Sitka Community Hospital

FY16 Budget Presentation

Sitka Community Hospital

Our Mission

Restore, maintain, and improve the health of those in our community through competent and compassionate delivery of care.

Introduction

A Message from the CEO

On behalf of the team at Sitka Community Hospital, please find enclosed the FY16 Operating and Capital budgets for your review and approval.

When I assumed the role of CEO, among the commitments I made to you were to determine where we are, to understand how we got here and to develop a solid game plan to move forward.

As a result, the FY16 budget process has been an integral part of that strategy requiring us to look more in depth at operations and begin to have the dialogue and perform the analysis that will provide an even more definitive roadmap going forward.

Our strategy was to build a budget for the coming year to include an incremental increase in operating performance over the prior years and positive cash flow. We believe we accomplished that. And while we are not out of the woods by any stretch of the imagination, the opportunity we see for improvement is quite large and we are excited at what lies ahead.

Thank you for your favorable consideration of our FY16 Operating and Capital plans. With your approval, we will get to work on the new fiscal year, always with the vision in mind.... that ***Sitka Community Hospital is an integral part of the community where all individuals reach their highest potential for health.***

Rob Allen, CEO

Sitka Community Hospital – FY16 Budget

Who We Are and Where We Are

Sitka Community Hospital ("the Hospital") is a municipal general hospital governed by a Board of Directors appointed by the Assembly of the City and Borough of Sitka. The Hospital provides acute inpatient and outpatient, long-term care and other community healthcare services. The Hospital is licensed for 12 acute care beds which includes one nursery bed and 15 long-term care beds.

The Hospital is considered to be a component unit of the City and Borough and is designated by Medicare as a Critical Access Hospital ("CAH") which provides for cost based reimbursement from Medicare – a favorable reimbursement methodology that was part of the 1997 Balanced Budget Act to stem the closure of small, rural hospitals that were suffering under the prospective payment system that had been introduced by Medicare.

As is the case with most CAH's, more than half of the Hospital's revenue is generated by outpatient services. In fact, Outpatient Revenue is 68% of Gross Patient Revenue in the FY16 budget with the remainder split fairly evenly between Inpatient and Long-term Care.

The hospital's two largest payors are Medicare and Medicaid. In FY15, 53% of the Hospital's gross revenue was for Care/Caid beneficiaries, followed by Blue Cross with 19%, all other insurances combined at 23% and Self Pay at 5%.

During FY15, the hospital has encountered significant financial challenges. Decreasing volumes have continued in Inpatient services, the long-term care unit census has dropped below anticipated levels in recent months and several significant one-time impact items have contributed to a loss for the year of $1.8M.

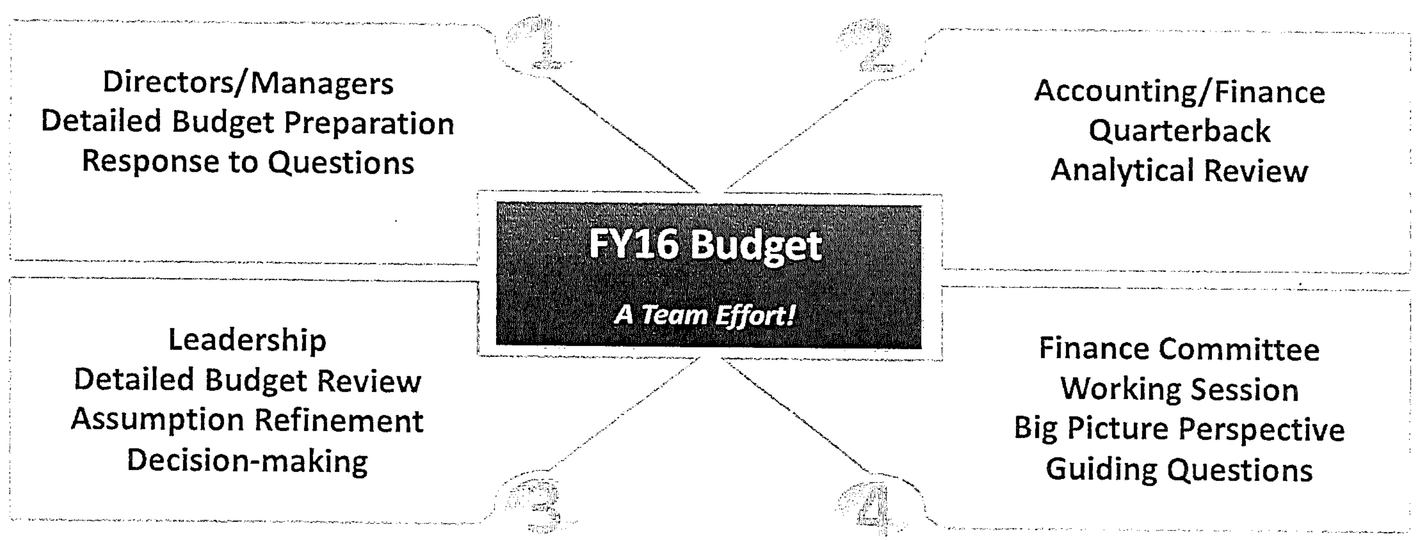
Yet opportunity exists. The Hospital is developing strategic and operating improvement plans, and some initiatives included in those plans have been built into the budget. Such efforts will drive efficiencies and effectiveness into the organization which will ultimately increase revenues, decrease costs, and increase patient/customer/employee satisfaction. It's the perfect embodiment of the hospital mission to:

