



**Westchester  
Medical Center**

Westchester Medical Center Health Network

## **2016 Operating Budget**

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*December 2, 2015*

# WESTCHESTER MEDICAL CENTER

## Operating Budget – 2016

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## **WESTCHESTER MEDICAL CENTER**

### **EXECUTIVE SUMMARY**

#### **Overview**

Over the past year and a half Westchester Medical Center has grown from a one campus regional tertiary medical center to a health network (known as Westchester Medical Center Health Network – WMCHHealth). This network spans 6,200 square miles and totals seven hospitals on five campuses with nearly 1,400 beds, 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. The seven hospital system was formed by the addition of Mid-Hudson Regional Hospital (the former St. Francis Hospital) and Bon Secours Charity Health System and has annual revenues of approximately \$1.8 billion. WMCHHealth continues to evaluate opportunities for strategic growth. WMCHHealth’s services are also accessible to residents of New York City and portions of Fairfield County, Connecticut serving more than 3.5 million people in the Hudson Valley region and beyond. With a total workforce of 10,000 healthcare professionals including 1,200 physicians, WMCHHealth is one of the region’s largest sources of employment and has a significant economic impact. From prevention to education and treatment, the physicians, health care staff and volunteers at WMCHHealth have a reputation as the region’s most advanced and innovative health care delivery system.

Rapid growth over a short period of time requires an assessment of opportunities for system integration across the enterprise. WMCHHealth is currently engaged in such an assessment.

Additionally, the Delivery System Reform Incentive Program (DSRIP) presents unique opportunities and challenges for WMCHHealth. This five-year, eight billion dollar program’s goal is to redesign and transform the healthcare delivery system in New York. WMCHHealth’s role as a leading Performing Providing System (PPS) with over 240 partner organizations is a critical component of WMCHHealth’s Strategic Plan.

During 2015, Westchester Medical Center launched the “e Health Center”, the regions first and only comprehensive telemedicine program. WMC eHealth is a groundbreaking network-wide telemedicine system, using state-of-the-art technology to connect WMCHHealth experts with partner hospitals and organizations across the entire Hudson Valley.

Westchester Medical Center’s projected results for 2015 and forecast for 2016 continue to show positive bottom line results and growth in high end services. The 2016 budgeted bottom line profit of \$4.3 million will represent the eleventh consecutive year of profitability for Westchester Medical Center.

The budget presented herein reflects the operations of Westchester Medical Center at the Valhalla and MidHudson campuses.

**Budgeted Revenues and Expenses** – The 2016 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 neurosciences, cardiology, vascular and transplant services. Overall patient volumes have been discussed with clinical leadership, and overall expenses have been forecasted based on anticipated utilization and inflation factors.

### **Patient Volumes**

Volumes experienced in 2015 are the basis for projected 2016 volumes with incremental volume projected for specific new projects, services or programs.

### **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 savings 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 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 240 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 to organize and manage WMC's DSRIP response. 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.

### **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 \$35.1 million for 2016, representing 15.2% of employee salaries. This 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 8.2% of payroll over comparable medical centers or \$22.4 million.
- **Health Benefit Expense** – Health benefit expenses for WMC employees on the Valhalla campus are budgeted at \$55.9 million for 2016. This budget expense is based on recent medical expense trends. Included in the health benefit expense is \$15.0 million of health benefits for retired employees, a benefit generally no longer provided by most employers.

## **SIGNIFICANT FINANCIAL TRENDS**

Significant financial trends from 2006 through Budgeted 2016 are set forth below:

	<b><u>Bottom</u></b> <b><u>Line</u></b>	<b><u>Net</u></b> <b><u>Deficit</u></b>	<b><u>Cash</u></b>
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	( 50,398)***	207,778
2015 – Projected*	7,201	( 43,197)	174,649
2016 – Budgeted*	4,348	( 38,849)	181,400

\*Includes MidHudson Regional Hospital

\*\*Adjusted for implementation of GASB 65-write-off of deferred financing costs

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

## **Revenue Budget – 2016**

Revenue projections use 2015 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 flat, factoring in Medicaid reductions implemented by NYS to date. Medicare revenue is projected to decrease primarily due to further reductions to uncompensated care effective October 1, 2015.

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

## **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, licensing fees and DSRIP funding.

## DETAILED DISCUSSION OF EXPENSE

Overall, expenses are budgeted to increase by 7.9% or \$97.0 million from 2015 projected levels of \$1,226.9 million. The major components of change are detailed below:

	(000's)
<b>2015 Projected Operating Expenses</b>	\$ 1,226,863
<b>2016 Increases:</b>	
Revenue Related and New Operations	
DSRIP funded expenses	16,000
New Services (Pet CT, CTEL, TeleHealth)	10,631
Other –	
Labor Increases	27,188
Pension, Accounting Change	11,000
Impact of Inflation – Drugs and Other Supplies	6,076
Depreciation	9,629
Other, net	<u>16,446</u>
<b>2016 Budgeted Expenses</b>	<u><u>\$ 1,323,833</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 – Due primarily to market performance in 2008, and its resultant impact on the NYS pension plan, participating employers, including WMC, are being assessed 15.2% of payroll in 2016. The resulting expense is approximately \$35.1 million for New York State Pension Plan cost. Additionally, GASB 68 has been implemented effective in 2015 which requires the recording of WMC's portion of the unfunded liability of the NYS Pension Plan as a liability of \$30 million on WMC's Statement of Net Position as well as the change in market performance of assets which reduced 2015 expense by \$11.0 million.
- Health benefit cost – For employees and retirees in the self-insurance plan are budgeted to be \$55.9 million in 2016.

