



Building a Healthier Community

FY 2017 BUDGET

City of Gulfport

Memorial Hospital at Gulfport

Date: September 6, 2016



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Executive Summary of Fiscal Year (FY) 2017 Budget

Overview

The healthcare industry continues to face challenges as it reacts to the changes implemented in governmental (Federal and State) 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) will remain a long-term challenge for the public hospital sector.

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, Wage Index Reclassification) have cumulatively reduced Medicare payments to Memorial by over \$22M. On the state level, Memorial believes the Division of Medicaid (DOM), from 2014 to 2016, misallocated Medicaid supplemental payments. This misallocation underfunded Memorial by \$25M and we are suing the Medicaid program for the \$25M in underpayments. We expect a 24-36 month legal process in resolving this issue. We've prepared the 2017 budget in response to the funding challenges outlined above.

The underlying goal in our FY 2017 budget is 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) and maintain community access to these healthcare services. To that end, the 2017 budget includes several key initiatives:

- A decision to cease Memorial Behavioral Health (MBH) operations no later than April 1, 2017, to allow time for the sale of MBH. Medicaid programs represent 65% of the MBH business. Since 2013, in spite of cost restructure, MBH has experienced operating losses between \$4.0 to \$4.7M per year. This budget requests an RFP process for a new owner. Under the current Medicaid payment policies, private freestanding mental health facilities receive higher Medicaid payments than Memorial. A new owner would maintain community access and services, preserve jobs for the current MBH employees and eliminate operating losses related to State tax liabilities.
- A decision to restructure post- acute Inpatient (IP) Memorial Rehabilitation services. Medicare represents 65% of the IP rehabilitation business. Medicare has had increasing focus on restructuring post-acute care payments. Since 2014, Rehab has seen a 4% reduction in payment related to ACA and Budget Relief Act mandates, negative inflation adjustments and, beginning in FY 2016, Medicare Wage Index payment reductions of 8% phased over FY 2016/2017. Additionally, new reporting requirements that will impact payments or increase costs are planned for 2018. Memorial plans to outsource operations with a national rehabilitation provider. This allows shared operating, financial and regulatory risk, creates a defined revenue stream for the facility and other services, and maintains access and services for the community while preserving the jobs of current rehabilitation employees.
- We will be revising/updating our financial policies to better match the current healthcare landscape. With Medicare for the elderly, Medicaid for the low income population, employer

based insurance and the federally mandated insurance requirements for all the populations, we will orient our policies to the various copays and deductibles required by the individual's insurance.

The above initiatives, along with volume increases in core services operations, are projected to yield operating income at breakeven levels in FY2017, up from the projected operating loss of \$6.5M in FY 2016.

Volume/Revenue Services

- We expect a 3.7% increase in routine admissions and 1.5% increase in patient days for surgical and medical patients. Due to reductions associated with the MBH and Rehab initiatives, total admissions and inpatient days are expected to decrease by 6.8% and 12.9% respectively. These two service lines represent about 4% of Memorial's total revenue base.
- Outpatient hospital service volumes and physician clinic visit volumes are slated to grow by 2% with growth associated with increases in Primary Care, Cardiology, Chronic Care Management, Occupational Medicine, Medical Oncology, and Bariatric Services. Our Level II Trauma Center will continue to be fully staffed in FY 2017.
- Revenues for FY 2017, including the above service line initiatives, are 2% above FY2016 due to the routine service line growth and revenue initiatives above.

Cost Structure

Total costs are up 2.2% over FY 2016 which compares favorably with CMS national industry inflation projections of 2.7%. Healthcare costs continue to rise, particularly in nursing wages, as national nursing shortages are impacting local market wage rates. Full time equivalents (FTEs) reported will remain flat, a combination of a decrease of 140 associated with the MBH and Rehab initiatives and an increase of 144 new FTEs added to support volume increases.

Pension Funding

The FY2017 budget fully funds the projected actuarial required funding for the Defined Benefit Plan at \$10.2M.

Un-sponsored Care Obligations

Memorial Hospital continues to be the safety net hospital for Harrison County and the City of Gulfport with 9.3% of its services and costs committed to the medically needy.

Rates

Net patient revenue per unit of service is expected to grow by 9% over FY2016. National industry rate levels are projected to increase an average of 9-10%.