Restore, maintain, and improve the health of those in our community through competent and compassionate delivery of care.

Sitka Community Hospital – FY16 Budget

The Budget Process – Our Approach

The budget we are presenting for approval came to fruition through the collective efforts of many within the organization and across all levels. We determined early on that our end result would be a well-documented budget that was developed through a logical and methodical process. The discussions that took place in our review meetings were thoughtful, energetic and determined. And while we have a laundry list of ways in which we can improve on this process for next year, we are excited about how far we traveled in a short period of time.



Sitka Community Hospital – FY16 Budget

Where We are Going – The Operating Budget at a Glance

For FY16, we have budgeted a loss of ($503,241) which is $1.2M better than the FY15 baseline which was developed using FY15 year to date actual results and adjusting for anomalies. This plan produces approximately $500,000 in cash for use in reducing debt, acquiring capital and building cash reserves.

	FY14 Actual	FY15 Budget	FY15 Baseline	FY16 Budget	$ Variance	% Variance
Total Operating Revenue	$ 22,060,101	$ 25,156,289	$ 21,236,238	$ 23,009,564	$1,773,326	7.7%
Total Expenses	24,484,716	24,607,922	23,663,130	24,599,317	(936,187)	-3.8%
Income (loss) from Operations	(2,424,615)	548,367	(2,426,893)	(1,589,753)	837,140	52.7%
Non-operating gains (losses)	170,543	225,000	182,796	158,942	(23,854)	-15.0%
Income (loss) before transfers	(2,254,072)	773,367	(2,244,097)	(1,430,811)	813,286	-56.8%
Transfer in - City Support	747,924	629,546	583,711	927,570	343,859	37.1%
Total income (loss) after transfers	$ (1,506,148)	$ 1,402,913	$ (1,660,386)	$ (503,241)	$ 1,157,145	229.9%

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Cash Flow

It is anticipated that Hospital cash collections will exceed expenditures in FY16 by approximately $500,000. This will allow the Hospital to reduce debt and build cash reserves to stem the possible impact of events such as the ICD-10 implementation. While we do not anticipate the need to seek additional outside funding at this time, we are not adequately cushioned to sustain a material, unforeseen event and would have to consider options in the event of such occurrence.

Please note that the City Support for FY16 includes re-appropriation of our remaining balance of FY15 capital and an increase in the Tobacco Tax. These items represent more than half of the anticipated excess cash flow for the year.

Income (loss) from Operations	$	(1,589,753)
Add back: Depreciation		1,035,361
Cash flow from operations		(554,392)
Hospital Non-operating Revenue		158,942
Cash flow before City Support		(395,450)
City Support:		
FY15 Capital - Re-appropriation		93,074
FY16 Capital		154,496
FY16 Tobacco Tax		426,000
FY16 Tobacco Tax increase		254,000
Total City Support		927,570
Cash Available for Debt Service and Other	$	532,120

Sitka Community Hospital

Sitka Community Hospital – FY16 Budget

Budget Assumptions – Revenues

The following provides an outline of the major assumptions used in developing the FY16 budget:

Inpatient Revenue

- Overall inpatient volume has been projected to decrease by 9%. The shift from inpatient to outpatient continues as an industry-wide trend.
- Swing bed volume was budgeted to remain flat; acute and other inpatient was budgeted to decrease 16%. This is based on the volume trending over the last 18 month and anticipated shorter length of stays.
- Ancillary areas providing services for inpatient such as lab, radiology, etc. were adjusted for the anticipated change in volume.

