WMC Health

Westchester Medical Center

Westchester Medical Center Health Network

2018 Operating Budget

December 6, 2017

WESTCHESTER COUNTY HEALTH CARE CORPORATION

Operating Budget – 2018

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WESTCHESTER COUNTY HEALTH CARE CORPORATION

EXECUTIVE SUMMARY

Overview

The budget for 2018 presents an operating profit of $4.6 million and stable and positive cash flow.

We continue to face many financial challenges including a significant reduction to Medicaid Disproportionate Share (DSH) reimbursement, continued stagnation or reductions in Medicare and Medicaid reimbursement combined with the leveling off of patient volume.

These challenges were met with a thorough review of current and 2018 projected costs throughout the organization. This process primarily focused on non-clinical areas and avoided any reduction to bedside nursing care.

These efforts were taken to reach a balanced budget for 2018 and to prepare the Medical Center for the possible continued reductions to the Medicaid DSH reimbursement and possible conclusion of the DSRIP program during 2020.

Over the past three and one-half years, Westchester Medical Center (WMC), formerly on one campus, has expanded to become WMCHealth Network, currently serving more than 3.5 million people, primarily in the Hudson Valley with approximately 10,000 health care professionals. Revenues have more than doubled to $2.2 billion annually. Currently, operations include 10 hospitals with 1,700 beds on 7 campuses, including trauma centers, community hospitals and the region's only children's hospital, dozens of specialized institutes and centers, homecare, assisted living and one of the largest mental health systems in New York – with our flagship Westchester Medical Center providing the most advanced care when the residents of the region need it most.

Additionally, there are numerous affiliated organizations including the Center for Regional Healthcare Innovation (CRHI), which networks with over 240 provider organizations for population health initiatives and the achievement of DSRIP goals.

Major initiatives and projects that will be underway during 2018 include:

- Construction of a new Ambulatory Care Pavilion on the Valhalla campus
- Creation of a Medical Village at the Port Jervis location of Bon Secours Charity Health System
- Consolidation of hospital operations at the Mary's Avenue campus and the creation of a medical village at the Broadway campus of HealthAlliance, both of which are located in Kingston

Many of these redesign efforts will be achieved over the next several years due to the enormity of these undertakings and will require substantial resources.

Budget 2018

The budget presented herein includes the operations at the Valhalla and the MidHudson campuses. The operations of Bon Secours Charity Health System and HealthAlliance have been budgeted separately.

Budgeted Revenues and Expenses

The 2018 Strategic Operating Plan continues to build on investments in new initiatives, particularly those designed around system integration, data network expansion as well as clinically in neurosciences, cardiology, cardiothoracic, general surgery and transplant services. Overall patient volumes have been discussed with clinical leadership, and overall expenses have been forecasted based on anticipated utilization and inflation factors.

Revenue – Patient Volumes

Volumes experienced in 2017 are the basis for projected 2018 volumes with incremental volume projected for specific new projects, services or programs.

Expenses

Generally, expenses are budgeted to increase by 4.5% over the 2017 projected level. Of the $63.3 million in increases, approximately $17.6 million is revenue related. See the Detailed Discussion of Expense section.

Legacy Excess Costs

WMCHealth continues to be obligated to incur costs beyond industry norms in the following areas:

- **New York State Pension Expense** – The pension expense for employees on the Valhalla campus who participate in the NYS pension plan is budgeted at $47.1 million for 2018. This amount represents an assessment of approximately 16.0% of employee salaries (approximately $32.1 million), as well as, a NYS Actuarial Pension Adjustment of $15.0 million required to be recorded, but not paid in 2018. The payroll assessment exceeds pension cost of comparable New York area medical centers where pension expense is approximately 7.0% of payroll. This excess pension expense for Medical Center employees amounts to 9.0% of payroll over comparable medical centers or $18.9 million and is recorded as excess pension expense. The NYS Actuarial Pension Adjustment is the amount required to be recorded under Government Accounting Standards Board (GASB) pronouncement #68 and is determined based primarily on actual activity of the NYS Pension Plan compared to actuarially projected or assumed amounts.

- **<u>Health Benefit Expense</u>** – Health benefit expense is budgeted at $100.6 million for 2018. This expense is based on recent medical expense trends. Included in the health benefit expense is $18.0 million of health benefits for retired employees, a benefit generally no longer provided by most employers.

