating<br/>Revenues</u> | <u>Operating<br/>Expenses</u> | <u>Operating<br/>Income</u> |
|---|-------------------------------|-------------------------------|-----------------------------|
| Budgeted 2018 Operating Income                  | 660,584                       | 658,584                       | 2,000                       |
| Payor Rate Increases/Decreases, Net of Bad Debt | 8,476                         |                               | 8,476                       |
| Volume Changes, Net                             | 16,407                        | 9,870                         | 6,537                       |
| DSH /UPL  | 3,989                         |                               | 3,989                       |
| CREPS   | 5,800                         |                               | 5,800                       |
| DSRIP   | 3,038                         | 2,739                         | 299                         |
| Wage and Staffing Increases, Net of Volume      |                               | 11,586                        | (11,586)                    |
| Benefits  |                               | 762                           | (762)                       |
| Physician Fees                                  |                               | 5,236                         | (5,236)                     |
| Contractual Fees                                |                               | (2,098)                       | 2,098                       |
| Medical Supplies, Net of Volume                 |                               | 4,777                         | (4,777)                     |
| Other Expenses                                  |                               | 4,284                         | (4,284)                     |
| All Other, Net                                  | <u>502</u>                    | <u>56</u>                     | <u>446</u>                  |
| Budgeted 2019 Operating Income                  | <u>698,796</u>                | <u>695,796</u>                | <u>3,000</u>                |

# Principal Assumptions

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





# Volume Assumptions

|                               | 2017          | 2018              | 2019          | Increase (Decrease) |              |
|-------------------------------|---------------|-------------------|---------------|---------------------|--------------|
|                               | <u>Actual</u> | <u>Projection</u> | <u>Budget</u> | <u>19 - 18</u>      | <u>%</u>     |
| <b>Discharges</b>             |               |                   |               |                     |              |
| Acute                         | 13,639        | 14,313            | 14,313        | -                   | 0.0%         |
| Other                         | <u>5,617</u>  | <u>6,197</u>      | <u>7,037</u>  | <u>840</u>          | 13.6%        |
| Total                         | <u>19,256</u> | <u>20,510</u>     | <u>21,350</u> | <u>840</u>          | <u>4.1%</u>  |
| <b>Average Length of Stay</b> |               |                   |               |                     |              |
| Acute                         | 6.0           | 6.0               | 6.0           | -                   | 0.0%         |
| Other                         | <u>11.9</u>   | <u>10.8</u>       | <u>10.0</u>   | <u>(0.8)</u>        | <u>-7.5%</u> |
| Total                         | <u>7.7</u>    | <u>7.4</u>        | <u>7.4</u>    | <u>(0.0)</u>        | <u>-0.4%</u> |
| Observation                   | 4,549         | 5,552             | 6,116         | 564                 | 10.2%        |
| <b>Outpatient Visits</b>      |               |                   |               |                     |              |
| Clinics                       | 111,132       | 125,173           | 129,407       | 4,234               | 3.4%         |
| Behavioral Health             | 35,293        | 36,130            | 37,200        | 1,070               | 3.0%         |
| Chemical Dependency           | 48,224        | 44,825            | 48,149        | 3,324               | 7.4%         |
| Dialysis                      | 24,773        | 25,117            | 25,177        | 60                  | 0.2%         |
| Other                         | 82,035        | 78,201            | 82,262        | 4,061               | 5.2%         |
| <b>Surgical Cases</b>         |               |                   |               |                     |              |
| Inpatient                     | 6,304         | 6,237             | 6,237         | -                   | 0.0%         |
| Outpatient                    | <u>6,525</u>  | <u>7,053</u>      | <u>7,053</u>  | <u>-</u>            | <u>0.0%</u>  |
| Total                         | <u>12,829</u> | <u>13,290</u>     | <u>13,290</u> | <u>-</u>            | <u>0.0%</u>  |
| Case Mix Index                | <u>1.83</u>   | <u>1.86</u>       | <u>1.86</u>   | <u>-</u>            | <u>0.0%</u>  |
| Emergency Visits              | 56,522        | 57,141            | 57,141        | -                   | 0.0%         |
| CPEP Visits                   | 12,342        | 12,740            | 12,740        | -                   | 0.0%         |
| Terrace View ADC              | 379.5         | 381.7             | 383.0         | 1.3                 | 0.3%         |