Outpatient Revenue

- Clinic volumes were projected to increase 17% due to recent trending and the addition of one full-time provider
- Outpatient areas impacted by clinic volumes were adjusted accordingly

Long-term Care

- Budget was developed using an average daily census of ten for FY16.
- Ten residents was based upon current census and high probability of census on 07/01/15.

All Patient Revenue Categories

- Overall price increase of 10% was included in the budget.
- We anticipate that this will be the aggregate revenue increase due to a pricing review and evaluation of supply and pharmacy mark-ups.

Other and Non-operating Revenue

- FY15 baseline adjusted for known changes

Sitka Community Hospital – FY16 Budget

Budget Assumptions – Deductions from Revenue

Deductions from Revenue represent the amount of gross revenue that we do not collect from insurance companies and patients.

Contractual Adjustments

Contractual adjustments represent the amounts that we charge for services that are not reimbursed by insurance companies or other payors such as Medicare or Medicaid.

- Using our own historical experience, we determined a % for each major category of payors and adjusted for the impact of our price increases and known changes to payment rates from our third party payors such as Medicare/Medicaid
- These percentages were applied to the FY16 gross revenue budget assuming the same payor mix in FY16 as we have trended in FY15.

Bad Debt

Bad debt represents the amounts that we write-off because a patient is unwilling to pay their balance. (as opposed to being "unable" to pay. See Charity below)

- Historical percentage of gross revenue

Charity and Other

Charity care represents the amounts that we write-off for services rendered to patients who meet our charity care guidelines and demonstrate that through an application and approval process.

- Historical percentage of gross revenue

Total deductions from Revenue are Budgeted at 16.2% of Gross Revenue in FY16
This means that, on average, we write off $16.20 of every $100.00 we charge.

Sitka Community Hospital – FY16 Budget

Budget Assumptions – Expenses

Salaries and Benefits

Salaries and benefits are 70% of total expenses. It would be very difficult to achieve improved financial performance, which inherently means evaluating and reducing operating expenses, without impacting the line items that make up the lion's share of our expenses.

In the review of our salary cost base and initial comparisons to industry standards and Alaska peer group critical access hospitals, it appears that we are operating less efficiently than our peers and best practice. Of course, benchmarking cannot be done blindly without consideration as to how the measures were developed and are not the only data elements to consider when evaluating salaries.

Regular FTE's have increased by 11.5 during FY15. Though this is a substantial increase, we recognize that changes in staffing patterns and the decrease in traveler utilization is part of that difference. It does suggest however that we do have more FTE's at a time when our volumes have decreased. Using our own data to compare, this is consistent with what we are seeing in the benchmarking data.

Therefore, in order to develop a budget that would lead the organization into improved financial performance, we have assumed a reduction in salaries and wages of approximately $500k.

On an FTE basis, this translates into 4.9 FTE's. It is important to note that before any FTE reductions are made, other avenues will be explored to reduce salaries and benefits. Such efforts may include but are not limited to:

- Optimized use of premium pay such as overtime and call back
- Self-insurance opportunities for health insurance
- Creative staffing matrices

Long-term financial success for the Hospital is dependent upon high levels of effiency.

Sitka Community Hospital – FY16 Budget

Budget Assumptions – Expenses

Salaries and Benefits

	FY14 Actual	FY15 Budget	FY15 Baseline	FY16 Budget	$ Variance	% Variance
1. Total Expenses	24,484,716	24,607,922	23,663,130	24,509,670	(846,540)	-3.6%
2. Salaries	10,831,825	11,353,369	11,266,649	11,419,192	(152,543)	-1.4%
3. Benefits (excl PERS in-kind)	5,219,862	5,340,615	5,396,320	5,752,535	(356,215)	-6.6%
4. Total Salaries & Benefits	16,051,687	16,693,984	16,662,969	17,171,727	(508,758)	-3.1%
5. Salaries and Benefits as a % of Total Exps	65.6%	67.8%	70.4%	70.1%	0.4%	0.5%
FTE's						
6. Regular Full Time Equivalents (FTE's)	153.4	153.4	164.7	159.8	4.9	3.0%
7. Contract/Travel Full Time Equivalents (FTE's)	0.0	0.0	0.0	0.0	0.0	0.0%
8. Total FTE's	153.4	153.4	164.7	159.8	4.9	3.0%
9. Salaries per FTE	70,625	74,012	68,403	71,459	(3,056)	-4.5%
10. Employee Benefits as a % of Salaries	48.2%	47.0%	47.9%	50.4%	-2.5%	-5.2%

