



Building a Healthier Community

FY 2018 BUDGET

City of Gulfport

Memorial Hospital at Gulfport

Date: September 5, 2017



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Executive Summary of Fiscal Year (FY) 2018 Budget

Overview

The healthcare industry continues to be challenged by changes implemented in governmental Federal and state government reimbursement programs (Medicare and Medicaid). Public finance rating agencies (Moody's, Fitch and Standard and Poor's) all expect the reimbursement changes (those implemented and those scheduled) to remain a long-term challenge for the public hospital sector. Moody's recently released its outlook and forecasts the not-for-profit and public healthcare sector revenues levels will not keep pace with rising expense growth. Key areas of expense growth in the industry include pharmaceuticals, surgical devices and nursing and other clinical salaries.

Medicare and Medicaid funding changes have negatively impacted Memorial's operations. The Medicare and Medicaid programs represent 75% of the hospital's business. Since 2011, the Affordable Care Act (ACA) and other regulatory cuts (Sequestration, Two Midnight Rule, and Wage Index Reclassification) have cumulatively reduced Medicare payments to Memorial by over \$25M. While the 2018 Medicare payment rules provide some improved funding (estimated at a \$3.5M increase), Medicare still pays below cost for the services provided to their beneficiaries. Medicaid also pays below cost. On the state level, Memorial believes the Division of Medicaid (DOM), from 2014 to 2017, misallocated Medicaid supplemental payments. This misallocation underfunded services provided to Medicaid beneficiaries and uninsured residents by \$29M. We are continuing to litigate against DOM for these underpayments. We do not expect the litigation to be resolved during FY 2018 and expect a 12-24 month legal process remains.

The 2018 budget was prepared in response to the funding challenges outlined above. The underlying goal in our FY 2018 budget is to continue the strategy set in 2017: to enhance the long-term viability of our core services (Emergency Room Trauma Care, Medical/Surgical Acute care, Telemetry care, Intensive Care, Neonatal Intensive Care (NICU) and maintain community access to these healthcare services. To that end, the 2018 budget reflects the impact of our two major 2017 initiatives: (1) to sell the Memorial Behavioral Health (MBH) operations (scheduled for September 30, 2017) and to (2) restructure post- acute Inpatient (IP) Medical Rehabilitation services by transferring/outsourcing operations with a national rehabilitation provider (implemented March 31, 2017). These two initiatives reduce our non-core Medicaid Medicare funding risk and maintains access for the community while preserving the jobs of those services employees.

The 2018 budget also includes initiatives that will better align our cost structure with governmental payment programs. We will partner with the University of Mississippi Medical Center (UMMC) involving our NICU and pediatric services. This partnership, scheduled to begin in early calendar year 2018 will enhance pediatric care services for the Mississippi coast as UMMC through contract will help manage the NICU and Memorial's pediatric clinics transfer to UMMC control. Memorial is also committed to a length-of-stay reduction initiative that will result in the more efficient use of the hospital's existing bed capacity. Additionally, Memorial is finalizing implementation plans for a revised Emergency Room (ER) financial policy to screen non-urgent patients (approximately 40% of our ER volume) and directing them to our walk-in clinics to receive their care. This policy will free up our Level II ER to focus on the urgent patients while allowing the non-urgent patients to be treated in a more appropriate setting. As a further

cost control measure, we are reviewing contractual relationships with vendors and suppliers for cost reduction opportunities.

The above initiatives, along with volume increases in core services operations, are projected to yield operating income of \$5.1M in FY2018, up from the projected operating loss of \$6.1M in FY 2017.

Volume/Revenue Services

- Due to reductions associated with the MBH and Rehab initiatives and a length of stay initiative, total admissions and inpatient days are expected to decrease by 5.8% and 13.3% respectively. That total includes increases in pediatric and NICU admissions related to the UMMC initiative.
- Outpatient hospital service volumes and physician clinic visit volumes are slated to slightly decrease (5%) with the MBH transition and UMMC pediatric initiative, offset by growth associated with increases in adult Primary Care and Medical Oncology. Our Level II Trauma Center will continue to be fully staffed in FY 2018.
- Revenues for FY 2018 are essentially flat to 2017, with reductions associated with the MBH/Rehab initiatives offset by routine service line growth and the revenue initiatives above.