# Revenue Assumptions

- Payer Rate Increases
  - Medicaid – 0.0%
  - Medicare – 2.0%
  - Local Payers – 5.0%
  - W/Comp, N/Fault, Others – 1.0%
  - Composite – 1.7%
  
- Other Operating Revenue
  - Grants per Contract
  - Inflation – 2.0%
  
- IGT
  - Continued delay of current legislated cuts



# IGT and UPL Revenue (Accrual Basis Revenue)

|              | <b><u>Audited<br/>2017</u></b> | <b><u>Projected<br/>2018</u></b> | <b><u>Budget<br/>2019</u></b> |
|--------------|--------------------------------|----------------------------------|-------------------------------|
| DSH          | 55,909                         | 53,824                           | 55,548                        |
| UPL          | 11,502                         | 16,327                           | 14,603                        |
| <b>Total</b> | <b><u>67,411</u></b>           | <b><u>70,151</u></b>             | <b><u>70,151</u></b>          |



# Salary Expense Reconciliation

|  | <u>FTE's</u> | <u>Thousands of \$</u> |
|--|--------------|------------------------|
| Budgeted 2018 FTE's / Salaries and Wages       | 3,324        | 231,500                |
| Unionized Workforce (2018 = 94.1% of Total)    |              |                        |
| Increases In Staffing                          | 185          | 11,135                 |
| Contractual Wage & Step Increases (3.5%)       |              | 6,277                  |
| 2019 = 3,314 FTE's (94.2%)                     |              |                        |
| Non-Unionized Workforce (2018 = 5.9% of Total) |              |                        |
| Increases In Staffing                          | 10           | 690                    |
| Wage Increases (3.0%)                          |              | 729                    |
| 2019 = 205 FTE's (5.8%)                        |              |                        |
| Budget 2019 FTE's / Salaries and Wages         | <u>3,519</u> | <u>250,331</u>         |

# Benefits Expense

## Benefits:

- Net increase of \$1.6 Million or (1.4%)
  - 51.0% (2018) of salaries to 48.2% (2019) of salaries
- Increases:
  - Health insurance – active and retiree’s
    - 8% Health/Dental insurance utilization and rate increase
    - Increase in employees due to volume
    - LMHF Dependent Eligibility Audit savings
  - Payroll taxes on increased salaries
- Decreases:
  - New York State Pension – GASB 68
  - Retiree Health Insurance – Adoption of GASB 75

# Other Operating Expenses

## Physician & Residents:

- Net increase of \$0.5 Million (0.6%)
  - Increases in contractual obligations to meet additional volume requirements and contractual rate increases
  - Increases in number of physicians partially offset by enhanced revenue

## Contractual Fees:

- Net decrease of \$3.9 Million (-7.5%)
  - Reduction in consulting, purchased services and maintenance contracts driven by specific initiatives

## Supplies:

- Net increase of \$2.1 Million (2.4%)
  - Pharmaceuticals – 5%
    - 8% inflation offset by 3% cost saving initiatives
  - Medical Supplies – 1%
    - 2% inflation offset by 1% GPO/joint purchase savings and other initiatives

# Cash Flow Assumptions

- Net decrease in cash of \$16.7 Million
  - 104.7 days cash to 94.6 days cash
- Accounts receivable decrease of \$11.7 Million
  - 68 days to 58 days
- Consistent other net working capital accounts
- Consistent capital budget spend of \$15.0 Million

# Budget Assumptions

- Revenue Cycle performance improvements
- IGT / UPL
- NYSNA Negotiations
- Health insurance expense
- GASB 68 and GASB 75 valuations
- Supply chain savings
- Management of contractual fees



# Performance Improvement Opportunities

- Continued growth strategies including continuum of care management
- Continued coordination of support services functions across Great Lakes Health
- Continued development of joint clinical programs with Kaleida
- Structured service line monitoring process with manager accountability
- Physician engagement in performance improvement initiatives

# Emerging Issues and Accounting Pronouncements

- Federal and NYS legislative and funding uncertainty
- GASB 83 – contingent asset retirement obligations
- GASB 87 – accounting for leases
- GASB 89 – accounting for capitalized interest

