



**Westchester
Medical Center**

Westchester Medical Center Health Network

2017 Operating Budget

November 2, 2016

WESTCHESTER COUNTY HEALTH CARE CORPORATION

Operating Budget – 2017

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WESTCHESTER COUNTY HEALTH CARE CORPORATION

EXECUTIVE SUMMARY

Overview

Over the past two and one-half years, Westchester Medical Center (WMC), formerly on one campus, has expanded to become WMCHHealth Network, currently serving more than 3.5 million people, primarily in the Hudson Valley with approximately 12,000 health care professionals. Revenues have more than doubled to \$2.0 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 200 provider organizations for population health initiatives and the achievement of DSRIP goals.

Major initiatives and projects that will be underway during 2017 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 Health Alliance, both of which are located in Kingston
- Vendor selection and commencement of the implementation of a new Clinical EMR and Revenue Cycle system at the Valhalla and MHRH campuses and the creation of an integration hub which will aggregate data for all of WMCHHealth Network's health care entities. The hub will provide comprehensive and seamless access to clinical and revenue cycle activities across the entire network.

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 2017

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

The 2017 budget includes operating and capital expenditures related to the new Information Technology Strategic Plan including the integration hub which will aggregate information both within the WMCHHealth Network and with provider partners in the DSRIP program.

Budgeted Revenues and Expenses – The 2017 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 cardiology, surgery, neurosciences, oncology, vascular, transplant and primary care 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

The 2017 budget includes increases in patient volumes from projected 2016 levels in specific services where investments have been or are budgeted to be made. Valhalla discharges are budgeted to increase by 920 discharges and MHRH by 270 discharges.

Expenses

Generally, expenses are budgeted to increase by 4.2% over the 2016 projected level. Of the \$55.1 million in increases, approximately \$24.9 million is revenue related. See the Detailed Discussion of Expense section.

Legacy Excess Costs

WMCHHealth 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 \$50.0 million for 2017. This amount represents an assessment of 16.0% of employee salaries (\$35.0 million), as well as, a NYS Actuarial Pension Adjustment of approximately \$15.0 million required to be recorded, but not paid in 2017. 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 the Medical Center employees amounts to 9.0% of payroll over comparable medical centers or \$19.7 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.
- **Health Benefit Expense** – Health benefit expense are budgeted at \$90.2 million for 2017. This budget expense is based on recent medical expense trends. Included in the health benefit expense is \$17.0 million of health benefits for retired employees, a benefit generally no longer provided by most employers.

Delivery System Reform Incentive Program (DSRIP)

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 200 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 and WMC expects to receive a substantial amount of funding under the DSRIP program.

SIGNIFICANT FINANCIAL TRENDS

Significant financial trends from 2006 through Budgeted 2017 are set forth below:

	<u>Bottom</u>	<u>Net</u>	<u>Cash</u>
	<u>Line</u>	<u>Deficit</u>	
2006 – Audited	62,093	(116,905)	100,134
2007 – Audited	76,208	(34,728)	138,754
2008 – Audited	7,299	(24,536)	116,571
2009 – Audited	7,601	(16,935)	163,293
2010 – Audited	6,416	(24,795)	167,795
2011 – Audited	3,206	(21,590)	201,144
2012 – Audited	898	(20,692)	190,852
2013 – Audited	6,270	(14,422)	204,421
2014 – Audited	4,192	(19,648)*	207,778
2015 – Audited	7,222	(12,426)*	118,295 (\$60.0 million IGT not received until 2016)
2016 – Projected	(10,646)	(23,072)*	174,649
2017 – Budgeted	4,283	(18,789)*	177,645

*Adjusted for implementation of GASB 68-inclusion of unfunded NYS Pension Liability.

REVENUE BUDGET – 2017

Valhalla Campus

Revenue projections use 2016 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 slightly lower, factoring in Medicaid reductions implemented by NYS to date. Medicare revenue is projected to decrease by .9% primarily due to further federal reductions to uncompensated care & a lower wage index effective October 1, 2016.

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

MidHudson Regional Hospital

Revenue Projections use 2016 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 17.5% lower due to the conclusion of the three (3) year approved Medicaid appeal where MidHudson received the Valhalla division's higher operating rate which includes a higher wage index, and the teaching component of the rate. These higher Medicaid rates were effective for three (3) years beginning July 1, 2014 and ending June 30, 2017. Medicare revenue is projected to decrease by 1.5% due to further federal reductions to the uncompensated care reimbursement and 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. Other operating revenue also includes revenue of \$8.1 million from the Foundation, \$9.9 million for the Early Education Center at MidHudson Regional Hospital and \$42.9 million in DSRIP funding for PPS redesign projects and initiatives.

