

Capital and Operating Budget Fiscal Year 2016

Executive Summary
and Highlights
May 6th, 2015
(Open Session)

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FY2016 Budget Executive Summary

FY2015 Financial Results

UWHCA continued its strong financial performance during FY2015. Operating margin is projected at 5.8% compared to a budget of 5.2%. A number of key variables contributed to the favorable results, including:

- Patient volume: Patient volume was higher than FY2014 and budget almost across the board. Inpatient days and clinic visits grew by 7.6% and 3.0%, respectively. Surgical cases grew by 3.7% and ED visits were 11.1% higher. The growth was largely due to a continued shift of managed care enrollment, most notably from PPIC and others to Unity, along with continued growth of referrals from regional hospitals.
- Labor management: Labor and benefit costs account for over 50% of total operating expenses. Requested staff additions were rigorously evaluated, and staffing was adjusted as necessary for volume growth. FTEs grew by 3.0% despite the more significant growth in overall patient volume.
- Reduced uncompensated care: Nationally and locally, the exchange program has matured and enrollment has grown. The impact was seen at UWHC through a decline in uncompensated care, i.e. self pay and charity, as a percentage of total revenues from 3.22% (\$96.5 million) in FY2014 to 2.07% (\$69.3 million) in FY2015.

Continued

FY2016 Budget Executive Summary, Continued

FY2016 Budget

As is generally the case, there are multiple operational and financial challenges moving into a new fiscal year. Nonetheless, the UWHCA Board and management expect to continue to meet the organization's strategic financial objectives, including an operating margin at or above 5.0% (budget is 5.2%). Among the key factors that will impact FY2016 are:

- New hospital openings: UW Health at The American Center and UW Health Rehabilitation Hospital are scheduled to open in August and October 2015, respectively. In both cases, existing lines of business will be partially moving from the main CSC campus and other UW Health sites to the new campuses. And, in each case, incremental new market capture is anticipated. Whether those sites are immediately profitable or ramp up to profitability over two or more years will be dependent in part on the pace of success in capturing new market share.
- Volume and FTE growth: With additional beds and clinical capacity, patient volume is expected to grow materially in FY2016 including, among others, admissions by 4.5%, ED visits by 22.3% and surgeries by 7.0%. With the added capacity and expected incremental patient volume, FTEs are budgeted to grow by 8.7%.
- Cost management initiatives: Management continues to focus on improving the efficiency and cost-effectiveness of operations. A specific target and program has been established for FY2016 to reduce operating costs by \$24 million. That anticipated savings is reflected in the 5.2% budgeted operating margin.
- Proposed price increase: Management is recommending a 5% price increase based on expected cost increases and a comparison to industry and peer data.

FY2016 Budget At A Glance

	FY2014 Actual	FY2015 Budget	FY2015 Projected	FY2016 Budget	% change FY15-FY16
Admissions	28,596	29,028	29,931	31,275	4.5%
Price increase	6%	5%	5%	5%	N/C
Operating revenue (millions)	\$1,349	\$1,395	\$1,459	\$1,555	6.6%
Operating income (millions)	\$83.9	\$71.8	\$85.1	\$80.9	-4.9%
Operating margin %	6.1%	5.2%	5.8%	5.2%	-10.8%
Non-operating income (millions)	\$20.9	\$17.5	\$1.9	\$18.4	47.1%
Charity/bad debt %	3.22%	3.25%	2.07%	2.45%	18.4%
DCOH	213	220	211	210	0
FTEs	7,118	7,332	7,329	7,967	8.7%

Analysis of Patient Activity Changes

	FY2014 Actual	FY2015 Budget	FY2015 Projected	FY2016 Budget ⁽²⁾	FY14 Actual to FY15 Proj % Change	FY15 Bud to FY15 Proj % Change	FY15 Proj to FY16 Bud % Change
Admissions	28,596	29,028	29,931	31,275	4.7%	3.1%	4.5%
Inpatient Days	146,225	148,581	157,377	161,725	7.6%	5.9%	2.8%
Average Daily Census	401	407	431	443	7.6%	5.9%	2.8%
Case Mix Index	2.02	2.05	2.02	2.00	0.0%	-1.5%	-1.0%
Clinic Visits	613,105	614,333	631,679	678,867	3.0%	2.8%	7.5%
Emergency Visits	50,007	50,547	55,542	67,941	11.1%	9.9%	22.3%
Surgical Cases ⁽¹⁾	27,204	27,405	28,200	30,165	3.7%	2.9%	7.0%