Cash Flow

The FY2017 Budget produces an expected cash flow of \$36.4M after \$7M is utilized for routine replacement and upgrades of capital equipment and a projected \$12.5M is deployed for State approved projects to upgrade the facility.

Key Risk Factors

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

- Medicare/Medicaid reimbursement reductions
- Volume assumptions
- Local unemployment levels
- Local healthcare labor market shortages



Recent Financial Trends (\$000)

	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Budget	FY16 Projected	FY17 Budget
Net Patient Revenues	359,386	387,944	401,204	439,759	461,699	476,657	484,188
Other Operating Revenue	10,188	8,915	8,260	7,848	7,272	7,437	8,930
Total Operating Revenue	369,573	396,859	409,464	447,607	468,971	484,094	493,118
Operating Expenses							
Salaries & Wages	165,495	172,723	186,585	203,929	212,920	219,932	224,946
Contract Salaries	299	415	597	6,679	3,008	5,482	2,778
Employee Benefits	32,989	36,817	34,306	34,558	36,688	36,450	34,164
Fees Pd to Indv & Org	7,633	7,795	8,818	8,396	7,797	9,638	9,422
Supplies & Other Expenses	96,621	103,557	110,579	122,134	123,842	132,931	137,342
Purchased Services	32,707	34,258	30,813	35,313	34,763	38,301	36,873
Interest	3,625	3,253	2,665	3,557	3,592	3,784	3,042
Depreciation and Amortization	20,702	20,729	23,946	28,122	33,309	31,258	33,445
Dsh/UPL Tax	10,649	12,488	12,246	13,232	13,034	12,827	11,073
Total Expenses	370,720	392,035	410,556	455,920	468,953	490,603	493,084
Income from Operations	(1,147)	4,824	(1,092)	(8,313)	18	(6,509)	33
Other Investments/Gifts	3,466	1,294	629	2,141	842	3,631	942
MFSMMH/HS/IMP/ISHC	(2,282)	112	164	96	113	352	352
Meaningful Use Payments	0	0	0	0	0	0	0
Net Income (Loss)	37	6,231	(299)	(6,077)	973	(2,526)	1,327
	0.0%	1.6%	-0.1%	-1.4%	0.2%	-0.5%	0.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	97.2%	97.8%	98.0%	98.2%	98.4%	98.5%	98.2%
	2.8%	2.2%	2.0%	1.8%	1.6%	1.5%	1.8%
	44.8%	43.5%	45.6%	45.6%	45.4%	45.4%	45.6%
	0.1%	0.1%	0.1%	1.5%	0.6%	1.1%	0.6%
	8.9%	9.3%	8.4%	7.7%	7.8%	7.5%	6.9%
	2.1%	2.0%	2.2%	1.9%	1.7%	2.0%	1.9%
	26.1%	26.1%	27.0%	27.3%	26.4%	27.5%	27.9%
	8.8%	8.6%	7.5%	7.9%	7.4%	7.9%	7.5%
	1.0%	0.8%	0.7%	0.8%	0.8%	0.8%	0.6%
	5.6%	5.2%	5.8%	6.3%	7.1%	6.5%	6.8%
	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.3%
	100.3%	98.8%	100.3%	101.9%	100.0%	101.3%	100.0%
	-0.3%	1.2%	-0.3%	-1.9%	0.0%	-1.3%	0.0%
	0.0%	1.6%	-0.1%	-1.4%	0.2%	-0.5%	0.3%