DETAILED DISCUSSION OF EXPENSE

Overall, expenses are budgeted to increase by 4.2% or \$55.1 million from 2016 projected levels of \$1,318.4 million. The major components of change are detailed below:

	(000's)
2016 Projected Expenses	\$1,318,429
2017 Increases:	
Revenue Related and New Operations	
DSRIP funded expenses	15,595
New and Expanded Services	4,971
Network related, funded by other operating revenue	4,320
Other –	
Labor Increases	17,870
Impact of Inflation – Drugs and Other Supplies	5,425
Depreciation	5,132
Cost of Bond Issuance	(5,229)
Other, net	<u>6,998</u>
2017 Budgeted Expenses	<u><u>\$ 1,373,511</u></u>

Labor Costs

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

Fringe Benefit Costs

Overall fringe benefit costs are budgeted as follows:

- Pension cost NYS pension plan cost amounts to \$50.1 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 cost – An increase in claims cost primarily due to healthcare cost trends for employees and retirees, has resulted in this benefit cost increasing to \$90.2 million in 2017.

Non-Salary Expense Changes

Non-salary costs are expected to increase as a result of DSRIP related expense of \$15.6 million and cost increases in medical/surgical, pharmaceutical and other supplies of \$5.4 million.

Depreciation and Amortization

Depreciation and amortization has been calculated to be \$64.7 million in 2017, an increase of \$5.2 million from the 2016 level of \$59.5 million. 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 \$25.6 million in 2017 which is \$5.2 million less than the 2016 expense since cost of issuance expenses on the 2016 bond issue is a component of the 2016 cost. Interest on long term debt, capital leases and deferred pension amounts are the significant 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.

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, 2017 is expected to approximate \$177.6 million as compared to \$174.6 million projected at December 31, 2016. The projected December 31, 2016 cash balance incorporates the payment of all operating expenses and required payments including debt service, payroll tax payments, malpractice and pension payments and reflects 51.9 days cash on hand.

Patient Accounts Receivable, net – Projected balances at December 31, 2017 reflects 46.4 days revenue in accounts receivable.

Capital Assets, net – Projected balance at December 31, 2017 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, 2017 reflects 93.6 days expense in accounts payable.

Pension Liability: The unfunded NYS pension liability has increased from \$30.0 million at December 31, 2015 to \$141.5 million as of December 31, 2016 as required under Government Accounting Standards Board pronouncement #68.

WESTCHESTER MEDICAL CENTER
2017 OPERATING BUDGET
STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	2017 Budget	2016 Projected	Increase (Decrease)
OPERATING REVENUES:			
Total Net Patient Service Revenue.....	\$ 1,218,786	\$ 1,163,369	\$ 55,417
Medicaid Disproportionate Share Revenue.....	60,000	65,000	(5,000)
Other Operating Revenue.....	94,076	72,459	21,617
Interest Income.....	4,932	6,955	(2,023)
Total Revenues.....	1,377,794	1,307,783	70,011
OPERATING EXPENSES:			
Salary and Labor.....	558,272	538,312	19,960
Fringe Benefits			
Partial Pension @ 7% of Salaries.....	15,312	15,312	0
Health Benefits.....	73,172	66,392	6,780
All Other.....	54,567	52,430	2,137
Sub-total Fringe Benefits.....	143,051	134,134	8,917
Supplies and Other Expenses.....	515,579	491,346	24,233
Malpractice Insurance.....	14,680	14,241	439
Depreciation and Amortization.....	64,663	59,531	5,132
Interest Expense.....	25,578	30,827	(5,249)
Total Expenses.....	1,321,823	1,268,391	53,432
Income Before Excess Fringe Benefits and NYS Actuarial Pension Adjustment.....	55,971	39,392	16,579
Excess Pension Cost.....	(19,688)	(19,688)	
Excess-Post Retirement Health Benefit.....	(17,000)	(15,350)	
Income From Operations Before NYS Actuarial Pension Adjustment.....	19,283	4,354	
NYS Actuarial Pension Adjustment.....	(15,000)	(15,000)	
Net Income (Loss)	\$ 4,283	\$ (10,646)	

**WESTCHESTER MEDICAL CENTER
2017 OPERATING BUDGET
STATEMENTS OF NET POSITION
(IN THOUSANDS)**

	Budget December 31, 2017	Projected December 31, 2016
Assets		
Cash	\$177,645	\$174,649
Patient accounts receivable	161,959	156,588
Other current assets	106,513	115,846
Total current assets	446,117	447,083
Property, plant and equipment	639,667	424,179
Other non-current assets	301,393	448,482
Total assets	1,387,177	1,319,744
Liabilities		
Accounts payable	\$131,831	\$138,988
Accrued salaries	60,465	59,876
Other current liabilities	99,850	86,139
Total current liabilities	292,146	285,003
Long-term debt	675,283	678,810
Insurance liability	82,897	83,590
Other non-current liabilities	355,640	295,413
Total liabilities	1,405,966	1,342,816
Net Position	(\$18,789)	(\$23,072)



WMC
Health

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