(1) Excludes Out of OR/Road Cases

(2) Includes TAC

Net Impact of Proposed Price Increase

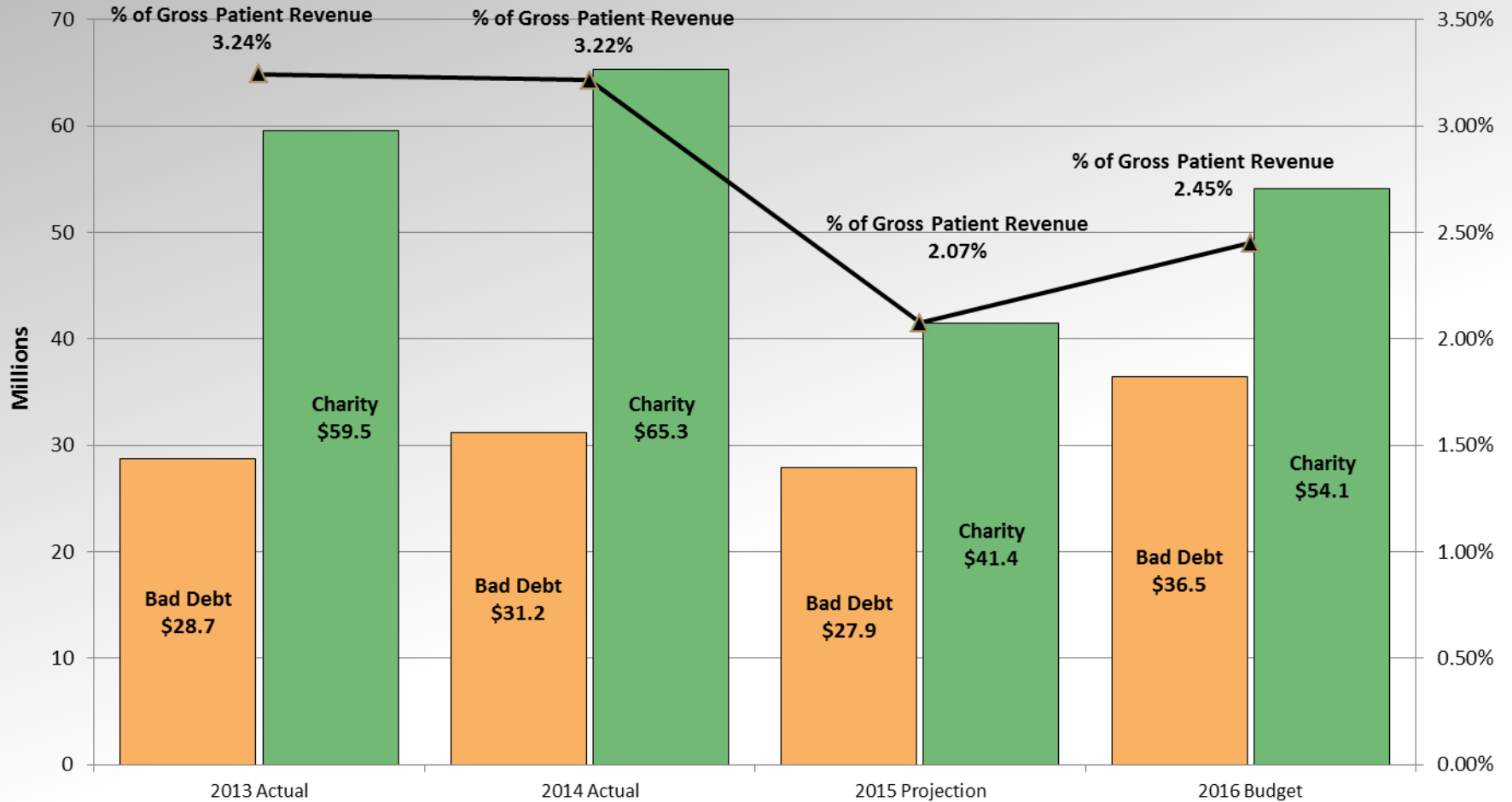
Reimbursement (Based on 5.0% Price Increase)

	Reimbursement (% 2015-2016)	Million Dollars
Medicare	0.0%	(25K)
Medicaid	0.8%	0.7
Self Pay	0.0%	-
HMO/PPO	4.6%	34.0
Indemnity	5.0%	3.3
Other	3.8%	7.1
Totals	<u>3.0%</u>	<u>\$ 45.1</u>