**MEMORIAL HOSPITAL
BUDGETED UTILIZATION STATISTICS
FISCAL YEAR 2017**

	ACTUAL FY 2012	ACTUAL FY 2013	ACTUAL FY 2014	ACTUAL FY 2015	PROJ FY 2016	BUDGET FY 2017
Average Beds in Use (Excluding Newborns)	371	371	348	369	367	284
% Occupancy (Beds in Use, Excluding Newborns)	65.0%	61.1%	66.2%	63.9%	67.4%	75.7%
Admissions (Excluding Newborns)	16,404	15,969	15,765	15,931	16,567	15,444
Behavioral Health	1,458	1,586	1,315	1,240	1,340	670
Intermediate/Intensive	5,742	5,063	5,251	6,389	7,122	7,122
Pediatric	614	591	459	407	480	480
Rehabilitation	506	564	620	642	702	0
Neonatal Intensive Care	389	399	373	408	309	309
Routine	7,695	7,766	7,747	6,845	6,615	6,863
Patient Days (Excluding Newborns)	88,200	82,788	84,036	86,027	90,140	78,501
Behavioral Health	12,367	10,322	7,580	7,665	8,042	4,021
Intermediate/Intensive	29,180	28,483	31,118	33,255	37,388	37,630
Pediatric	1,576	1,555	1,137	1,123	1,137	1,137
Rehabilitation	7,159	7,374	8,078	7,919	8,318	0
Neonatal Intensive Care	3,917	3,663	3,857	4,382	4,207	4,207
Routine	34,001	31,391	32,266	31,683	31,048	31,506
Average Length of Stay (Excluding Newborns)	5.4	5.2	5.3	5.4	5.4	5.1
Behavioral Health	8.5	6.5	5.8	6.2	6.0	6.0
Intermediate/Intensive	5.1	5.6	5.9	5.2	5.2	5.3
Pediatric	2.6	2.6	2.5	2.8	2.4	2.4
Rehabilitation	14.1	13.1	13.0	12.3	11.8	0.0
Neonatal Intensive Care	10.1	9.2	10.3	10.7	13.6	13.6
Routine	4.4	4.0	4.2	4.6	4.7	4.6
Outpatient Visits	165,740	178,077	186,210	165,704	180,742	184,598
Emergency Visits	72,401	73,806	73,585	77,205	74,571	76,214
Other Outpatient Visits	93,339	104,271	104,271	88,499	106,171	108,384
Physician Clinic Visits	335,223	373,777	450,998	445,135	437,397	446,145
Full-Time Equivalents (Excludes Contract Personnel)	2,563	2,605	2,732	2,926	3,165	3,199
Full-Time Equivalents (Includes Contract Personnel)	2,568	2,613	2,742	2,987	3,209	3,217
Sources of Gross Patient Revenue - Hospital	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Medicare/Medicare Managed Care	50.27%	50.84%	50.76%	52.00%	52.31%	52.50%
Medicaid/Medicaid Managed Care	14.35%	12.93%	13.13%	13.42%	13.85%	13.10%
Commercial/PPO	18.10%	21.61%	19.47%	20.33%	18.74%	18.70%
Uninsured	11.90%	11.74%	11.64%	9.54%	9.95%	9.80%
Other	5.37%	2.88%	5.00%	4.71%	5.15%	5.90%
Sources of Gross Patient Revenue - Physician Clinic	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Medicare/Medicare Managed Care	46.44%	44.82%	42.88%	53.00%	54.85%	55.49%
Medicaid/Medicaid Managed Care	12.47%	8.97%	11.73%	8.40%	9.79%	9.79%
Commercial/PPO	15.08%	20.57%	14.79%	27.74%	25.09%	24.81%
Uninsured	7.34%	6.15%	9.67%	4.40%	2.94%	2.45%
Other	18.66%	19.50%	20.94%	6.46%	7.33%	7.46%

**BUDGETED STATEMENT OF REVENUES AND EXPENSES
FISCAL YEAR 2017 (\$000)**

Gross Patient Revenues		3,547,897
Net Patient Revenues		484,188
Plus:	Other Revenues	10,223
Total Revenues		494,411

	<u>Operating Expenses</u>		
Less:	Labor Expense	227,725	
	Employee Benefits	34,164	
	Medical Supplies	84,774	
	Other Supplies & Misc Expense	98,863	
	Interest	3,042	
	Depreciation & Amortization	33,445	
	DSH/UPL Tax	11,073	493,084
Budgeted Excess (Deficit) of Revenues Over Expenses			1,327

Memorial Hospital
Budgeted Cash Flows
Fiscal Year 2017

EXCESS OF REVENUES OVER EXPENSES		1,327
ADD:	DEPRECIATION & AMORTIZATION	33,445
	ONE TIME GAIN	<u>17,000</u>
CASH FLOW BEFORE CAPITAL EXPENDITURES		51,772
LESS:	PRINCIPAL PAYMENTS	4,067
LESS:	CAPITAL EXPENDITURES	
	ROUTINE	(7,000)
	CONSTRUCTION PROJECTS	(12,482)
	TOTAL	<u>(19,482)</u>
NET CASH FLOW		<u><u>36,357</u></u>