# Capital Budget Summary

- \$96.2 Million construction projects
  - \$66.4 Million from financing proceeds
  - \$4.7 Million from Equity / Capital Campaign Receipts
  - \$25.1 Million from internal funds
- \$15.0 Million consistent capital spend

# 5 Year Financial Projections

- Phase into a 1.0% Operating Margin
- Reimbursement rate increases consistent with 2019 budget
- 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<br><u>2017</u> | Projected<br><u>2018</u> | Budget<br><u>2019</u> | <u>2020</u>    | <u>2021</u>     | Projected<br><u>2022</u> | <u>2023</u>     | <u>2024</u>     |
|---|------------------------|--------------------------|-----------------------|----------------|-----------------|--------------------------|-----------------|-----------------|
| Net Patient Service Revenue                 | 506,842                | 551,157                  | 572,359               | 578,128        | 582,406         | 583,664                  | 583,297         | 582,033         |
| Disproportionate Share, IGT and UPL Revenue | 67,411                 | 70,151                   | 70,151                | 70,151         | 70,151          | 70,151                   | 70,151          | 70,151          |
| Other Operating Revenue                     | <u>73,120</u>          | <u>65,652</u>            | <u>56,286</u>         | <u>59,912</u>  | <u>50,110</u>   | <u>48,812</u>            | <u>49,788</u>   | <u>50,784</u>   |
| Total Operating Revenue                     | <u>647,373</u>         | <u>686,960</u>           | <u>698,796</u>        | <u>708,191</u> | <u>702,667</u>  | <u>702,627</u>           | <u>703,237</u>  | <u>702,968</u>  |
| Operating Expenses                          |                        |                          |                       |                |                 |                          |                 |                 |
| Salaries and Benefits                       | 344,785                | 352,680                  | 371,083               | 379,847        | 387,869         | 395,091                  | 402,447         | 409,939         |
| Physician Fees and Professional Services    | 129,904                | 139,822                  | 136,451               | 139,133        | 141,875         | 144,678                  | 147,543         | 150,473         |
| Supplies                                    | 83,616                 | 89,604                   | 91,730                | 93,604         | 95,288          | 96,526                   | 97,536          | 98,432          |
| Other Expenses                              | 48,985                 | 65,169                   | 60,706                | 61,920         | 63,159          | 64,422                   | 65,710          | 67,024          |
| Depreciation and Amortization               | 28,740                 | 28,608                   | 28,550                | 30,858         | 34,711          | 35,927                   | 38,496          | 41,067          |
| Interest                                    | <u>8,159</u>           | <u>7,739</u>             | <u>7,276</u>          | <u>10,759</u>  | <u>10,230</u>   | <u>9,820</u>             | <u>9,321</u>    | <u>8,804</u>    |
| Total Operating Expenses                    | <u>644,189</u>         | <u>683,622</u>           | <u>695,796</u>        | <u>716,120</u> | <u>733,131</u>  | <u>746,463</u>           | <u>761,054</u>  | <u>775,740</u>  |
| Performance Improvement Initiatives         | <u>3,184</u>           | <u>3,338</u>             | <u>3,000</u>          | <u>(7,929)</u> | <u>(30,463)</u> | <u>(43,836)</u>          | <u>(57,817)</u> | <u>(72,772)</u> |
|   | -                      | -                        | -                     | 11,929         | 35,463          | 49,836                   | 64,817          | 79,802          |
| Operating Income                            | 3,184                  | 3,338                    | 3,000                 | 4,000          | 5,000           | 6,000                    | 7,000           | 7,030           |
| Non Operating Revenues                      | <u>1,860</u>           | <u>3,567</u>             | <u>7,217</u>          | <u>5,363</u>   | <u>3,263</u>    | <u>3,263</u>             | <u>3,211</u>    | <u>1,689</u>    |
| Excess of Revenues Over Expenses            | <u>5,044</u>           | <u>6,905</u>             | <u>10,217</u>         | <u>9,363</u>   | <u>8,263</u>    | <u>9,263</u>             | <u>10,211</u>   | <u>8,719</u>    |
| Operating Margin %                          | 0.49%                  | 0.49%                    | 0.43%                 | 0.56%          | 0.71%           | 0.85%                    | 1.00%           | 1.00%           |