Impact of a 1% reduction in price increase would be a \$10 million reduction in operating income, reducing operating margin from 5.2% to 4.6%

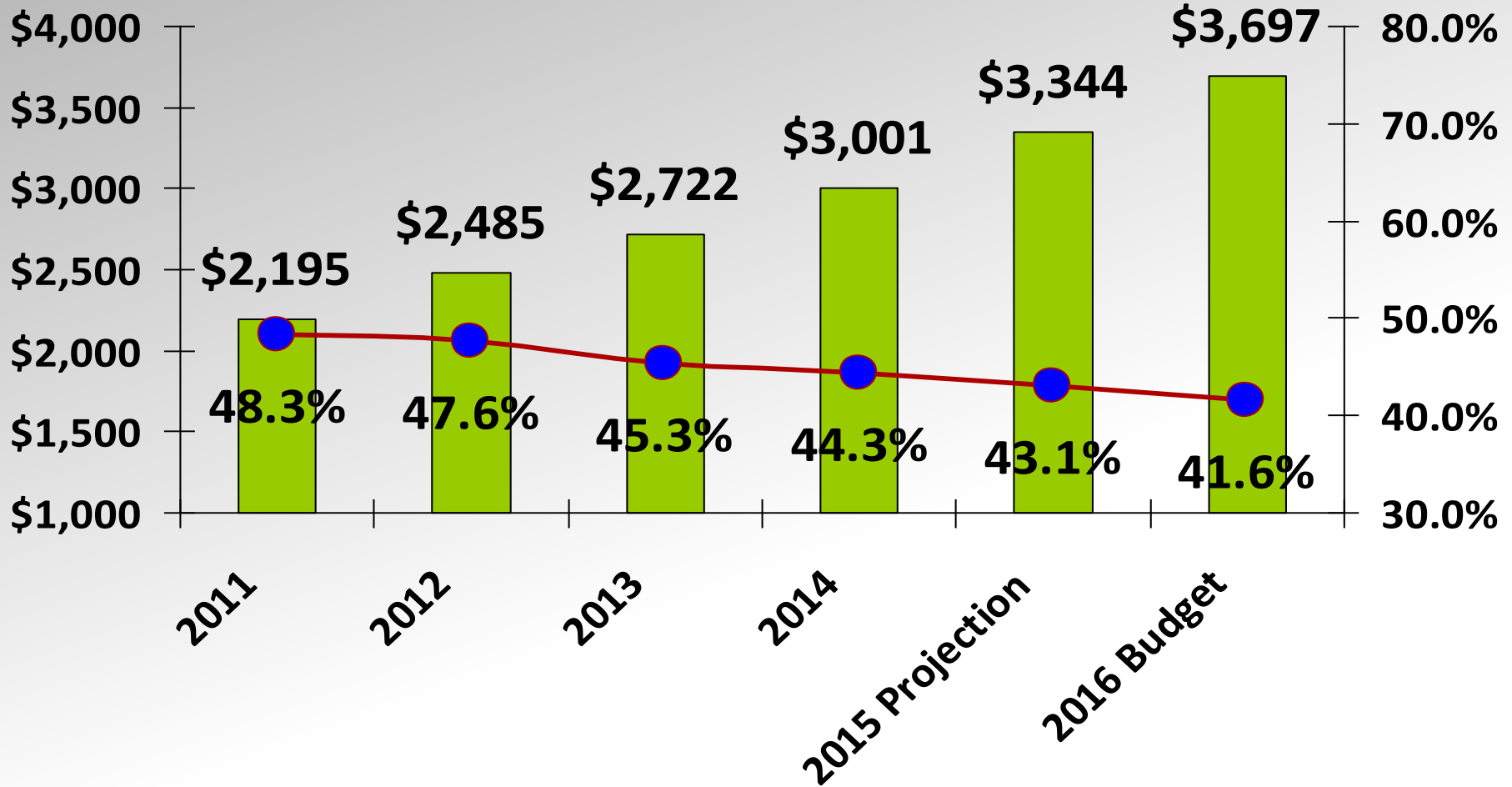
Comparison of Charity Care & Bad Debt Expense