**Memorial Hospital at Gulfport
BUDGETED NET PATIENT REVENUES
FISCAL YEAR 2017**

**Budget
2017**

2A/B Obstetrics	1,776,028
3A Pediatrics	853,976
3B Oncology	3,518,964
3C/D Telemetry	7,079,156
4A/B Telemetry	9,638,805
4C/5C Medical	3,881,396
4D Ortho/Neuro	3,720,083
5A/B Surgical	6,364,873
Acute Speech	565,607
Anesthesia	5,550,225
Blood Bank	2,213,160
Breast Feeding Ctr	53,567
Cardiac Observation	1,967,988
Cardiac Rehab	51,763
Cardiology	12,959,789
Cash	43,911
CCL	35,425,039
CHF Clinic	2,230,350
Clinic Operations	14,708,123
Clinical Dieticians	3,886
Contract Pharmacy	15,750,398
CT Scan	28,272,686
Emergency Services	31,880,057
Endoscopy	5,713,023
ESRD Acute	4,091,749
ICU	14,277,957
Labor & Delivery	5,043,329
Laboratory	52,557,499
MBH Acute Adolescents	416,855
MBH Acute Adult	598,394
MBH Acute PreAdolescents	397,952
MBH Outpatient	660,056
MRI	8,155,621
Neurology	2,646,090
NICU	2,751,807
Nuclear Med	5,432,511
Nursery	866,128
Observation	199,193
Oncology Services	23,671,151
Other Revenue	39
Pharmacy	51,752,858
PM&R Clinic	1,922,117

Memorial Hospital at Gulfport
BUDGETED NET PATIENT REVENUES
FISCAL YEAR 2017

Budget
2017

Progressive Care Unit	3,011,941
Radiation Oncology	7,146,357
Radiology	17,717,442
Rehab Acute OT	796,916
Rehab Acute PT	1,815,466
Respiratory Care	23,068,929
SPD	388,870
Surgery Operations	46,791,799
Ultrasound	3,385,061
Urology/Lithotripsy	3,294,575
Utilities/Corporate Svcs/Benefits/Other Overhead Exp	440,400
Vascular Lab	3,088,163
Wound Management	3,577,914

TOTAL

484,187,991

**Memorial Hospital at Gulfport
Budgeted Direct Labor and Non-Labor Expense
Fiscal Year 2017**

**Budget
2017**

2A/B Obstetrics	1,715,439
3A Pediatrics	856,479
3B Oncology	1,816,105
3C/DTelemetry	4,500,456
4A/B Telemetry	5,448,683
4C/5CMedical	10,646,587
4D Ortho/Neuro	3,835,711
5A/B Surgical	3,578,332
Acute Speech	179,412
Admin - Pat Care/Quality	213,058
Ambulatory Svcs Admin	433,152
Anesthesia	5,155,387
Behavioral Health Admin	282,211
Biomed	5,351,128
Blood Bank	2,390,434
Breast Feeding Ctr	152,805
Cardiac Observation	1,336,907
Cardiac Rehab	132,877
Cardiac Svcs Admin	595,151
Cardiology	1,590,737
Cash Management	452,063
CCL	12,605,992
CHF Clinic	625,687
Clinic Operations	54,819,415
Clinical Dieticians	353,400
Clinical Operations	2,325,545
CT Scan	1,770,502
Emergency Services	18,967,640
Endoscopy	1,940,557
Engineering	8,194,079
Environmental Svcs	3,610,889
ESRD Acute	1,887,166
Food/Nutrition Svcs	5,072,824
Health Information Mgmt	3,827,828
ICU	13,189,221
Labor & Delivery	2,341,456
Laboratory	11,868,899
Linen/Laundry	1,171,034
MBH Accounting	22,979
MBH Activity Therapy	109,178
MBH Acute Adolescents	478,177
MBH Acute Adult	603,209
MBH Acute PreAdolescents	343,053
MBH Admissions	73,277
MBH Case Management	72,704
MBH Education	50,617
MBH Env Svcs	119,145
MBH Maintenance	95,078
MBH Nutrition	233,291

