

URMC FY 2021 Budget

Kick-Off Session

December 12, 2019

MEDICINE *of* THE HIGHEST ORDER



UNIVERSITY *of*
ROCHESTER
MEDICAL CENTER

Objectives

1. Updated results on the Medical Center's integrated financial budget; summary of environmental challenges we are facing and importance of our Business Improvement Plan process in FY21 and beyond

URMC CFO Adam Anolik

2. Assumptions, divisional contacts, questions and answers

URMC Manager of Financial Reporting Sandy Torrell

Goals of an Integrated Financial Model

Data

- View Medical Center as single portfolio organized by mission

Investment

- Recognize need to generate sufficient patient care operating margin to support academic research and educational missions

Culture

- Enhance system-wide thinking and prioritize strategic investments based on URMC vs. individual departmental and/or divisional impact

FY 2020 URMC Operating Budget

(in thousands)

FY 2020 Budget								
	Patient Care Excluding Affiliates	Patient Care Affiliates	Education	Research	Corporate	TOTAL URMC	Total URMC excluding affiliates	Total Affiliates
Operating Revenue	\$ 2,953,265	\$ 912,228	\$ 65,195	\$ 296,603	\$ 43,343	\$ 4,270,634	\$ 3,346,584	\$ 924,050
Operating Expense	2,697,723	854,957	66,746	295,063	162,698	4,077,187	3,212,464	864,723
Less: Allocations	<u>165,938</u>	<u>19,251</u>	<u>11,924</u>	<u>20,819</u>	<u>(114,252)</u>	103,680	84,429	19,251
FY20 Budget Operating Margin (\$)	\$ 89,604	\$ 38,020 *	\$ (13,475)	\$ (19,279)	\$ (5,103)	\$ 89,767	\$ 49,691	\$ 40,076
FY20 Budget Operating Margin (%)	3.03%	4.17%	-20.67%	-6.50%	-11.77%	2.10%	1.48%	4.34%

* Includes \$23.5M NYS Construction Grant Revenue for St. James Hospital

Financial System Results for the Four Months Ended October 31, 2019

Four Months Ended October 31, 2019								
	Patient Care Excluding Affiliates	Patient Care Affiliates	Education	Research	Corporate	Total URMC	Total URMC excluding affiliates	Total Affiliates
Operating Revenue	\$ 983,986	\$ 313,753	\$ 21,264	\$ 97,454	\$ 16,246	\$ 1,432,703	\$ 1,115,833	\$ 316,870
Operating Expense	\$ 895,103	\$ 291,769	\$ 22,230	\$ 100,165	\$ 50,781	\$ 1,360,048	\$ 1,065,491	\$ 294,557
Less: Allocations	\$ 54,307	\$ 5,775	\$ 3,916	\$ 6,964	\$ (35,866)	\$ 35,096	\$ 29,321	\$ 5,775
YTD October Actual Operating Margin (\$)	\$ 34,576	\$ 16,209	\$ (4,882)	\$ (9,675)	\$ 1,331	\$ 37,559	\$ 21,021	\$ 16,538
YTD October Budget Operating Margin (\$)	\$ 33,965	\$ 16,642	\$ (5,372)	\$ (6,190)	\$ (2,826)	\$ 36,220	\$ 17,943	\$ 18,277
Operating Margin Variance (\$)	\$ 611	\$ (433)	\$ 490	\$ (3,485)	\$ 4,157	\$ 1,339	\$ 3,078	\$ (1,739)
YTD October Actual Operating Margin (%)	3.51%	5.17%	-22.96%	-9.93%	8.19%	2.62%	1.88%	5.22%
YTD October Budget Operating Margin (%)	3.45%	5.49%	-25.66%	-6.26%	-21.82%	2.55%	1.61%	5.95%
Operating Margin Variance (%)	0.06%	-0.33%	2.70%	-3.67%	30.02%	0.07%	0.27%	-0.73%

URMC System-wide Capital Sources and Uses

FY 2020 Budget and Projection

(in thousands)