Cost Structure

Total costs are 1% below FY 2017, due to MBH and Rehab and other cost reduction initiatives. Unit of service costs are 1% below FY 2017 as well, comparing with CMS national industry inflation projections of a 2.7% increase. Full time equivalents (FTEs) reported will decline 202 FTEs (6%) primarily associated with the MBH, Rehab, UMMC initiatives and the outsourcing of Dietary services. Each of these initiatives preserves employee's jobs with the new operator.

Pension Funding

The FY2018 budget fully funds the projected actuarial required funding for the Defined Benefit Plan at \$10.7M.

Un-sponsored Care Obligations

Memorial Hospital continues to be the safety net hospital for Harrison County and the City of Gulfport with 9% of its services and costs committed to the medically needy.

Rates

Net patient revenue per unit of service is expected to be flat to FY 2017. National industry rate levels are projected to increase an average of 7-9%.

Cash Flow

The FY 2018 Budget produces an expected cash flow of \$13.9M after \$7M is utilized for routine replacement and upgrades of capital equipment and a projected \$10.4M is deployed for State approved projects to upgrade the facility.

Key Risk Factors

State, local, and Industry wide forces that could impact budget performance:

- Repeal and Replace legislation in Congress
- Medicaid Technical Amendment legislation at the state level
- Medicare/Medicaid reimbursement reductions
- Volume assumptions
- Local unemployment levels
- Local healthcare labor market shortages

MEMORIAL HOSPITAL
BUDGETED UTILIZATION STATISTICS
FISCAL YEAR 2018

| | ACTUAL FY 2013 | ACTUAL FY 2014 | ACTUAL FY 2015 | ACTUAL FY 2016 | PROJ FY 2017 | BUDGET FY 2018 |
|---|-------------------|-------------------|-------------------|-------------------|-----------------|-------------------|
| Average Beds in Use (Excluding Newborns) | 371 | 348 | 369 | 349 | 342 | 299 |
| % Occupancy (of Beds in Use, Excluding Newborns) | 61.1% | 66.2% | 63.9% | 71.9% | 69.5% | 66.9% |
| Admissions (Excluding Newborns) | 15,969 | 15,765 | 15,931 | 16,583 | 15,970 | 15,042 |
| Behavioral Health | 1,586 | 1,315 | 1,240 | 1,277 | 1,317 | 0 |
| Intermediate/Intensive | 5,063 | 5,251 | 6,389 | 7,092 | 7,073 | 7,253 |
| Pediatric | 591 | 459 | 407 | 443 | 392 | 548 |
| Rehabilitation | 564 | 620 | 642 | 689 | 257 | 0 |
| Neonatal Intensive Care | 399 | 373 | 408 | 314 | 261 | 267 |
| Routine | 7,766 | 7,747 | 6,845 | 6,768 | 6,670 | 6,975 |
| Patient Days (Excluding Newborns) | 82,788 | 84,036 | 86,027 | 91,601 | 86,696 | 75,146 |
| Behavioral Health | 10,322 | 7,580 | 7,665 | 8,463 | 8,494 | 0 |
| Intermediate/Intensive | 28,483 | 31,118 | 33,255 | 38,410 | 37,421 | 35,912 |
| Pediatric | 1,555 | 1,137 | 1,123 | 1,118 | 1,072 | 1,494 |
| Rehabilitation | 7,374 | 8,078 | 7,919 | 8,361 | 3,218 | 0 |
| Neonatal Intensive Care | 3,663 | 3,857 | 4,382 | 4,436 | 4,148 | 4,248 |
| Routine | 31,391 | 32,266 | 31,683 | 30,813 | 35,177 | 33,492 |
| Average Length of Stay (Excluding Newborns) | 5.2 | 5.3 | 5.4 | 5.5 | 5.4 | 5.0 |
| Behavioral Health | 6.5 | 5.8 | 6.2 | 6.6 | 6.4 | 0.0 |
| Intermediate/Intensive | 5.6 | 5.9 | 5.2 | 5.4 | 5.3 | 5.0 |
| Pediatric | 2.6 | 2.5 | 2.8 | 2.5 | 2.7 | 2.7 |
| Rehabilitation | 13.1 | 13.0 | 12.3 | 12.1 | 12.5 | 0.0 |
| Neonatal Intensive Care | 9.2 | 10.3 | 10.7 | 14.1 | 15.9 | 15.9 |
| Routine | 4.0 | 4.2 | 4.6 | 4.6 | 5.3 | 4.8 |
| Outpatient Visits | 178,077 | 186,210 | 165,704 | 188,326 | 199,182 | 187,331 |
| Emergency Visits | 73,806 | 73,585 | 77,205 | 75,147 | 72,363 | 60,636 |
| Other Outpatient Visits | 104,271 | 104,271 | 88,499 | 113,179 | 126,819 | 126,695 |
| Physician Clinic Visits | 373,777 | 450,998 | 445,135 | 443,140 | 458,491 | 436,288 |
| Full-Time Equivalents (Excludes Contract Personnel) | 2,605 | 2,732 | 2,926 | 3,145 | 3,278 | 3,080 |
| Full-Time Equivalents (Includes Contract Personnel) | 2,613 | 2,742 | 2,987 | 3,190 | 3,295 | 3,093 |
| Sources of Gross Patient Revenue - Hospital | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Medicare/Medicare Managed Care | 50.84% | 50.76% | 52.00% | 52.66% | 55.25% | 55.69% |
| Medicaid/Medicaid Managed Care | 12.93% | 13.13% | 13.42% | 13.63% | 11.60% | 11.12% |
| Commercial/PPO | 21.61% | 19.47% | 20.33% | 18.43% | 19.11% | 19.27% |
| Uninsured | 11.74% | 11.64% | 9.54% | 9.38% | 8.86% | 8.72% |
| Other | 2.88% | 5.00% | 4.71% | 5.90% | 5.18% | 5.20% |
| Sources of Gross Patient Revenue - Physician Clinics | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Medicare/Medicare Managed Care | 44.82% | 42.88% | 53.00% | 56.49% | 56.70% | 57.69% |
| Medicaid/Medicaid Managed Care | 8.97% | 11.73% | 8.40% | 9.69% | 9.94% | 9.12% |
| Commercial/PPO | 20.57% | 14.79% | 27.74% | 24.25% | 24.74% | 24.73% |
| Uninsured | 6.15% | 9.67% | 4.40% | 2.17% | 1.47% | 1.46% |
| Other | 19.50% | 20.94% | 6.46% | 7.40% | 7.15% | 7.00% |

