

Lee Health

FY 2021 Operating and Capital Budgets

Fiscal Year Ending September 30, 2021

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FY 2021 Operating and Capital Budgets

Topics:

- Budget Assumptions
- Inpatient & Outpatient Volume Summary
- Payer Mix; Medicare & Medicaid Impact
- Strategy Compass: Strong Financial Results
- Income Statement Summary
- Financial Ratios
- Capital Budget & Cash Flow Available for Capital

Budget Assumptions

Volumes	Adjusted Admissions	3.9%
Net Revenue	Rate Increase (Per CMI Adjusted Admit)	0.2%
Salaries	Merit Increase Average	0.0%
Labor Spend Target	Salaries % of Net Operating Revenue	46.0%
Supply Spend Target	Supplies % of Net Operating Revenue	19.4%
Investments	Investment Return Net of Fees	5.4%
Profitability Ratios	Operating Margin	3.0%
	Excess Margin	5.3%
Capital Expenditures	Capital Budget	\$ 100,000,000
	Capital Budget as a % of Cash Flow	120.6%
	Capital Budget as a % of Adjusted Cash Flow*	40.8%

*Cash flow calculation impacted by CMS advance funds and addressed in the Capital Budget slide.



Inpatient Volume Summary

	FY 2019 Actual	FY 2020 Projected	FY 2021 Budget	% Variance
Admissions				
Acute	77,906	75,963	76,879	1.2%
Post Acute	3,041	3,280	3,902	19.0%
Total Acute & Post Acute	80,947	79,243	80,781	1.9%
Newborns	6,032	6,013	5,996	-0.3%
Total Admissions	86,979	85,256	86,777	1.8%
Patient Days				
Acute	368,542	378,153	368,188	-2.6%
Post Acute	63,358	68,552	84,757	23.6%
Total Acute & Post Acute	431,900	446,705	452,945	1.4%
Newborns	12,006	11,906	11,888	-0.1%
Total Patient Days	443,906	458,611	464,833	1.4%
Average Length of Stay				
Acute	4.73	4.98	4.79	-3.8%
Post Acute	20.83	20.90	21.72	3.9%
Total Acute & Post Acute	5.34	5.64	5.61	-0.5%
Newborns	1.99	1.98	1.98	0.1%
Total Average Length of Stay	5.10	5.38	5.36	-0.4%
Short Stay Days (OBS days)	65,241	57,304	62,873	9.7%
Average Daily Census	1,362	1,377	1,413	2.6%



Outpatient Volume Summary

	FY 2019 Actual	FY 2020 Projected	FY 2021 Budget	% Variance
OP Registrations				
Emergency Room	242,709	217,487	243,470	11.9%
OP Surgery Cases	25,021	29,975	31,338	4.5%
Subtotal	267,730	247,462	274,808	11.1%
Visits / Encounters				
Home Health Visits	68,976	81,270	80,769	-0.6%
Physician Encounters	1,497,017	1,532,251	1,657,815	8.2%
Trauma Services District	13,075	13,209	12,680	-4.0%
Subtotal	1,579,068	1,626,730	1,751,264	7.7%
OP Center Procedures	845,321	843,118	906,680	7.5%
Total Outpatient	2,692,119	2,717,310	2,932,752	7.9%

Payer Mix

COVID continues to drive up unemployment resulting in an increase in Self Pay and Charity cases

	FY 2020 Projected	FY 2021 Budget	% Variance
Medicare	52.9%	53.2%	0.6%
Medicaid	12.5%	12.6%	1.3%
HMO/PPO	19.7%	19.0%	-3.6%
Commercial	3.7%	3.7%	0.2%
Self Pay/Charity	5.8%	6.1%	5.8%
Other *	5.5%	5.4%	-2.0%
	100.0%	100.0%	

*Other Payors: LMHS Employee Health Plan, State and Champus

Medicare, Medicaid & Special Payments Updates

Medicare:

- Expected Rate Increase of 0.4%*
 - Uncompensated Care Federal Payment Decrease
 - Market Basket Increase
 - Wage Index slight decrease