<u>Delivery System Reform Incentive Program (DSRIP)</u>

In April 2014, New York State Department of Health (DOH) and the Centers for Medicare and Medicaid (CMS) entered into an agreement for NYS to reduce projected Medicaid spending by $17 billion over 5 years and the federal government has agreed to reinvest $8 billion of these projected revenues into transforming the Medicaid program in NYS. $6.2 billion is allocated to the DSRIP program. Funding is only available to networks of provider organizations in a geographic area that are contractually bound to implement the DSRIP projects. These networks are called Performing Provider Systems (PPSs). WMC, as the Region's public hospital, has taken the lead in establishing a PPS for seven counties in the Hudson Valley as well as Delaware County. The WMC PPS has over 240 provider organizations in 400 plus locations from across the care continuum in its DSRIP network.

In anticipation of WMC's leadership role in DSRIP, the Center for Regional Healthcare Innovation (CRHI) was established in September 2014. CRHI has established itself as a "best practice" for emerging PPS entities in NYS.

<u>Revenue Budget – 2018</u>

<u>Valhalla Campus</u>

Revenue projections use 2017 as a base for patient volume, payor mix and case mix acuity adjusted for selective changes to patient volume, and changes in contractual agreements with payors. Medicaid revenue has been projected to be flat, though NYS is in process of changing the base year from 2010 to 2015 cost reports on a state-wide budget neutral approach effective 7/1/18. There will be hospital winners and losers within the Medicaid program going forward. Medicare revenue is projected to increase by .5% primarily due to higher transplant and teaching add-on's offset by lower wage indices effective October 1, 2017 and projected lower outpatient drug reimbursement based upon implementation of 340(B) reimbursement pricing into the Medicare system in lieu of other methodologies previously utilized such as AWP. It is incumbent upon the hospital to meet the regulatory requirements and purchasing outpatient drugs under the 340(B) pricing wherever available.

The 2% Medicare sequestration adjustment that was effective April 1, 2013 remains in effect.

<u>Medicaid Disproportionate Share Revenue (DSH)</u>

The federal government has decided not to postpone the Medicaid DSH cuts that were originally to be implemented in 2014. In addition, NYS has made the determination not to implement these reductions uniformly across all eligible public hospitals. If the reductions were proportional, WMC would have incurred less than a 20% reduction in lieu of the NYS directed reductions of 50%. Therefore, the 2018 Medicaid DSH revenue is budgeted at $38.0 million. The revenue includes both Valhalla and MHRH campuses.

MidHudson Regional Hospital

Revenue Projections use 2017 as a base for patient volume, payor mix and case mix acuity adjusted for selective changes to patient volume, and changes in contractual agreements with payors. Medicaid revenue has been projected to be 14.0% lower based upon the full year effect of the elimination of the three (3) year approved Medicaid appeal where Mid-Hudson received the Valhalla division's higher operating rate which included a higher wage index, and the same teaching component of the rate. These rates ended on 6/30/2017. These higher Medicaid rates were in effect for three (3) years beginning July 1, 2014 and ending June 30, 2017. Medicare revenue is projected to increase by .3% based upon a small trend factor increase offset by a lower wage index.

OTHER OPERATING REVENUE

Significant components of other operating revenue are grant revenue from county, state and federal sources and various other sources such as reimbursement for interns and residents who rotate to other hospitals, rental income and licensing fees.

DETAILED DISCUSSION OF EXPENSE

Overall, expenses are budgeted to increase by 4.5% or $63.3 million from 2017 projected levels of $1,398.0 million. The major components of change are detailed below:

	(000's)
2017 Projected Expenses	$1,397,964
2018 Increases:	
Network related, funded by other operating revenue	6,570
Labor Increases	39,597
Technical & Contractual Services	7,409
Supplies & Other	5,314
Depreciation	2,911
Projected impact of new Network GPO contract – Medical/Surgical Supplies	(6,000)
Optimization of 340B program - Drugs	(3,000)
Other, net	10,548
2018 Budgeted Expenses	$ 1,461,313

Labor Costs

Labor costs are budgeted to increase primarily due to additional physician staffing and related support costs and contractual increases.