	FY20 Budget	FY20 Projection
Sources of Funds		
Gain from operations	66,267	66,122
Add back depreciation:		
URMC core	136,238	136,415
Affiliates	50,645	47,270
Gain from operations before depreciation	253,150	249,807
NYS Grant for St. James Hospital	23,500	23,500
Proceeds from financing	106,334	76,334
Non-cash items	8,727	8,727
Other Balance Sheet changes	5,350	5,350
Philanthropy	7,528	7,528
All other sources of cash	4,500	4,500
Total Sources of Funds	409,089	375,746
Uses of Funds		
Capital budget URMC core	251,445	248,621
Capital budget Affiliates	71,453	70,511
Construction of St. James Hospital	28,250	28,250
Funding of debt obligations	39,819	39,819
Total Uses of Funds	390,967	387,201
Net Sources/(Uses) of Funds	18,122	(11,455)

Importance of achieving system-wide Operating Margin for URMC

- Generates sufficient cash flow to maintain overall liquidity and fund capital
- Importance to UR's Aa3 credit rating in order to ensure access and low cost of external debt
- Supports our ability to invest in the Strategic Plan, including new program development, faculty and staff recruitment, facility improvements and information technology investments both locally and in the region
- Provides a discipline to prioritize investments with a demonstrated ROI

Looking Ahead: What are the Pressures Impacting our Operating Margin?

- **Significant pressure on wages and benefits**
- Continued reductions in governmental funding
 - Reductions in Medicare (Disproportionate Share, Off-site hospital clinics)
 - NYS budget challenges
 - Continuation of reduction by CMS in 340B payments, future uncertainty around 340B program
 - NIH and other grant funding constraints
- Ultimate outcome of contract negotiations with commercial payors
- Financial performance of risk sharing agreements through AHP
- Increasing costs of compliance
- Impact of inflation on medical supply and pharmaceutical costs
- Recruitment of academic and clinical faculty
- Need for sufficient margin to invest in capacity growth and infrastructure

Aligning BIPs with Integrated Financial Platform

- UR Budget provides the standard template to be leveraged across URMC
- Requirements for developing a BIP will be included the divisional specific budget instructions distributed by your divisional finance representatives
- Business Improvement Plans (BIPS) are critical to our ability to meet the on-going challenges & pressures facing our institution
- BIPs should be developed in a collaborative fashion that engage both departmental and divisional teams in support of initiatives that further our mission and provide financial sustainability

Core & Leadership Teams

- Comprised of financial and operations leadership teams.
- Provide departments with guidance and support through development to implementation:
 - Trouble-shoot obstacles and roadblocks
 - Coordinate cross-divisional aspects of business plans
 - Streamline critical requests (i.e. capital approval)
 - Structured reporting and terminology to develop consistent expectations

Each BIP Assigned

- Executive Sponsor
- Operations Lead
- Finance Lead
- Implementation Lead

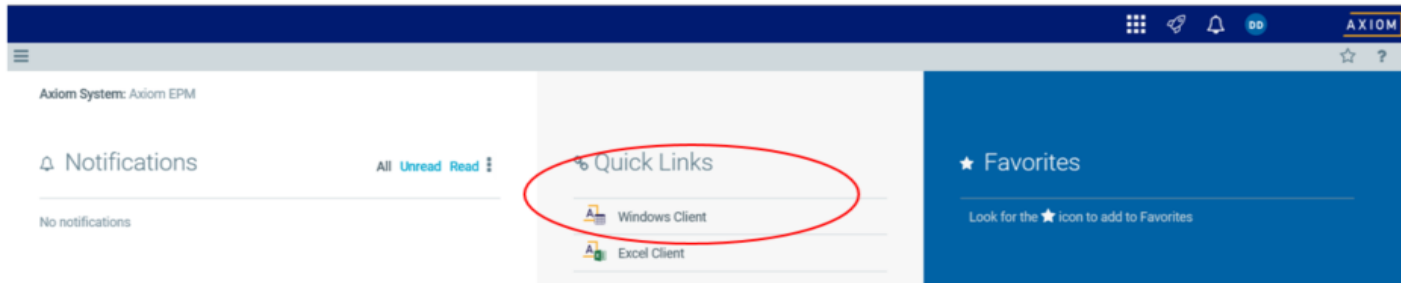
FY 21 Operating Budget Working Assumptions

