

# 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>
<b><u>INPATIENT</u></b>						
<b>Discharges</b>						
Acute	2,606	11.8%	(331)	(5.3%)	2,275	8.0%
SNF - SubAcute	(297)	(63.1%)	(53)	(8.1%)	(350)	(31.1%)
<b>Patient Days</b>						
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%)
<b>Avg Length Of Stay</b>						
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

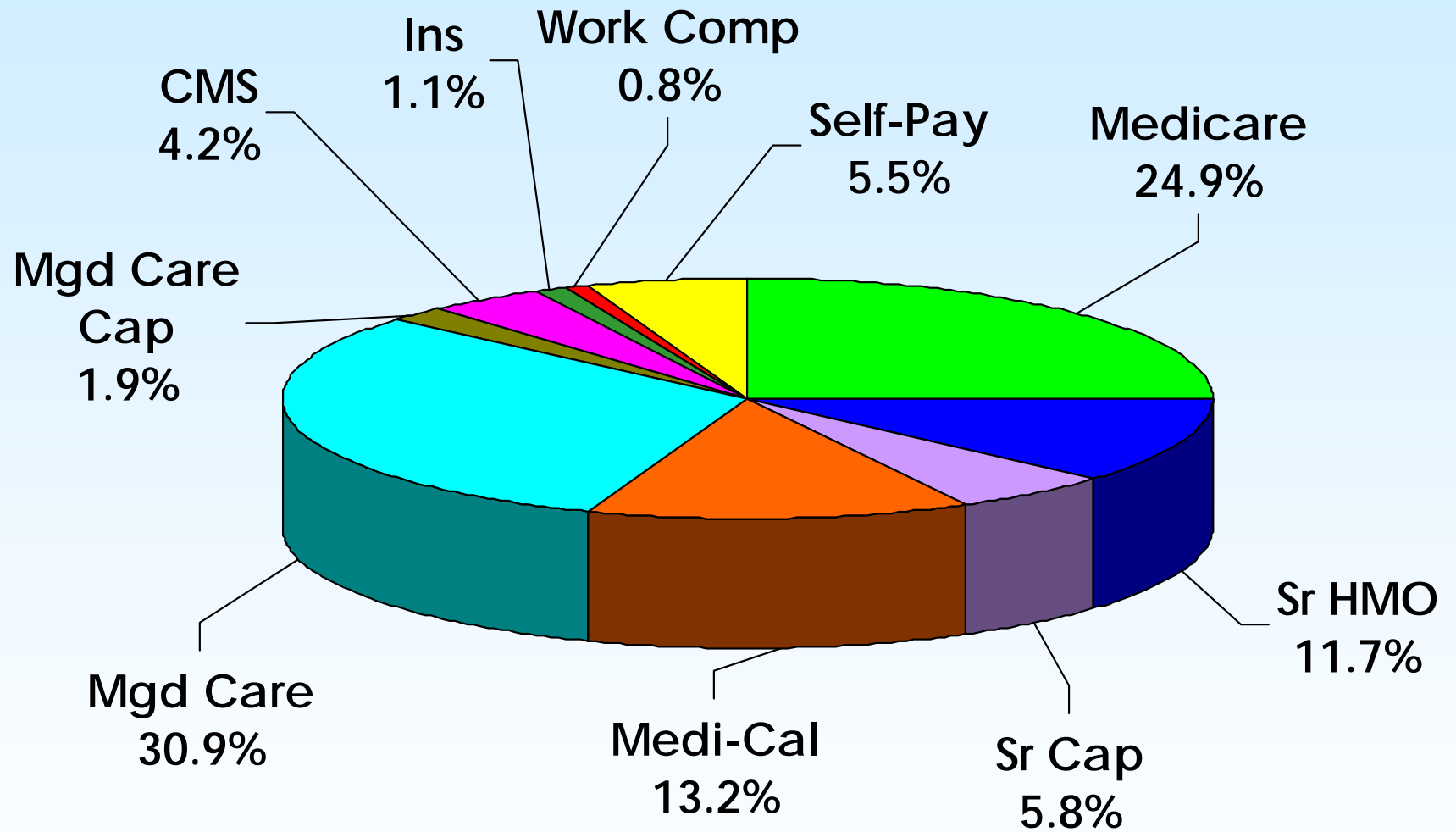
# FY2014 Operating Budget Recap

## *Key Volume Indicators*

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	<u>Change</u>	<u>%</u>	<u>Change</u>	<u>%</u>	<u>Change</u>	<u>%</u>
<b><u>OUTPATIENT</u></b>						
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 / 3<sup>rd</sup> 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>
<b><u>Supplies:</u></b>		
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

	<b>Palomar Health Consolidated</b>
FY 2013 Base Salary Expense <sup>(1)</sup>	\$ 283,686,566
FY 2013 Registry Expense <sup>(1)</sup>	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>
<b>Total Salary and Registry Expense FY 2014</b>	<b>282,228,553</b>
Estimated Salary and Registry Expense FY 2013 <sup>(1)</sup>	<u>296,144,705</u>
<b>(Increase) / Decrease FY13 To FY14</b>	<b>\$ 13,916,152</b>
<b>% (Increase) / Decrease FY13 To FY14</b>	<b>4.70%</b>

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

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

# Recap of Benefits

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

(1) Based on Dec 2012 through March 2013 annualized

# Recap of Supplies

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

(1) Based on Dec 2012 through March 2013 annualized

# Recap of Professional Fees

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

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

(1) Based on Dec 2012 through March 2013 annualized

# Recap of Other Direct Expense

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

(1) Based on Dec 2012 through March 2013 annualized