### **Non-Salary Expense Changes**

Non-salary costs are expected to increase as a result of DSRIP related expenses of \$16.0 million offset by an equivalent amount of DSRIP revenues and cost increases in medical/surgical and other supplies of \$6.1 million.

### **Depreciation and Amortization**

Depreciation and amortization has been calculated to be \$63.8 million in 2016, an increase of \$9.6 million from the 2015 level of \$54.2 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 \$25.8 million in 2016 which approximates the 2015 expense. Interest on long term debt, capital leases and deferred pension amounts are the significant components of this expense.

### **DSRIP funded expenses**

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 CONSOLIDATED STATEMENTS OF NET POSITION**

Cash and Cash Equivalents – Cash at December 31, 2016 is expected to approximate \$181.4 million as compared to \$174.6 million projected at December 31, 2015. 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 53.8 days cash on hand.

Patient Accounts Receivable, net – Projected balances at December 31, 2016 reflects 49.5 days revenue in accounts receivable.

Capital Assets, net – Projected balance at December 31, 2016 includes capital additions financed from operations, the Philips MES agreement and leases offset by depreciation expense.

Accounts Payable and Accrued Expenses – Projected balance at December 31, 2016 reflects 78.3 days expense in accounts payable.

**WESTCHESTER MEDICAL CENTER**  
**2016 OPERATING BUDGET**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(IN THOUSANDS)

	<b>2016 Budget</b>	<b>2015 Projected</b>	<b>Increase (Decrease)</b>
<b>OPERATING REVENUES:</b>			
Total net patient service revenues.....	\$ 1,164,789	\$ 1,105,062	\$ 59,727
Medicaid Disproportionate Share Revenue.....	65,000	57,500	7,500
Other operating revenue.....	93,447	70,202	23,245
Interest Income.....	4,945	1,300	3,645
<b>Total Revenues.....</b>	<b>1,328,181</b>	<b>1,234,064</b>	<b>94,117</b>
<b>OPERATING EXPENSES:</b>			
Salary & Labor.....	529,403	502,215	27,188
Fringe Benefits			
Partial Pension @ 7% of salaries.....	15,996	17,457	(1,461)
Health Benefits.....	61,372	59,293	2,079
All Other.....	49,407	43,463	5,944
<b>Sub-total Fringe Benefits.....</b>	<b>126,775</b>	<b>120,213</b>	<b>6,562</b>
Supplies and other expenses.....	518,337	473,425	44,912
Malpractice insurance.....	22,210	21,116	1,094
Depreciation and amortization.....	63,864	54,235	9,629
Interest.....	25,834	25,646	188
<b>Total Expenses.....</b>	<b>1,286,423</b>	<b>1,196,850</b>	<b>89,573</b>
<b>Income Before GASB 68 and Excess Fringe Benefit Costs.....</b>	<b>41,758</b>	<b>37,214</b>	<b>4,544</b>
GASB 68 Implementation.....	-	11,000	
Excess Pension Cost.....	(22,366)	(25,563)	
Excess Post Retirement Health Benefit.....	(15,044)	(15,450)	
<b>Net Income .....</b>	<b>\$ 4,348</b>	<b>\$ 7,201</b>	



**WESTCHESTER MEDICAL CENTER**  
**2016 OPERATING BUDGET**  
**CONSOLIDATED STATEMENTS OF NET POSITION**  
(IN THOUSANDS)

	Budget December 31, 2016	Projected December 31, 2015
<b>Assets</b>		
Cash	\$181,400	\$174,649
Patient accounts receivable	163,119	153,241
Other current assets	71,097	70,989
<b>Total current assets</b>	<b>415,616</b>	<b>398,879</b>
Property, plant and equipment	417,878	418,285
Other non-current assets	146,959	133,775
<b>Total assets</b>	<b>980,453</b>	<b>950,939</b>
<b>Liabilities</b>		
Accounts payable	\$110,943	\$114,011
Accrued salaries	68,511	69,139
Other current liabilities	78,930	82,619
<b>Total current liabilities</b>	<b>258,384</b>	<b>265,769</b>
Long-term debt	484,164	455,379
Insurance liability	98,198	93,448
Other non-current liabilities	178,556	179,540
<b>Total liabilities</b>	<b>1,019,302</b>	<b>994,136</b>
<b>Net Position</b>	<b>(\$38,849)</b>	<b>(\$43,197)</b>