Fringe Benefit Costs

Overall fringe benefit costs are budgeted as follows:

- NYS pension plan costs amount to $47.1 million comprised of 16% of payroll and $15.0 million in additional expense due to actual pension plan activity versus actuarially projected and assumed amounts, required under GASB 68.

- Health benefit costs – An increase in costs primarily due to healthcare cost trends for employees and retirees, including the impact of increased physician and other staff, have resulted in this benefit cost increasing to $101.1 million in 2018.

Non-Salary Expense Changes

Non-salary costs reflect modest increases primarily as a result of savings achieved from the new GPO and other cost reduction initiatives.

Depreciation and Amortization

Depreciation and amortization has been calculated to be $67.7 million in 2018. This increase reflects recent and continuing investments in clinical equipment and construction related costs for renovation and new projects at WMC.

Interest Expense

Interest expense is budgeted to be $25.7 million in 2018. Interest on long term debt, capital leases and deferred pension amounts are the major components of this expense. Expense related to the bond financing of the Ambulatory Care Pavilion (ACP) is being capitalized during the construction phase of this project which is expected to continue through December 2018.

DSRIP Funded Expenses

As mentioned previously, NYS received a Medicaid waiver in 2014; which made available $8 billion statewide to generally redesign the healthcare delivery system of NYS in an attempt to reduce inpatient admissions by 25% over the next five years. Funds are being provided through NYS to develop PPS – Performing Provider Systems and to fund related projects.

COMMENTS ON STATEMENTS OF NET POSITION

Cash and Cash Equivalents – Cash at December 31, 2018 is expected to approximate $158.4 million as compared to $157.2 million projected at December 31, 2017. The projected December 31, 2017 cash balance incorporates the payment of all operating expenses and required payments including debt service, payroll tax payments, malpractice and pension payments and reflects 71.3 days cash on hand.

Patient Accounts Receivable, net – Projected balances at December 31, 2018 reflects 47.4 days revenue in accounts receivable.

Capital Assets, net – Projected balance at December 31, 2018 includes capital additions financed from bond proceeds and operations, the Philips MES agreement and leases, offset by depreciation expense.

Accounts Payable and Accrued Expenses – Projected balance at December 31, 2018 reflects 100.6 days expense in accounts payable.

WESTCHESTER MEDICAL CENTER
2018 OPERATING BUDGET
STATEMENTS OF OPERATIONS

(IN THOUSANDS)

	2018 Budget
Operating revenues:	
Net patient service revenue	$ 1,295,995
Disproportionate share revenue	38,000
Other operating revenue	111,853
Interest income	5,303
Total operating revenue	1,451,151
Operating expenses:	
Personal services	619,573
Fringe benefits	
Partial pension	13,250
Health benefits	82,571
All other	62,947
Supplies and other	528,630
Malpractice insurance	9,096
Depreciation and amortization	67,668
Interest expense	25,712
Total operating expenses	1,409,447
Income from operations before economic stabilization plan and excess fringe benefits	41,704
Economic stabilization plan:	
Operational improvements	14,730
Income from operations before excess fringe benefits	56,434
Excess pension cost	(18,866)
Excess post retirement health	(18,000)
NYS pension adjustment	(15,000)
Subtotal	(51,866)
Net income	$ 4,568

WESTCHESTER MEDICAL CENTER
2018 OPERATING BUDGET
STATEMENTS OF NET POSITION

(IN THOUSANDS)

		Budget December 31, 2018
Assets		
Cash and cash equivalents	$	158,419
Investments		106,041
Patient accounts receivable, net		172,820
Other current assets		92,213
Total current assets		529,493
Capital assets, net		577,257
Other assets, net		43,722
Total assets	$	1,150,472
Deferred Outflows of Resources		
Pension, OPEB and bond related	$	71,835
Liabilities		
Current portion of long-term debt	$	19,940
Accounts payable and accrued expenses		145,353
Accrued salaries and related benefits		72,406
Current portion of other liabilities		46,464
Total current liabilities		284,163
Long-term debt, net		681,578
Other liabilities, net		549,954
Total liabilities	$	1,515,695
Deferred Inflows of Resources		
Pension and OPEB related	$	15,356
Net Position		
Unrestricted	$	(319,311)
Restricted		10,567
	$	(308,744)

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