## Balance Sheet – Projected (Thousands)

|   | Audited<br><u>2017</u> | Projected<br><u>2018</u> | Budget<br><u>2019</u> | <u>2020</u>      | <u>2021</u>      | <u>Projected</u><br><u>2022</u> | <u>2023</u>     | <u>2024</u>     |
|---|------------------------|--------------------------|-----------------------|------------------|------------------|---------------------------------|-----------------|-----------------|
| <b>ASSETS</b>                           |                        |                          |                       |                  |                  |                                 |                 |                 |
| <b>Current Assets</b>                   |                        |                          |                       |                  |                  |                                 |                 |                 |
| Cash                                    | 65,973                 | 85,555                   | 68,836                | 32,336           | 45,957           | 64,545                          | 81,890          | 106,036         |
| Patient Accounts Receivable             | 95,974                 | 102,681                  | 90,944                | 90,288           | 89,376           | 87,945                          | 86,292          | 84,535          |
| Other Current Assets                    | <u>136,558</u>         | <u>116,442</u>           | <u>110,137</u>        | <u>112,890</u>   | <u>115,713</u>   | <u>118,606</u>                  | <u>121,571</u>  | <u>124,610</u>  |
| Total Current Assets                    | <u>298,505</u>         | <u>304,678</u>           | <u>269,917</u>        | <u>235,514</u>   | <u>251,046</u>   | <u>271,096</u>                  | <u>289,753</u>  | <u>315,181</u>  |
| Assets Whose Use Is Limited             | 190,733                | 166,097                  | 97,477                | 93,929           | 90,387           | 86,546                          | 87,054          | 87,566          |
| Property and Equipment                  | 248,005                | 284,303                  | 366,953               | 395,395          | 381,684          | 366,758                         | 349,362         | 323,295         |
| Other Assets                            | <u>119,222</u>         | <u>189,305</u>           | <u>187,305</u>        | <u>185,305</u>   | <u>183,305</u>   | <u>181,305</u>                  | <u>179,305</u>  | <u>177,305</u>  |
| Total Assets                            | <u>856,465</u>         | <u>944,383</u>           | <u>921,652</u>        | <u>910,144</u>   | <u>906,422</u>   | <u>905,705</u>                  | <u>905,473</u>  | <u>903,346</u>  |
| <b>LIABILITIES AND NET ASSETS</b>       |                        |                          |                       |                  |                  |                                 |                 |                 |
| <b>Current Liabilities</b>              |                        |                          |                       |                  |                  |                                 |                 |                 |
| Current Portion of Long Term Debt       | 10,307                 | 9,429                    | 10,654                | 10,331           | 10,321           | 10,695                          | 11,089          | 11,495          |
| Accounts Payable and Accrued Expenses   | 142,094                | 141,582                  | 117,206               | 106,757          | 104,931          | 105,220                         | 105,487         | 105,781         |
| Estimated Third Party Payer Settlements | <u>22,521</u>          | <u>22,279</u>            | <u>23,136</u>         | <u>23,369</u>    | <u>23,542</u>    | <u>23,593</u>                   | <u>23,578</u>   | <u>23,527</u>   |
| Total Current Liabilities               | <u>174,922</u>         | <u>173,290</u>           | <u>150,996</u>        | <u>140,457</u>   | <u>138,794</u>   | <u>139,508</u>                  | <u>140,154</u>  | <u>140,803</u>  |
| Long Term Debt                          | 262,199                | 247,097                  | 236,443               | 226,111          | 215,790          | 205,095                         | 194,006         | 182,511         |
| Deferred Inflows                        | 19,617                 | 87,326                   | 87,326                | 87,326           | 87,326           | 87,326                          | 87,326          | 87,326          |
| Self Insurance Reserves                 | <u>276,180</u>         | <u>564,483</u>           | <u>564,483</u>        | <u>564,483</u>   | <u>564,483</u>   | <u>564,483</u>                  | <u>564,483</u>  | <u>564,483</u>  |
| Total Liabilities                       | <u>732,918</u>         | <u>1,072,196</u>         | <u>1,039,248</u>      | <u>1,018,377</u> | <u>1,006,393</u> | <u>996,412</u>                  | <u>985,969</u>  | <u>975,123</u>  |
| Net Position                            | <u>123,547</u>         | <u>(127,813)</u>         | <u>(117,596)</u>      | <u>(108,233)</u> | <u>(99,971)</u>  | <u>(90,707)</u>                 | <u>(80,496)</u> | <u>(71,777)</u> |
| Total Liabilities and Net Assets        | <u>856,465</u>         | <u>944,383</u>           | <u>921,652</u>        | <u>910,144</u>   | <u>906,422</u>   | <u>905,705</u>                  | <u>905,473</u>  | <u>903,346</u>  |