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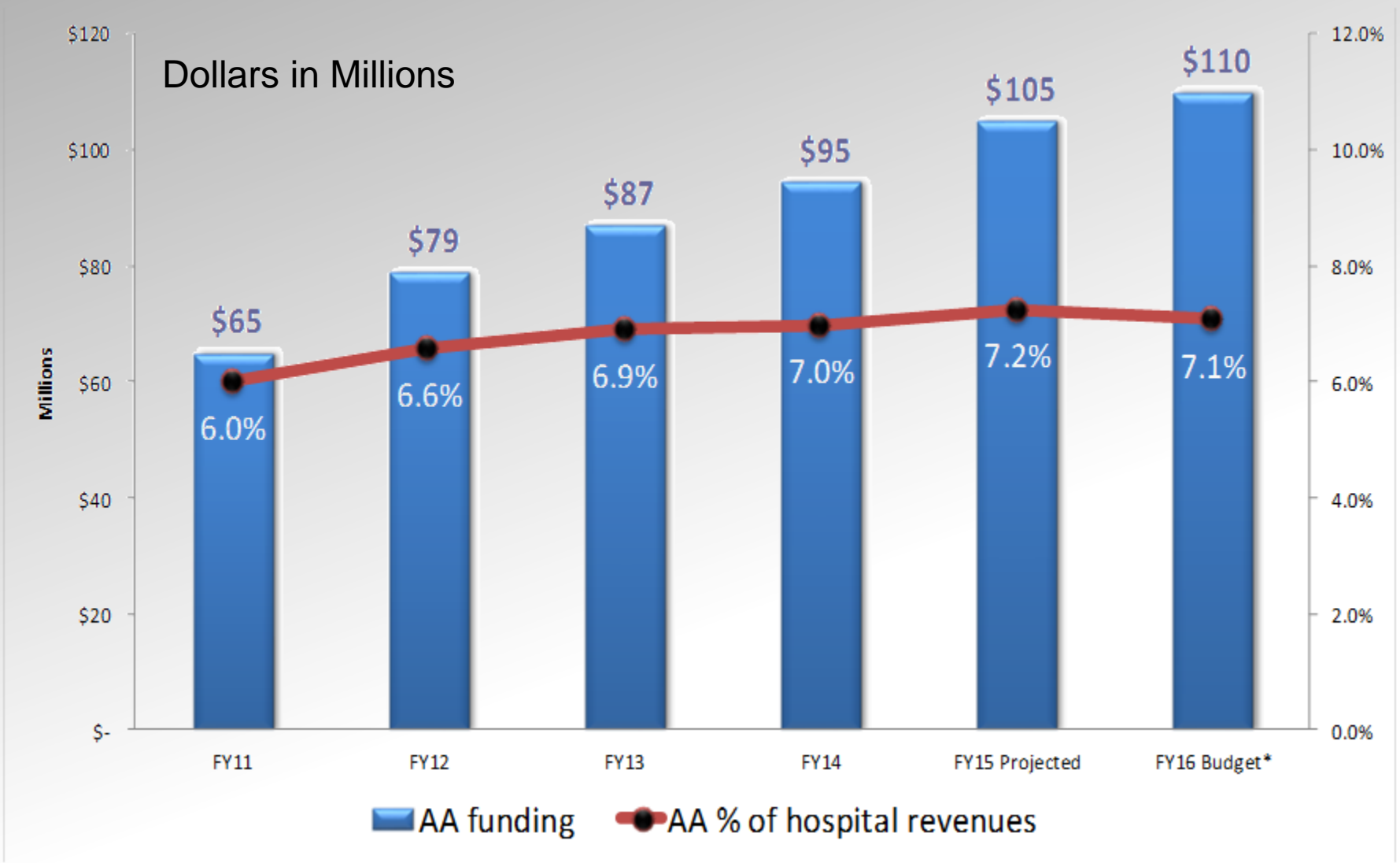


Revenue (millions) and Collected Percentage

Gross charges Collected percentage



UWHCA Affiliation Agreement Funding



Cost Structure Changes

Total FY15 Projected Operating Expenses	\$1,373.7 M
3% Standard Inflation	10.0
FTE Additions	49.5
Increase in Pharmaceutical Costs	22.1
Increase in Medical Supply Costs (excluding drugs)	6.1
Increased Depreciation and Interest Expense (Primarily due to The American Center)	19.5
Cost Management Initiatives (\$24 M total):	
Pharmacy Drug Supply	(3.0)
Labor/ FTE Productivity	(3.0)
Supply Chain	(3.0)
Affiliation Agreement	(3.0)
Other Savings Initiatives	(12.0)
Other	17.4
Total FY16 Budgeted Operating Expenses	<u>\$ 1,474.3 M</u>

