

Palomar Health

Operating and Capital Budgets Fiscal Year 2014

Presentation to

Board of Directors

June 24, 2013



FY2014 Budget Drivers

- Strategic Initiatives
- 10-Year Financial and Capital Plan Guidelines
- Strategic Growth Opportunities
- Expense Management
 - Focus on Compensation and Benefits
 - Outsourcing / Insourcing Solutions
- Governmental Payor Changes – Sequestration, Value-Based Purchasing, MediCal Reimbursement – Acute and Skilled Services

FY2014 Operating Budget Recap

Key Volume Indicators

	Palomar Health North		Palomar Health South		Consolidated	
	<u>Change</u>	<u>%</u>	<u>Change</u>	<u>%</u>	<u>Change</u>	<u>%</u>
<u>INPATIENT</u>						
Discharges						
Acute	2,606	11.8%	(331)	(5.3%)	2,275	8.0%
SNF - SubAcute	(297)	(63.1%)	(53)	(8.1%)	(350)	(31.1%)
Patient Days						
Acute	7,703	8.2%	(2,588)	(9.8%)	5,115	4.2%
SNF - SubAcute	(21,517)	(73.3%)	539	1.2%	(20,978)	(28.9%)
Avg Length Of Stay						
Acute	(0.14)	(3.3%)	(0.20)	(4.7%)	(0.15)	(3.5%)
SNF	(17.34)	(27.8%)	6.72	10.2%	2.04	3.2%
Deliveries	767	23.8%	(6)	(.5%)	762	17.2%
Inpatient Surgeries	360	6.0%	(10)	(.6%)	350	4.6%