- Staff Wage & Salary Program increase – 2% merit pool*
 - Subject to University approval
- Changes in University's benefit rates*
- Internal and external rents – actual plus 3%
- Dependent tuition – 3%
- Malpractice insurance increase – 12%
- If you are recruiting new faculty or staff that will require incremental space needs, please contact Space Planning to determine capital and/or operating needs

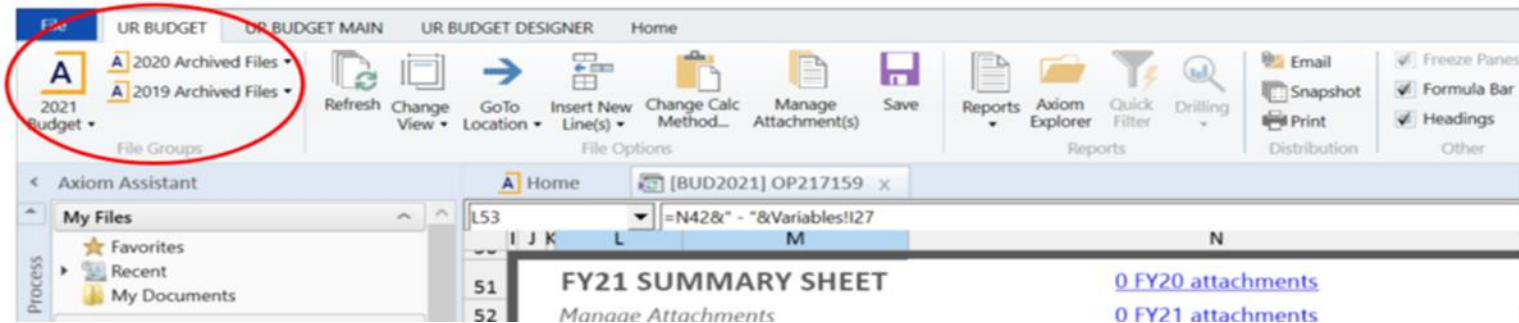
* System Generated

FY 21 UR Budget System Enhancements

- A new look:



- Archived files:



- Provider model:
 - Incorporated Provider Maintenance- map new hires to URID and assign an alternate benchmark table
 - Provider toolkit is under development within Provider Maintenance

FY 21 Operating Budget Calendar

Date	Action
December 18	Provider model opens
January 13	Full budget system opens
January 3, 9 and 14	Provider model workshops
January 28; February 6 and 11	Budget system workshops
January 7 and 21	BIP workshops
March 2	Budget system closes
Month of March	Review of budgets & BIPs by Divisional Finance Offices
March 27	Budget Submissions due to University Budget Office
Months of March & April	Departmental budget meetings
Month of May	Budgets are finalized

FY 21 Divisional Budget Contacts

Eastman Institute for Oral Health (CM092)

Mike Winter 758-0977
Jackie Dieffenbacher 758-0970

Health Sciences (CM090):

Donna Dawley 758-0941
Sandra Torrell 758-0985

Medical Faculty Group (CM091):

Lisa Clarke 756-4005
Jill Hetterich 756-4003
Kris Wood 758-0932
Mike Jelenic 758-7763
Jason Kirkey 758-0933
Maureen Gates 756-4013

School of Medicine & Dentistry (CM040):

Jeff Bloss 758-2242
Stacie Chan 758-2252

School of Nursing (CM060):

Kelly Talarczyk 275-8842
John Eaves 276-5982

Strong Memorial Hospital (CM050):

Luke Haffen 785-5197
Patty Stevens 785-5178