## Statement of Cash Flow - Projected

### (Thousands)

|  | Audited<br><u>2017</u> | Projected<br><u>2018</u> | Budget<br><u>2019</u> | <u>2020</u> | <u>2021</u> | Projected<br><u>2022</u> | <u>2023</u> | <u>2024</u> |
|--|------------------------|--------------------------|-----------------------|-------------|-------------|--------------------------|-------------|-------------|
| Cash Flows From Operating Activities                     |                        |                          |                       |             |             |                          |             |             |
| Excess of Revenues Over Expenses                         | 5,044                  | 6,905                    | 10,217                | 9,363       | 8,263       | 9,263                    | 10,211      | 8,719       |
| Depreciation & Amortization                              | 28,740                 | 28,608                   | 28,550                | 30,858      | 34,711      | 35,927                   | 38,496      | 41,067      |
| (Increase) Decrease in Patient Accounts Receivable, Net  | (28,600)               | (6,707)                  | 11,737                | 656         | 912         | 1,431                    | 1,653       | 1,757       |
| (Increase) Decrease in Current and Other Assets          | 61,367                 | (49,967)                 | 8,305                 | (753)       | (822)       | (893)                    | (965)       | (1,039)     |
| Increase (Decrease) in Accounts Payable and Accrued Exp. | 5,033                  | (512)                    | (24,376)              | (10,449)    | (1,826)     | 289                      | 268         | 294         |
| Increase (Decrease) in Third Party Payer Settlements     | 17,397                 | (242)                    | 857                   | 233         | 173         | 51                       | (15)        | (51)        |
| Increase (Decrease) in Deferred In Flows                 | (986)                  | 67,709                   | -                     | -           | -           | -                        | -           | -           |
| Increase (Decrease) in Self Insurance Liabilities        | 11,099                 | 30,038                   | -                     | -           | -           | -                        | -           | -           |
| Net Cash Provided By (Used In) Operating Activities      | 99,094                 | 75,832                   | 35,290                | 29,907      | 41,410      | 46,068                   | 49,648      | 50,747      |
| Cash Flows From Investing Activities                     | (118,063)              | 24,636                   | 68,620                | 3,548       | 3,542       | 3,841                    | (508)       | (512)       |
| Cash Flows From Financing Activities                     |                        |                          |                       |             |             |                          |             |             |
| Additions to Property and Equipment                      | (11,930)               | (64,906)                 | (111,200)             | (59,300)    | (21,000)    | (21,000)                 | (21,100)    | (15,000)    |
| Changes in Long Term Debt                                | 81,483                 | (15,980)                 | (9,429)               | (10,655)    | (10,331)    | (10,321)                 | (10,695)    | (11,089)    |
| Net Cash (Used In) Financing Activities                  | 69,553                 | (80,886)                 | (120,629)             | (69,955)    | (31,331)    | (31,321)                 | (31,795)    | (26,089)    |
| Net Increase (Decrease) in Cash and Investments          | 50,584                 | 19,582                   | (16,719)              | (36,500)    | 13,621      | 18,588                   | 17,345      | 24,146      |
| Cash and Investments, Beginning                          | 15,389                 | 65,973                   | 85,555                | 68,836      | 32,336      | 45,957                   | 64,545      | 81,890      |
| Cash and Investments, Ending                             | 65,973                 | 85,555                   | 68,836                | 32,336      | 45,957      | 64,545                   | 81,890      | 106,036     |