Change = FY2013 (Dec 2012 through Mar 2013 annualized) vs. FY2014 Budget

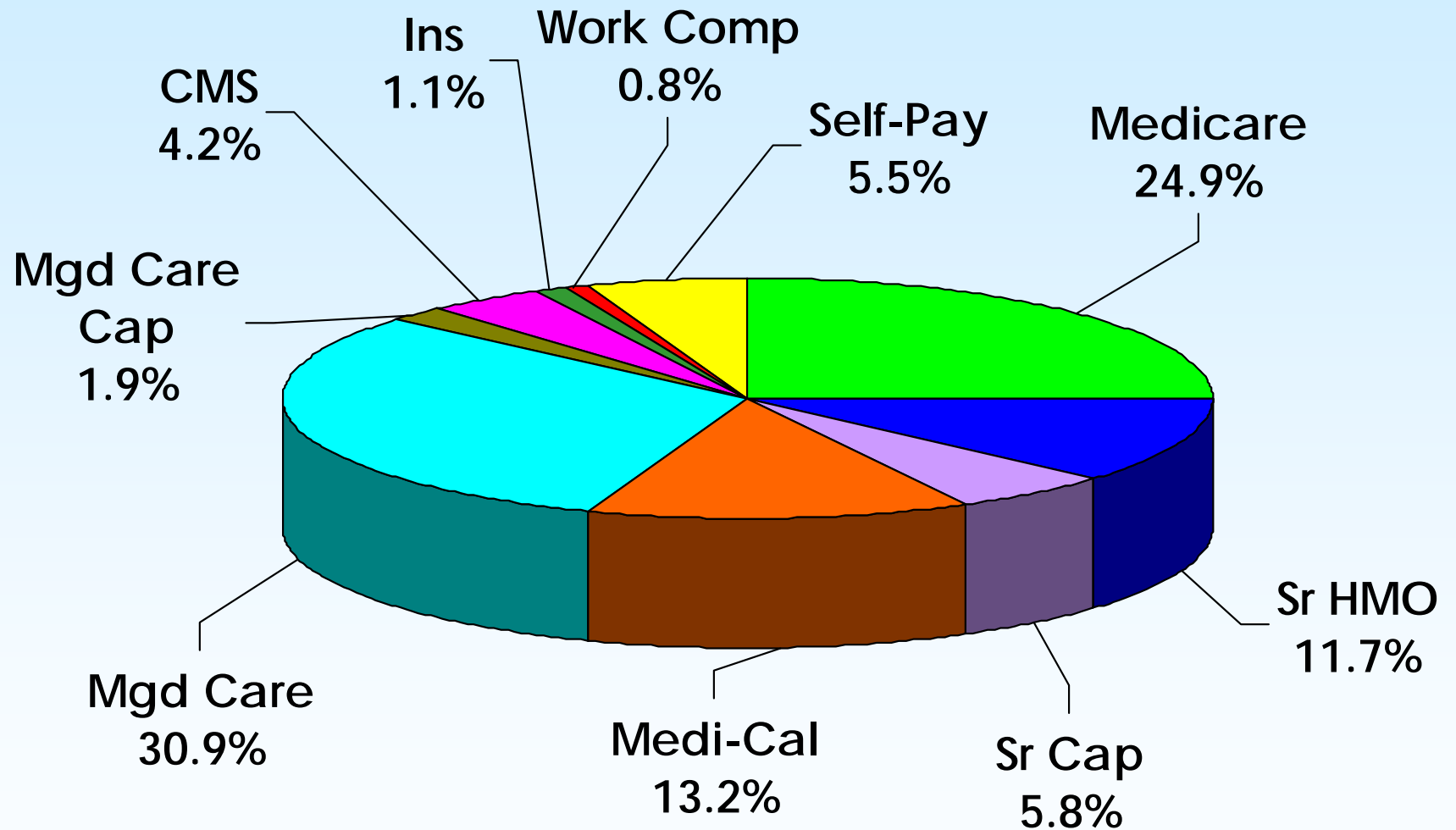
FY2014 Operating Budget Recap

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<u>OUTPATIENT</u>						
ER Visits	12,464	14.8%	(527)	(2.0%)	11,937	10.7%
O/P Registrations	3,765	7.2%	6,614	16.5%	10,379	11.2%
O/P Surgeries	235	5.0%	809	27.4%	1,044	13.7%
Home Health Visits	1,038	2.3%	0	0.0%	1,038	2.3%

Change = FY2013 (Dec 2012 through Mar 2013 annualized) vs. FY2014 Budget

FY2014 Payor Mix by Gross Revenue



FY2014 Key Revenue Assumptions/Considerations

Rates

- Inpatient and Outpatient – 8% Overall Increase
- Commercial Contracts / 3rd Party Reimbursement reflect market
- Medicare and MediCal reflect non-negotiated mandated reductions
- At-Risk Capitation Contracting – continuing current relationships
- Bad Debt/Uncompensated Care 5.22%
 - FY2013, and FY2012, were 4.7%, 4.8% respectively

Key Inflationary Assumptions/Considerations

	<u>FY2014</u> <u>Budget</u>	<u>FY2013</u> <u>Budget</u>
<u>Supplies:</u>		
Pharmaceuticals	1.0%	1.0%
Prosthesis (Non-tech Price Changes)	0.5%	0.5%
Surgical Instruments	0.0%	0.0%
Surgical Supplies	0.5%	0.5%
Other Medical	0.5%	0.5%
Food Other	3.0%	3.0%
Minor Equipment/Instruments	0.0%	0.0%

Compensation and Benefits

Key Assumptions/Considerations

- Overall salary, wage and registry costs are \$13.9 million (or 4.7%) lower than FY2013 (including \$7.5 million reduction to registry usage) resulting from:
 - Reduction in Force, improved efficiencies, premium pay management and other labor initiatives
 - Merit increases and labor contract changes that account for a \$6.4 million reinvestment in our employees
- Benefits expenses are \$5.8 million lower than FY2013
- Total Productive FTE's are 3,126 compared to 3,227 in FY2013
- Adherence to Productivity Labor Standards
- Adherence to Nurse Staffing Ratios
- Reduction in Force: 155 Productive FTE's

Recap of Salaries and Wages

	Palomar Health Consolidated
FY 2013 Base Salary Expense ⁽¹⁾	\$ 283,686,566
FY 2013 Registry Expense ⁽¹⁾	12,458,139
Increase / (Decrease) due to:	
Labor Contracts and Merit Adjustments	6,447,221
Volume, Labor Std Adj's and Reductions in Staff	<u>(20,363,373)</u>
Total Salary and Registry Expense FY 2014	282,228,553
Estimated Salary and Registry Expense FY 2013 ⁽¹⁾	<u>296,144,705</u>
(Increase) / Decrease FY13 To FY14	\$ 13,916,152
% (Increase) / Decrease FY13 To FY14	4.70%