**Memorial Hospital at Gulfport
Budgeted Direct Labor and Non-Labor Expense
Fiscal Year 2017**

**Budget
2017**

MBH Outpatient	2,082,207
MBH Outreach	338,588
MBH P/I Outcomes	93,384
MBH Social Svcs	257,165
Medical Staff Svcs	466,547
Medical/Surgical Admin	377,566
MRI	594,796
Neurology	250,739
NICU	2,968,481
Nuclear Med	1,684,039
Nursery	842,398
Observation	532,404
Oncology Services	21,458,373
OP Center	707,498
Pastoral Svcs	118,680
Patient Financial Svcs	4,429,093
Patient Registration	2,580,327
Pharmacy	20,811,830
Physician Business Services	2,462,788
PM&R Clinic	4,895,266
Progressive Care Unit	1,403,641
Radiation Oncology	3,940,129
Radiology	6,989,647
Rehab Acute OT	317,626
Rehab Acute PT	641,549
Rehab Admin Services	742,432
Respiratory Care	4,019,749
RN Interns	749,230
Social Services	462,406
SPD	2,878,659
Sterile Processing	608,014
Surgery Operations	56,968,666
Ultrasound	817,407
Urology/Lithotripsy	4,606,581
Utilities/Corporate Svcs/Benefits/Other Overhead Exp	129,259,401
Vascular Lab	362,219
Womens Svcs Admin	211,527
Wound Management	1,644,831
DSH/UPL Tax	11,072,534
TOTAL	493,084,375

Memorial Hospital at Gulfport

FTE Report Fiscal Year 2017

DEPT	Budget 2017
2A/B Obstetrics	33.32
3A Pediatrics	14.41
3B Oncology	30.66
3C/D Telemetry	84.82
4A/B Telemetry	103.29
4C/5C Medical	83.54
4D Ortho/Neuro	71.39
5A/B Surgical	62.89
Acute Speech	2.07
Admin - Pat Care/Quality	3.53
Ambulatory Svcs Admin	5.15
Anesthesia	26.41
Behavioral Health Admin	2.93
Biomed	12.83
Blood Bank	2.09
Breast Feeding Ctr	1.90
Cardiac Observation	21.08
Cardiac Rehab	3.41
Cardiac Svcs Admin	7.20
Cardiology	25.39
Cash Management	15.31
CCL	36.69
CHF Clinic	8.80
Clinic Operations	399.93
Clinical Dieticians	6.56
Clinical Operations	38.27
CT Scan	14.76
Emergency Services	169.50
Endoscopy	14.36
Engineering	52.42
Food/Nutrition Svcs	84.60
Health Information Mgmt	52.55
ICU	109.35
Labor & Delivery	32.10
Laboratory	87.58
MBH Accounting	0.50
MBH Activity Therapy	2.32
MBH Acute Adolescents	8.49
MBH Acute Adult	9.51
MBH Acute PreAdolescents	6.79
MBH Admissions	2.09
MBH Case Management	1.03
MBH Education	0.80
MBH Env Svcs	2.59
MBH Nutrition	3.59
MBH Outpatient	20.68
MBH Outreach	4.39
MBH P/I Outcomes	1.40
MBH Social Svcs	4.49
Medical Staff Svcs	4.24
Medical/Surgical Admin	4.93
MRI	6.45
Neurology	4.80
NICU	34.98
Nuclear Med	6.48
Nursery	11.59

Memorial Hospital at Gulfport

FTE Report Fiscal Year 2017

DEPT	Budget 2017
Observation	7.75
Oncology Services	23.01
OP Center	11.06
Pastoral Svcs	2.17
Patient Financial Svcs	55.05
Patient Registration	81.92
Pharmacy	61.45
Physician Business Services	65.57
PM&R Clinic	33.40
Progressive Care Unit	24.39
Radiation Oncology	18.70
Radiology	100.30
Rehab Acute OT	3.50
Rehab Acute PT	9.43
Rehab Admin Services	7.55
Respiratory Care	59.75
RN Interns	14.53
Social Services	8.42
SPD	29.18
Sterile Processing	18.45
Surgery Operations	257.47
Ultrasound	10.48
Urology/Lithotripsy	27.32
Utilities/Corporate Svcs/Benefits/Other Overhead Exp	398.18
Vascular Lab	6.88
Womens Svcs Admin	3.65
Wound Management	13.85
	<u><u>3,216.66</u></u>