Analysis of Comparison of Operating Cost per Adjusted Discharge

	<u>Operating Cost per Adjusted Discharge</u>	<u>% Change from Previous Year</u>	<u>Case Mix Index (CMI)</u>	<u>Operating Cost per Adjusted Discharge / CMI</u>	<u>% Change from Previous Year</u>
2012	\$ 20,059	2.72%	1.94	10,340	-0.46%
2013	\$ 21,295	6.16%	2.00	10,647	2.98%
2014	\$ 22,399	5.19%	2.02	11,089	4.14%
2015 Projected	\$ 23,206	3.60%	2.02	11,488	3.60%
2016 Budget	\$ 23,311	0.45%	2.00	11,655	1.46%
5 Yr Annual Change					2.34%

Summary Profit and Loss Statement

(000's omitted)	FY 14 Actual	FY 15 Projection	FY 16 Budget	Dollar Variance	% Change
Gross Patient Revenues	\$ 3,000,773	\$ 3,343,589	\$ 3,697,248	\$ 353,659	10.6%
Less Provision for Bad Debt & Charity Allowances	96,481	69,330	90,583	21,253	30.7%
	<u>1,576,584</u>	<u>1,834,753</u>	<u>2,070,460</u>	<u>235,707</u>	12.8%
Net Patient Revenues	1,327,708	1,439,506	1,536,205	96,699	6.7%
Other Revenues	<u>21,533</u>	<u>19,262</u>	<u>19,005</u>	<u>(257)</u>	-1.3%
Total Revenue	<u>1,349,241</u>	<u>1,458,768</u>	<u>1,555,210</u>	<u>96,442</u>	6.6%
Salaries	459,977	489,841	531,012	41,171	8.4%
Benefits	187,225	183,702	192,121	8,419	4.6%
Supplies, Drugs and Other Expenses	558,380	633,882	665,282	31,400	5.0%
Interest	10,669	11,405	17,346	5,941	52.1%
Depreciation	<u>49,123</u>	<u>54,858</u>	<u>68,504</u>	<u>13,646</u>	24.9%
Total Expenses	<u>1,265,374</u>	<u>1,373,688</u>	<u>1,474,265</u>	<u>100,577</u>	7.3%
Operating Income	<u>83,867</u>	<u>85,080</u>	<u>80,945</u>	<u>(4,135)</u>	-4.9%
Total Non-operating Revenue	<u>20,909</u>	<u>1,896</u>	<u>18,364</u>	<u>16,468</u>	868.6%
Excess of Revenue over Expenses	<u>\$ 104,776</u>	<u>\$ 86,976</u>	<u>\$ 99,309</u>	<u>\$ 12,333</u>	14.2%
EBITDA	\$ 164,568	\$ 153,239	\$ 185,159	\$ 31,920	20.8%