(1) Based on Dec 2012 through March 2013 annualized

Recap of Productive FTE's by Service

	Palomar Health North	Palomar Health South	Central	Outreach	Total
Productive FTE's by Service Type:					
Daily Hospital Services (Nursing Units)	753.45	316.89	-	-	1,070.34
Ancillary Services	723.95	223.15	-	99.79	1,046.89
General / Support Services	390.74	115.81	67.81	0.68	575.04
Administrative Services	107.66	33.03	132.39	0.50	273.58
Fiscal Services	54.00	22.97	83.33	-	160.30
FY 2014 Budgeted Productive FTE's	2,029.80	711.85	283.53	100.97	3,126.15
Estimated Productive FTE's FY 2013 (<i>YTD Pay Period Ending May 4, 2013</i>)	2,055.55	743.29	319.48	108.45	3,226.77
(Increase) / Decrease FY13 To FY14	25.75	31.44	35.95	7.48	100.62
% (Increase) / Decrease FY13 To FY14					3.12%
(Increases) / Decreases in FTE's Due to:					
Volume Changes	(173.00)	5.77	(27.84)	6.90	(188.17)
Reduction in Force, elimination of transformation functions, other changes in labor standards and miscellaneous labor efficiencies ⁽¹⁾	198.75	25.67	63.79	0.58	288.79
	25.75	31.44	35.95	7.48	100.62

(1) I.T. Outsource 51 FTE's, PCCC 83 FTE's, RIF 155 FTE's

Recap of Benefits

	FY 2014 Budget	FY13 Projected ⁽¹⁾	Change FY2014 vs. FY2013	% (Increase) / Decrease
Group Health Insurance	33,941,238	34,251,174	309,936	0.9%
FICA	19,161,352	20,791,733	1,630,381	7.8%
Pension	10,590,455	14,399,998	3,809,543	26.5%
Workers Compensation	3,080,350	3,180,987	100,637	3.2%
Group Life Insurance	157,859	209,990	52,131	24.8%
Other Benefits	1,262,305	1,170,276	(92,029)	-7.9%
Total Benefit Expense	68,193,559	74,004,158	5,810,599	7.9%

(1) Based on Dec 2012 through March 2013 annualized

Recap of Supplies

	FY 2014 Budget	FY 2013 Projected ⁽¹⁾	Change 2014 vs. 2013 (Increase) / Decrease	Variance Due to Rate	Variance Due to Volume	% Change
Implants / Prosthesis	17,320,972	19,016,019	1,695,047	3,260,506	(1,565,459)	8.9%
Surgical Supplies	13,717,826	13,475,523	(242,303)	867,045	(1,109,348)	-1.8%
Pharmaceuticals	15,402,637	13,593,957	(1,808,680)	(689,582)	(1,119,098)	-13.3%
Other Medical Supplies	15,769,279	15,876,357	107,078	1,414,070	(1,306,992)	0.7%
Food	4,032,309	4,697,648	665,339	1,052,064	(386,725)	14.16%
Office Supplies and Forms	1,689,704	1,324,146	(365,558)	(256,550)	(109,008)	-27.61%
Minor Equipment	3,267,731	2,733,555	(534,176)	(309,141)	(225,035)	-19.54%
Other Non-Medical Supplies	13,284,570	13,373,354	88,784	1,189,721	(1,100,937)	0.66%
Total Supplies Expense	84,485,028	84,090,559	(394,469)	6,528,134	(6,922,603)	-0.47%

(1) Based on Dec 2012 through March 2013 annualized

Recap of Professional Fees

	FY 2014 Budget	FY 2013 Projected ⁽¹⁾	Change FY2014 vs. FY2013 (Increase) / Decrease	% Change
ED Call / Trauma / Hospitalists / OB, OB Anesthesia, Perinatology	17,977,397	16,916,762	(1,060,635)	-6.27%
Other Physician Fees	8,272,197	7,122,054	(1,150,143)	-16.15%
Consulting Fees	5,628,580	3,421,029	(2,207,551)	-64.53%
Legal Fees⁽²⁾	660,632	(330,966)	(991,598)	-299.61%
External Audit Fees	387,501	322,442	(65,059)	-20.18%
Other Professional Fees	2,645,185	2,058,422	(586,763)	-28.51%
Total Professional Fees	35,571,492	29,509,743	(6,061,749)	-20.54%