Medicaid Fee For Service (FFS):

- Expected to remain relatively flat

Low Income Pool (LIP) / Disproportionate Share Hospital (DSH):

- Expected Increase of \$4 million

Graduate Medical Education (GME) Program:

- \$1.5 million after IGT's
- \$750K State Medicaid Residency Retention Bonus

*Rates Effective October 1st, 2020

\$418,116 Reduction Expected for FY2021 HRRP Penalties

Hospital Readmissions Reduction Program - FY2017 - FY2021

HRRP Program Year Performance Period	FY 2017 July12-June15	FY 2018 July13-June16	FY 2019 July14-June17	FY 2020 July15-June18	FY 2021 (estimated) July16-June19	FY 20 to FY 21 Delta
CCH	\$ 519,500	\$ 878,000	\$ 736,100	\$ 660,300	\$ 500,155	\$ (160,145) ↓
GCMC	\$ 974,200	\$ 827,000	\$ 794,800	\$ 725,800	\$ 298,229	\$ (427,571) ↓
LMH/HPMC	\$ 1,986,300	\$ 1,693,400	\$ 379,800	\$ 593,300	\$ 762,900	\$ 169,600 ↑
Financial Impact	\$ 3,480,000	\$ 3,398,400	\$ 1,910,700	\$ 1,979,400	\$ 1,561,284	Reduction \$ (418,116) ↓

	No Penalty Payment
	Penalty

- The CMS's Hospital Readmission Reduction Program (HRRP) penalizes hospitals for exceeding expected readmissions within the clinical conditions of AMI, COPD, HF, PN, CABG, and THA/TKA.
- Penalties are capped at 3% of Inpatient Operating Income and all 3 campuses have historically **been within the penalty range**.
- For FY21, the performance period was Medicare discharges July 1, 2016 through June 30, 2019.

Sources: CMS HRRP FY21 Hospital Specific Reports;
Inpatient operating revenue estimated from FY19 IPPS payments (FHA)



Strong Financial Results

We will assure ongoing financial viability by lowering cost and growing revenues

Strategies:

- Diversify and grow revenue streams
- Optimize revenue cycle
- Advance initiatives to standardize best practices and reduce unnecessary variation

Measures:

- Operating Margin
- Year Over Year Net Operating Revenue Growth
- Operating Cost Per CMI Adjusted Admission

Revenue Growth & Diversification

Diversify our revenue with alternative payment models to offset Medicare rate reductions

Acute Care

Inpatient & Outpatient on Campus:

- Lee Memorial
- Gulf Coast
- HealthPark
- Cape Coral
- Golisano

Hospital Outpatient off Campus:

- Lee Health Coconut Point
- Regional Cancer Center
- Sanctuary Surgery Center
- Surfside
- Bass Road
- Riverwalk
- Babcock Ranch

Post-Acute

The Rehab Hospital - LMH

Skilled Nursing Units – LMH & GCMC

Skilled Nursing Facility - HPCC

Access Infusion

Access Medical Durable Medical Equipment

Physician

Primary Care

Physician Specialists

Hospitalists Services

Federally Qualified Health Centers LAL (FQHC)

Ambulatory Surgery Centers (ASC)

Specialty Pharmacy

Value Based Care

Medicare Next Generation Accountable Care Organization

Vivida Medicaid Provider Service Network

Innovatus Health – Clinical Integrated Network

Revenue Cycle Optimization

Ensure our payments are accurate through improvements in our revenue cycle, through clinical documentation and coding

Case Mix Index (CMI):

- Physician documentation and coding improvement

Denial Management:

- Eligibility, authorization and medical necessity improvement

Improve insurance verification and authorization strategies

Contract rate improvements / regulatory payment increases

Continuous Process Improvements

Advance initiatives to standardize best practices and reduce unnecessary clinical and operational variation

Labor Cost Savings

- Increase productivity with FTE per AOB at 5.06
- Rate reductions of Physicians and Leadership – System Director and above