Memorial Hospital

BUDGETED STATEMENT OF REVENUES AND EXPENSES

FISCAL YEAR 2018(\$000)

| | | |
|------------------------|--|-----------|
| Gross Patient Revenues | | 3,944,652 |
|------------------------|--|-----------|

| | | |
|-----------------------------|--|---------|
| Net Patient Revenues | | 507,901 |
|-----------------------------|--|---------|

| | | |
|-------|----------------|-------|
| Plus: | Other Revenues | 8,397 |
|-------|----------------|-------|

| | | |
|-----------------------|--|---------|
| Total Revenues | | 516,298 |
|-----------------------|--|---------|

Operating Expenses

| | | |
|-------|---------------|---------|
| Less: | Labor Expense | 227,298 |
|-------|---------------|---------|

| | | |
|--|-------------------|--------|
| | Employee Benefits | 40,165 |
|--|-------------------|--------|

| | | |
|--|------------------|--------|
| | Medical Supplies | 50,302 |
|--|------------------|--------|

| | | |
|--|-------------------------------|---------|
| | Other Supplies & Misc Expense | 152,531 |
|--|-------------------------------|---------|

| | | |
|--|----------|-------|
| | Interest | 1,028 |
|--|----------|-------|

| | | |
|--|-----------------------------|--------|
| | Depreciation & Amortization | 28,325 |
|--|-----------------------------|--------|

| | | | |
|--|-------------|--------|---------|
| | DSH/UPL Tax | 11,502 | 511,151 |
|--|-------------|--------|---------|

| | | |
|--|--|-------|
| Budgeted Excess (Deficit) of Revenues Over Expenses | | 5,147 |
|--|--|-------|