(1) Based on Dec 2012 through March 2013 annualized

(2) Includes one time FY2013 reversal of expenses

Recap of Purchased Services

	FY 2014 Budget	FY 2013 Projected ⁽¹⁾	Change 2014 vs. 2013 (Increase) / Decrease	% Change
Medical Purchased Services	5,204,138	6,189,369	985,231	15.92%
Information Systems - Outsourcing, Hardware, and Maintenance	27,306,531	20,241,125	(7,065,406)	-34.91%
Maintenance and Repair	13,101,383	7,887,287	(5,214,096)	-66.11%
Linen Services	2,487,368	2,935,591	448,223	15.27%
Management Services	1,046,356	697,403	(348,953)	-50.04%
Other Purchased Services	14,632,480	14,836,247	203,767	1.37%
Total Purchased Services	63,778,256	52,787,022	(10,991,234)	-20.82%

(1) Based on Dec 2012 through March 2013 annualized

Recap of Other Direct Expense

	FY 2014 Budget	FY 2013 Projected ⁽¹⁾	Change 2014 vs. 2013 (Increase) / Decrease	% Change
Building and Equipment Rental	9,891,289	9,220,893	(670,396)	-7.27%
Utility Expense	8,583,728	7,234,793	(1,348,935)	-18.65%
Professional Liability / Insurance Expense	6,062,572	5,989,800	(72,772)	-1.21%
License / Tax	2,056,884	1,577,758	(479,126)	-30.37%
Telephone	1,232,098	1,347,523	115,425	8.57%
Outside Training / Tuition Reimbursement	862,614	1,105,122	242,508	21.94%
Advertising/Marketing	2,054,918	1,328,266	(726,652)	-54.71%
Other Direct Expense	6,494,712	3,941,372	(2,553,340)	-64.78%
Total Other Direct Expense	37,238,815	31,745,527	(5,493,288)	-17.30%

(1) Based on Dec 2012 through March 2013 annualized

Recap of Depreciation Expense

	Total Palomar Health
<u>FY 2014 Budget</u>	
Depreciation on Current Assets	50,316,086
Amortization on Current Software Licensing Fees	6,262,103
<i>Additional Depreciation on:</i>	
CIPs	1,031,514
FY 2014 Capital Budget	568,453
Total FY 2014 Budget	58,178,156
Projected FY 2013 ⁽¹⁾	61,042,053
(Increase) / Decrease FY13 To FY14	\$ 2,863,897
% (Increase) / Decrease FY13 To FY14	4.69%

(1) Based on Dec 2012 through March 2013 annualized

FY2014 Budgeted Initiatives and Strategies

2014 Budgeted Initiative	Budgeted Income Benefit	Budgeted Expense Reduction	Net 2014 Budgeted Benefit
Capitation Management Improvement Initiative	4,000,000	-	4,000,000
Pharmaceutical Expense Management Strategy	-	3,170,000	3,170,000
VHA Imperative Initiative		2,000,000	2,000,000
Information Systems Outsourcing and Strategy		4,000,000	4,000,000
Business Development Strategies - Volume Growth	2,000,000	-	2,000,000
Meaningful Use Achievement - Stage 2	1,800,000	-	1,800,000
Patient Throughput Initiative (LOS, Patient Status, Denials)	1,500,000	-	1,500,000
Palomar Continuing Care Center (Annualized \$1 Million)	(9,034,633)	9,738,919	704,286
Mayo Clinic Affiliation - 1st Year	500,000	(730,000)	(230,000)
GRAND TOTAL	\$ 765,367	\$ 18,178,919	\$ 18,944,286

FY 2013 Operating Budget Recap

(\$ In thousands)

	Results FY12	Projected FY13 (1)	Projected FY14	% Change FY13 to FY14
Revenue:				
Gross Revenue	2,012,928	2,390,447	2,729,883	14.20%
Net Revenue	508,722	574,217	610,046	6.24%
Other Operating Revenue	12,994	11,786	11,805	0.16%
Total Operating Revenue	\$ 521,716	\$ 586,003	\$ 621,851	6.12%
Expenses:				
Salaries, Wages, Registry, Benefits	309,260	362,104	282,228	22.06%
Supplies	76,250	82,287	84,485	-2.67%
Depreciation	21,323	57,388	58,178	-1.38%
Other	101,163	114,884	204,783	-78.25%
Total Operating Expense	\$ 507,996	\$ 616,663	\$ 629,674	-2.11%
Operating Income	13,720	(30,660)	(7,823)	-74.48%
Non-Operating Income	4,471	3,934	3,226	-18.00%
Interest Expense	(2,942)	(29,670)	(33,628)	-13.34%
Property Tax Revenue	12,686	13,300	13,300	0.00%
Income (Loss)	\$ 27,935	\$ (43,096)	\$ (24,925)	42.16%
Net Margin %	5.4%	-7.4%	-4.0%	
OEBIDA Margin (Excl Property Tax Rev)	6.7%	4.6%	8.1%	
OEBIDA Margin (Incl Property Tax Rev)	9.1%	6.8%	10.2%	
EBIDA Margin	10.0%	7.5%	10.8%	
Total Uncompensated Care	\$ 97,429	\$ 112,024	\$ 142,576	
Total Uncompensated Care as % of Gross	4.84%	4.69%	5.22%	