Benefit Cost Management

- Employee Health Plan, PTO and 403B savings

Supply & Pharmacy Savings

- Rate and utilization improvements via standardization and value analysis
- CSF/Vizient contract alignment
- Optimization of 340B pharmaceutical pricing

Purchased Services Reductions

- \$28 million in savings identified for FY2021

Income Statement Summary

	FY 2019 Actual	FY 2020 Projected	FY 2021 Budget	Variance	
				Budget 2021 \$	vs Proj 2020 %
Net Patient Revenue	1,893,487	1,949,015	2,015,989	66,974	3.4%
Other Operating Revenue	80,376	86,947	108,791	21,844	25.1%
Total Operating Revenue	1,973,863	2,035,962	2,124,780	88,818	4.4%
Operating Expenses					
Salaries & Wages	888,005	986,290	976,493	(9,797)	-1.0%
Fringe Benefits	155,753	159,044	157,597	(1,447)	-0.9%
Health Care Assessment	22,131	22,830	23,706	876	3.8%
Supplies	366,083	386,903	411,641	24,738	6.4%
Other Services	94,405	115,398	116,951	1,553	1.3%
Purchased Services	229,616	220,421	209,415	(11,006)	-5.0%
Total Operating Expenses	1,755,994	1,890,886	1,895,804	4,918	0.3%
EBITDA	217,870	145,076	228,976	83,900	57.8%
Depreciation/ Amortization	115,586	130,743	134,685	3,942	3.0%
Interest Expense	22,568	29,796	30,860	1,064	3.6%
Gain (loss) from Operations	79,716	(15,463)	63,431	78,894	-510.2%
Operating Margin %	4.0%	-0.8%	3.0%		
Total Non Operating Revenue	37,528	146,294	51,272	(95,022)	-65.0%
Excess of Revenue/Expenses	117,244	130,831	114,703	(16,128)	-12.3%

Financial Ratios

	<u>SYSTEM 2021 GOALS</u>	<u>A MOODY'S MEDIANS</u>	<u>AUDIT 2019</u>	<u>PROJ 2020</u>	<u>BUDGET 2021</u>	
Profitability Ratios:						
Operating Margin	3.0%	2.2%	4.0%	-0.8%	3.0%	+
Excess Margin	5.4%	5.0%	5.8%	6.0%	5.3%	+
Operating Cash Flow Margin	11.1%	8.5%	11.0%	7.1%	10.8%	+
Liquidity Ratios:						
Days Cash on Hand	204.7	215.1	219.4	252.7	239.5	+
Cushion Ratio	12.9	22.5	14.6	16.7	15.9	+
Cash to Debt	121.4%	167.7%	135.9%	146.0%	147.0%	+
Capital Ratios:						
Debt to Capitalization (%)	34.4%	32.2%	32.7%	34.3%	31.6%	(-)
Annual Debt Service Coverage	3.2	5.2	3.7	3.5	3.4	+
Debt to Cash Flow	3.8	2.9	3.4	3.9	3.8	(-)

Note + = Ratios that should be above the Moody's median

(-) = Ratios that should be lower than the Moody's median

Capital Budget & Cash Flow

Acute Care	9,299,602
Lab Services	1,474,712
Subs & Corporate	565,900
HPCC/SNU	193,434
Rehab Hospital	349,962
Home Health	88,575
Outpatient	6,512,625
LPG/MSO	3,024,676
Surgical Services	9,991,310
Radiology	7,499,203
Contingency	1,350,000
Routine	<u>40,350,000</u>
Facilities	14,900,000
Information Systems	20,000,000
Strategic Program Development	
Strategic Growth Capital - RAC	24,750,000
Total Proposed Capital Budget FY 2021	<u>100,000,000</u>
Cashflow from Operations Available for Capital	82,935,229
Capital Budget as a % of Cash Flow	120.6%
CMS Advance Adjustment to Cash Flow	+162,400,000
Adjusted Cashflow from Operations Available for Capital	245,335,229
Capital Budget as a % of Adjusted Cash Flow	40.8%



Questions?