Memorial Hospital
Budgeted Cash Flows
Fiscal Year 2018

| | | |
|---------------------------------------|-----------------------------|--------------------------|
| EXCESS OF REVENUES OVER EXPENSES | | 6,563,217 |
| ADD: | DEPRECIATION & AMORTIZATION | <u>28,324,703</u> |
| CASH FLOW BEFORE CAPITAL EXPENDITURES | | 34,887,920 |
| LESS: | PRINCIPAL PAYMENTS | 3,511,295 |
| LESS: | CAPITAL EXPENDITURES | |
| | ROUTINE | (7,000,000) |
| | CONSTRUCTION PROJECTS | (10,432,000) |
| | TOTAL | <u>(17,432,000)</u> |
| NET CASH FLOW | | <u><u>13,944,625</u></u> |

Memorial Hospital at Gulfport
BUDGETED NET PATIENT REVENUES
FISCAL YEAR 2018

Budget
2018

| | |
|-----------------------|------------|
| 2A/B Obstetrics | 1,780,539 |
| 3A Pediatrics | 1,007,086 |
| 3B Oncology | 3,991,006 |
| 3C/D Telemetry | 6,741,490 |
| 4A/B Telemetry | 9,975,813 |
| 4C/5C Medical | 3,104,634 |
| 4D Ortho/Neuro | 5,659,209 |
| 5A/B Surgical | 5,647,235 |
| Acute Speech | 513,786 |
| Anesthesia | 5,712,830 |
| Blood Bank | 1,758,819 |
| Breast Feeding Ctr | 55,642 |
| Cardiac Observation | 1,685,680 |
| Cardiac Rehab | 60,980 |
| Cardiology | 13,460,830 |
| CCL | 46,383,943 |
| CHF Clinic | 2,080,229 |
| Clinic Operations | 16,517,788 |
| Clinical Dieticians | 15,500 |
| CT Scan | 30,085,352 |
| Emergency Services | 27,638,812 |
| Endoscopy | 5,337,851 |
| ESRD Acute | 4,195,006 |
| ICU | 13,932,618 |
| Labor & Delivery | 4,630,536 |
| Laboratory | 52,764,323 |
| MRI | 9,164,248 |
| Neurology | 2,823,597 |
| NICU | 2,776,457 |
| Nuclear Med | 7,109,810 |
| Nursery | 826,743 |
| Observation | 178,754 |
| Oncology Services | 33,306,782 |
| Pharmacy | 51,586,861 |
| PM&R Clinic | 2,273,336 |
| Progressive Care Unit | 4,019,936 |
| Radiation Oncology | 6,317,195 |
| Radiology | 18,729,594 |
| Rehab Acute OT | 881,170 |
| Rehab Acute PT | 1,985,243 |
| Respiratory Care | 22,944,984 |

Memorial Hospital at Gulfport
BUDGETED NET PATIENT REVENUES
FISCAL YEAR 2018

Budget
2018

| | |
|--|--------------------|
| Surgery Operations | 46,107,549 |
| Ultrasound | 3,441,329 |
| Urology/Lithotripsy | 3,900,625 |
| Utilities/Corporate Svcs/Benefits/Other Overhead Exp | 88,631 |
| Vascular Lab | 3,104,403 |
| Wound Management | 3,355,163 |
| Contract Pharmacy | 18,241,052 |
| Total | 507,900,998 |

Memorial Hospital at Gulfport
Budgeted Direct Labor and Non-Labor Expense
Fiscal Year 2018