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Sitka Community Hospital – FY16 Budget

Budget Assumptions – Expenses

Supplies
- 5% inflation applied to baseline. 6% increase assumed for volume (driven by outpatient assumption)

Depreciation and Amortization
- Projection based on current assets with assumption for capital additions

Insurance
- FY15 baseline plus 4.6% per estimate provided by broker

Purchased Services
- Full year of HRG contract included – a projection of $380,000
- Full year of WaineBrandt CFO/Financial Management services - $222,000 in fees which approximates CFO salary/benefit (travel expenses budgeted in other categories)

Professional Fees
- ER Physician hourly rate increased to $125/hour
- Total number of hours reduced due to the budgeted increase in employed physicians.
- Net impact of ER changes, new physician expense and anticipated net revenue is positive

All Other Expenses
- Zero-based or FY15 baseline where appropriate

Income (Loss) from Operations

		FY14 Actual	FY15 Budget	FY15 Baseline	FY16 Budget	$ Variance	% Variance
	Gross Patient Revenue:						
1.	Inpatient revenue	$4,311,191	$5,686,734	$4,189,034	$4,363,013	$173,979	4.0%
2.	Outpatient revenue	13,879,071	15,797,405	15,321,444	18,366,519	3,045,075	16.6%
3.	Longterm care revenue	4,440,986	4,762,060	4,355,941	4,397,791	41,850	1.0%
4.	**Total gross patient revenue**	22,631,248	26,246,199	23,866,419	27,127,323	3,260,904	12.0%
	Deductions from Revenue:						
5.	Contractual adjustments	698,359	1,019,439	1,228,885	2,485,619	(1,256,734)	-50.6%
6.	Prior year settlements	0	0	0	0	0	n/a
7.	Bad debt expense	1,042,878	1,225,000	1,299,360	1,476,894	(177,534)	-12.0%
8.	Charity and other deductions	359,764	600,000	390,176	443,486	(53,310)	-12.0%
9.	**Total deductions from revenue**	2,101,001	2,844,439	2,918,421	4,405,999	(1,487,578)	-33.8%
10.	**Net patient revenue**	20,530,247	23,401,760	20,947,998	22,721,324	1,773,326	7.8%
	Other Revenue						
11.	Inkind Service - PERS/USAC	1,250,040	1,470,728	(0)	0	0	n/a
12.	Other revenue	279,814	283,801	288,240	288,240	0	0.0%
13.	**Total other operating revenue**	1,529,854	1,754,529	288,240	288,240	0	0.0%
14.	**Total operating revenue**	22,060,101	25,156,289	21,236,238	23,009,564	1,773,326	7.7%
	Expenses:						
15.	Salaries and wages	10,831,825	11,353,369	11,266,649	10,966,634	300,015	2.7%
16.	Employee benefits	6,469,902	6,811,343	5,396,320	5,527,892	(131,572)	-2.4%
17.	Supplies	1,443,341	1,464,894	1,524,163	1,718,065	(193,902)	-11.3%
18.	Purchased services	1,246,730	742,524	1,168,176	1,708,834	(540,658)	-31.6%
19.	Professional services	859,368	943,400	892,816	1,256,400	(363,584)	-28.9%
20.	Depreciation and amortization	780,031	839,296	968,919	1,035,361	(66,442)	-6.4%
21.	Utilities	466,139	472,870	473,180	515,073	(41,893)	-8.1%
22.	Repairs and maintenance	630,598	572,205	538,159	684,593	(146,434)	-21.4%
23.	Insurance	196,279	211,500	196,932	205,992	(9,060)	-4.4%
24.	Rentals and leases	121,151	121,145	156,213	151,579	4,634	3.1%
25.	Traveler service	797,697	406,333	657,416	277,400	380,016	137.0%
26.	Other expense	129,509	153,677	120,097	149,051	(28,954)	-19.4%
27.	Minor equipment	232,938	177,451	102,801	162,483	(59,682)	-36.7%
28.	Training and education	135,235	177,025	93,195	133,782	(40,587)	-30.3%
29.	Collection fees	39,608	47,500	47,841	50,233	(2,392)	-4.8%
30.	Advertising	45,941	48,840	46,569	50,514	(3,945)	-7.8%
31.	Recruitment and relocaton	58,424	64,550	13,684	5,431	8,253	152.0%
32.	**Total expenses**	24,484,716	24,607,922	23,663,130	24,599,317	(936,187)	-3.8%
33.	**Income (loss) from operations**	(2,424,615)	548,367	(2,426,893)	(1,589,753)	837,140	-52.7%