# Recap of Depreciation Expense

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

(1) Based on Dec 2012 through March 2013 annualized



# FY2014 Budgeted Initiatives and Strategies

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

# FY 2013 Operating Budget Recap

## (\$ In thousands)

	Results FY12	Projected FY13 (1)	Projected FY14	% Change FY13 to FY14
<b>Revenue:</b>				
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%
<b>Total Operating Revenue</b>	<b>\$ 521,716</b>	<b>\$ 586,003</b>	<b>\$ 621,851</b>	<b>6.12%</b>
<b>Expenses:</b>				
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%
<b>Total Operating Expense</b>	<b>\$ 507,996</b>	<b>\$ 616,663</b>	<b>\$ 629,674</b>	<b>-2.11%</b>
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%
<b>Income (Loss)</b>	<b>\$ 27,935</b>	<b>\$ (43,096)</b>	<b>\$ (24,925)</b>	<b>42.16%</b>
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
<b>OEBIDA</b>	<b>\$ 30,692</b>	<b>\$ 38,395</b>	<b>\$ 32,861</b>	<b>\$ 35,044</b>	<b>\$ 26,728</b>	<b>\$ 50,356</b>
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%
<b>EBIDA</b>	<b>\$ 48,772</b>	<b>\$ 58,045</b>	<b>\$ 56,119</b>	<b>\$ 52,200</b>	<b>\$ 43,962</b>	<b>\$ 66,881</b>
<b>EBIDA Margin</b>	<b>10.9%</b>	<b>12.4%</b>	<b>11.5%</b>	<b>10.0%</b>	<b>7.5%</b>	<b>10.8%</b>
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
<b>Statistics:</b>					
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%

<b>Income Statement - Summary:</b>					
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%

<b>Expenses - Detail:</b>					
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
<b><u>Routine Capital:</u></b>				
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
<b>Total Routine Capital Requests</b>	<b>\$ 20,000,000</b>	<b>\$ 20,000,000</b>	<b>\$ 20,000,000</b>	<b>\$ 60,000,000</b>
Strategic Capital Reserve	5,000,000	5,000,000	5,000,000	15,000,000
<b>Consolidated Capital Reserve</b>	<b>\$ 25,000,000</b>	<b>\$ 25,000,000</b>	<b>\$ 25,000,000</b>	<b>\$ 75,000,000</b>

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