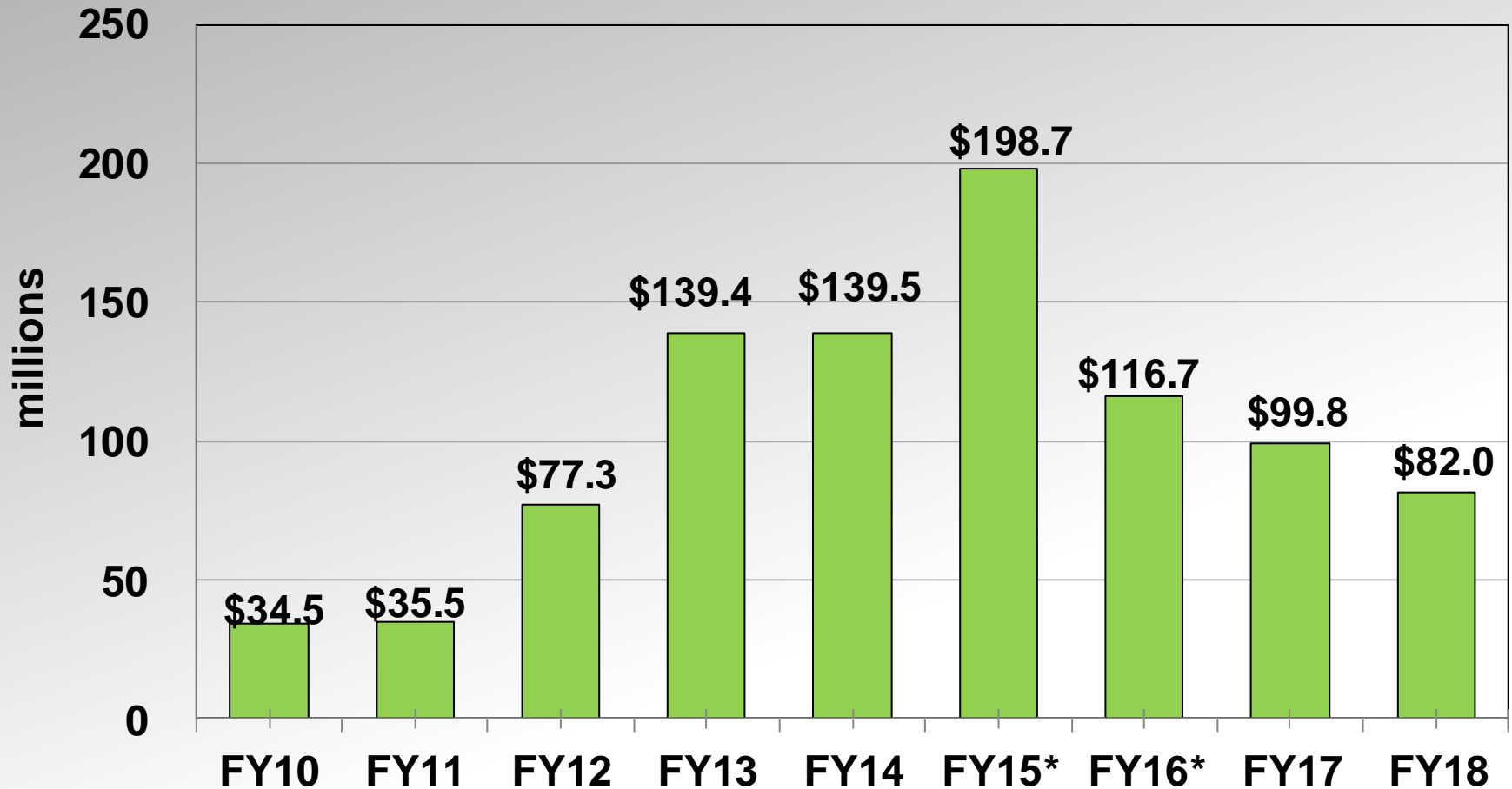
Financial Ratios

Ratio	UWHC			S&P	Moody's
	2014	Projected 2015	Budget 2016	A+	Aa3
<u>Profitability ratios</u>					
Operating margin	6.1%	5.8%	5.2%	4.0%	2.8%
Total margin	7.6%	5.9%	6.3%	6.6%	6.9%
EBITDA margin	10.5%	10.4%	10.7%	12.2%	10.4%
<u>Debt ratios</u>					
Maximum Debt Service Coverage	4.4	5.1	5.9	4.9	6.0
Cash to debt	156%	169%	185%	186%	176%
Debt to capitalization	33%	30%	27%	27%	31%
<u>Other balance sheet ratios</u>					
Days cash on hand	213	211	210	291	244
Days in AR	43	42	44	49	50

Summary of FY 2016 Capital Budget

Category	Amount
Major Projects	\$47,800,000
Equipment > \$250,000 - \$27,357,491	
Equipment < \$250,000 - \$10,699,856	
Subtotal Equipment	\$38,057,347
Construction > \$250,000 - \$19,615,368	
Construction < \$250,000 - \$1,731,080	
Subtotal Construction	\$21,346,448
Facilities Contingency	\$2,000,000
Equipment Contingency	\$2,179,880
Inntowner Capital Contribution	\$1,316,325
Capital Reserve for Integration	\$4,000,000
Total	\$116,700,000

Capital Expenditures FY'10-18



*FY15 and FY16 include \$20 million for Rehab Hospital and an additional \$18 million for The American Center

Recommendations

The Finance Committee of the University of Wisconsin Hospitals and Clinics Authority recommends to the Board of UWHCA:

- Approval of the FY2016 Capital Budget in the amount of \$116.7 million to be funded from operations and the remaining Series 2013 Bonds.
- Approval of a 5.0% price increase effective July 1, 2015.
- Approval of the FY2016 Operating Budget including the achievement of an Operating Margin of 5.2%.