Sitka Community Hospital

Nonoperating Gains (losses)

	Nonoperating Gains(Losses):						
34.	Donations	10,741	5,000	37,790	25,976	(11,814)	-45.5%
35.	Grant revenue	158,672	215,000	170,367	154,595	(15,772)	-10.2%
36.	Gain (loss) on disposal of assets	(291)	0	0	0	0	n/a
37.	Interest revenue	19,823	22,500	(3,021)	1,000	4,021	402.1%
38.	Interest expense	(18,402)	(17,500)	(22,340)	(22,629)	(289)	1.3%
39.	**Net nonoperating gains (losses)**	170,543	225,000	182,796	158,942	(23,854)	-15.0%
40.	**Income (loss) before transfers**	(2,254,072)	773,367	(2,244,097)	(1,430,811)	813,286	-56.8%
	Transfers In:						
41.	City Support - Capital	245,384	154,546	81,963	247,570	165,607	66.9%
42.	City Support - Tobacco Tax	502,540	475,000	501,748	680,000	178,252	26.2%
43.	**Total transfers in**	747,924	629,546	583,711	927,570	343,859	37.1%
44.	**Total income (loss) after transfers**	($1,506,148)	$1,402,913	($1,660,386)	($503,241)	$1,157,145	-229.9%

City Support includes a request to re-appropriate FY15 capital support not yet expended and an increase in the tobacco tax.

Volumes

	FY14 Actual	FY15 Budget	FY15 Projected	FY16 Budget	$ Variance	% Variance
Hospital Inpatient						
1. Patient Days	1,360	1,630	1,308	1,194	(114)	-8.7%
2. Average Daily Census	3.7	4.5	3.6	3.3	(0)	-9.0%
3. Percentage of Occupancy	31.1%	37.2%	29.9%	27.2%	-2.7%	-9.0%
Newborn						
4. Patient Days	66	76	64	64	0	0.0%
5. Deliveries	36	36	41	38	(3)	-8.1%
Long Term Care						
6. Resident Days	4304	4380	3,991	3,660	(331)	-8.3%
7. Average Daily Census	11.8	12.0	10.9	10.0	(0.9)	-8.5%
8. Percentage of Occupancy	78.6%	80.0%	72.9%	66.7%	-6.2%	-8.5%
Surgical Visits						
9. *-Inpatient*	39	50	33	31	(2)	-6%
10. *-Outpatient*	350	388	329	313	(16)	-5%
11. ***Total***	389	438	362	344	(18)	-5%
12. Emergency Room Visits	142	165	124	130	6	4.8%
13. Outpatient Visits	1,856	1,910	1,961	2,059	98	5.0%
14. ***Total***	1,998	2,075	2,085	2,189	104	5.0%
15. Pharmacy - IP - All Acute Days	1,360	1,630	1,308	1,194	(114)	-8.7%
16. Pharmacy - OP - ER & Infusion Visits	2,286	2,350	2,370	2,489	119	5.0%
17. Radiology Procedures	4,847	5,118	4,489	4,922	433	9.6%
18. Lab Tests	24,766	28,062	24,507	27,744	3,237	13.2%
19. Rehab Services Units	20,577	20,800	25,459	26,266	807	3.2%
20. Infusion Services	288	275	285	300	15	5.3%
21. Home Health Visits	646	720	691	726	35	5.1%
22. Clinic Visits	10,098	11,900	10,495	12,320	1,825	17.4%

Financial Indicators

	FY14 Actual	FY15 Budget	FY15 Projected	FY16 Budget	$ Variance	% Variance
1. Contractual Adj. as a % of Gross Revenue	3.1%	3.9%	5.1%	9.2%	-4.0%	-78.0%
2. Charity/Other Ded. as a % of Gross Revenue	1.6%	2.3%	1.6%	1.6%	0.0%	0.0%
3. Bad Debt as a % of Gross Revenue	4.6%	4.7%	5.4%	5.4%	0.0%	0.0%
4. Total Deductions as a % of Gross Revenue	9.3%	10.8%	12.2%	13.6%	-1.4%	-11.3%
5. Operating Margin	-11.0%	2.2%	-11.4%	-6.9%	4.5%	39.5%
6. Total Margin before Transfers	-10.1%	3.0%	-10.5%	-6.2%	4.3%	41.1%

Thank you!

Your

Sitka
Community
Hospital

Community Hospital