(1) FY May YTD actual + June budget

FY 2013 Operating Budget Recap

(\$ In thousands)

	FY 2009	FY 2010	FY 2011	FY 2012	Projected FY 2013	Budgeted FY 2014
Net Income from Ops (Excluding Interest Expense)	\$ 9,476	\$ 17,035	\$ 11,514	\$ 13,720	\$ (30,660)	\$ (7,823)
Less:						
Depreciation Expense	21,215	21,359	21,346	21,323	57,388	58,178
OEBIDA	\$ 30,692	\$ 38,395	\$ 32,861	\$ 35,044	\$ 26,728	\$ 50,356
OEBIDA Margin (Excl Property Tax Rev)	6.9%	8.2%	6.7%	6.7%	4.6%	8.1%
OEBIDA Margin (Incl Property Tax Rev)	9.9%	11.0%	9.3%	9.1%	6.8%	10.2%
EBIDA	\$ 48,772	\$ 58,045	\$ 56,119	\$ 52,200	\$ 43,962	\$ 66,881
EBIDA Margin	10.9%	12.4%	11.5%	10.0%	7.5%	10.8%
Total Uncompensated Care	74,557	82,012	81,887	97,429	112,024	142,576
Total Uncompensated Care as % of Gross	4.7%	4.9%	4.5%	4.9%	4.7%	5.8%
Note:						
Net Income/(Loss) after Non-Op Income	\$ 11,477	\$ 24,488	\$ 30,968	\$ 27,935	\$ (43,096)	\$ (24,925)

FY2014 Operating Budget – Key Highlights

	FY2012 Actual	FY2013 Projected (May YTD + June Budget)	FY2014 Budget	FY2014 vs. FY2013 Projected	
				Change	% Change
Statistics:					
Average Daily	276.3	302.0	344.7	42.7	14.1%
Acute Patient Days	101,124	110,230	125,824	15,594	14.1%
Adjusted	39,973	43,567	47,501	3,934	9.0%
Productive FTEs	2,836	3,227	3,126	(101.0)	3.1%
Operating Expenses (w/o Depreciation & Interest) per Adjusted Discharge	12,175	12,837	12,031	(806)	6.3%

Income Statement - Summary:					
Total Operating	521,716,000	586,003,000	621,851,000	35,848,000	6.1%
Total Operating	507,996,000	616,663,000	629,674,000	13,011,000	-2.1%
Operating Income	13,720,000	(30,660,000)	(7,823,000)	22,837,000	74.5%
Net Income	27,935,000	(43,096,000)	(24,925,000)	18,171,000	42.2%
EBIDA	52,200,000	43,962,000	66,881,000	22,919,000	52.1%

Expenses - Detail:					
Salaries, Wages, Registry & Benefits	309,260,000	362,104,000	350,423,000	(11,681,000)	3.2%
Supplies	76,250,000	82,287,000	84,485,000	2,198,000	-2.7%
Depreciation	21,323,000	57,388,000	58,178,000	790,000	-1.4%
Other Expenses	101,163,000	114,884,000	136,588,000	21,704,000	-18.9%
Interest Expense	2,942,000	29,670,000	33,628,000	3,958,000	-13.3%

Three-Year Capital Budget Summary

(in Millions)

	FY 2014	FY 2015	FY 2016	Total Project Spend
<u>Routine Capital:</u>				
Equipment	10,000,000	10,000,000	10,000,000	30,000,000
Facility	5,000,000	5,000,000	5,000,000	15,000,000
Information Technology	5,000,000	5,000,000	5,000,000	15,000,000
Total Routine Capital Requests	\$ 20,000,000	\$ 20,000,000	\$ 20,000,000	\$ 60,000,000
Strategic Capital Reserve	5,000,000	5,000,000	5,000,000	15,000,000
Consolidated Capital Reserve	\$ 25,000,000	\$ 25,000,000	\$ 25,000,000	\$ 75,000,000

Note: Reserved for planning purposes. Subject to available cash reserves