Budget
2018

| | |
|--------------------------|------------|
| 2A/B Obstetrics | 1,748,127 |
| 3A Pediatrics | 824,644 |
| 3B Oncology | 2,804,749 |
| 3C/D Telemetry | 4,901,279 |
| 4A/B Telemetry | 5,449,699 |
| 4C/5C Medical | 9,971,328 |
| 4D Ortho/Neuro | 4,007,469 |
| 5A/B Surgical | 3,563,326 |
| Acute Speech | 189,056 |
| Admin - Pat Care/Quality | 297,342 |
| Ambulatory Svcs Admin | 425,661 |
| Anesthesia | 5,548,190 |
| Biomed | 5,233,948 |
| Blood Bank | 1,954,827 |
| Breast Feeding Ctr | 152,515 |
| Cardiac Observation | 1,249,091 |
| Cardiac Rehab | 140,933 |
| Cardiac Svcs Admin | 983,302 |
| Cardiology | 1,231,788 |
| Cash Management | 502,873 |
| CCL | 13,982,376 |
| CHF Clinic | 703,351 |
| Clinic Operations | 61,648,361 |
| Clinical Dieticians | 331,567 |
| Clinical Operations | 1,851,366 |
| CT Scan | 1,748,513 |
| Emergency Services | 19,653,122 |
| Endoscopy | 1,929,936 |
| Engineering | 7,486,877 |
| Environmental Svcs | 3,707,733 |
| ESRD Acute | 1,629,392 |
| Food/Nutrition Svcs | 5,155,333 |
| Health Information Mgmt | 3,669,616 |
| ICU | 12,670,160 |
| Labor & Delivery | 2,334,809 |
| Laboratory | 14,478,868 |
| Linen/Laundry | 1,043,070 |
| MBH Acute Adolescents | 25,626 |
| Medical Staff Svcs | 402,803 |
| Medical/Surgical Admin | 360,471 |
| MRI | 1,137,194 |
| Neurology | 234,649 |
| NICU | 2,719,887 |

Memorial Hospital at Gulfport

FTE Report
Fiscal Year 2018

| DEPT | Budget 2018 |
|-----------------------------|----------------|
| 2A/B Obstetrics | 31.46 |
| 3A Pediatrics | 14.26 |
| 3B Oncology | 49.55 |
| 3C/D Telemetry | 87.78 |
| 4A/B Telemetry | 101.52 |
| 4C/5C Medical | 55.47 |
| 4D Ortho/Neuro | 69.82 |
| 5A/B Surgical | 58.75 |
| Acute Speech | 2.07 |
| Admin - Pat Care/Quality | 2.73 |
| Ambulatory Svcs Admin | 5.12 |
| Anesthesia | 27.30 |
| Biomed | 13.25 |
| Blood Bank | 2.05 |
| Breast Feeding Ctr | 2.10 |
| Cardiac Observation | 19.67 |
| Cardiac Rehab | 3.30 |
| Cardiac Svcs Admin | 7.91 |
| Cardiology | 23.62 |
| Cash Management | 16.07 |
| CCL | 35.82 |
| CHF Clinic | 10.23 |
| Clinic Operations | 452.51 |
| Clinical Dieticians | 5.96 |
| Clinical Operations | 23.41 |
| CT Scan | 15.27 |
| Emergency Services | 165.09 |
| Endoscopy | 15.20 |
| Engineering | 46.77 |
| Food/Nutrition Svcs | 23.81 |
| Health Information Mgmt | 49.39 |
| ICU | 107.64 |
| Labor & Delivery | 31.77 |
| Laboratory | 87.42 |
| Linen/Laundry | 0.45 |
| Medical Staff Svcs | 4.37 |
| Medical/Surgical Admin | 4.71 |
| MRI | 8.48 |
| Neurology | 4.18 |
| NICU | 32.20 |
| Nuclear Med | 6.11 |
| Nursery | 11.81 |
| Observation | 8.96 |
| Oncology Services | 31.03 |
| OP Center | 12.40 |
| Pastoral Svcs | 1.98 |
| Patient Financial Svcs | 47.30 |
| Patient Registration | 83.42 |
| Pharmacy | 60.64 |
| Physician Business Services | 55.57 |

Memorial Hospital at Gulfport

FTE Report
Fiscal Year 2018

| DEPT | Budget 2018 |
|--|------------------------|
| PM&R Clinic | 34.30 |
| Progressive Care Unit | 27.04 |
| Radiation Oncology | 20.04 |
| Radiology | 99.00 |
| Rehab Acute OT | 3.00 |
| Rehab Acute PT | 9.96 |
| Rehab Admin Services | 5.81 |
| Respiratory Care | 58.07 |
| RN Interns | 14.55 |
| Social Services | 7.12 |
| SPD | 29.22 |
| Sterile Processing | 22.05 |
| Surgery Operations | 248.39 |
| Ultrasound | 10.28 |
| Urology/Lithotripsy | 28.12 |
| Utilities/Corporate Svcs/Benefits/Other Overhead Exp | 412.30 |
| Vascular Lab | 6.45 |
| Womens Svcs Admin | 3.64 |
| Wound Management | 16.60 |
| Total | <u><u>3,093.68</u></u> |