

Fiscal Year 2024 Operating & Capital Budgets FY Ending September 30, 2024

Ben Spence, Chief Financial And Business Services Officer
September 13th, 2023



FY 2024 Budget Accomplishments

The operating and capital budget cycle begins for System leaders in April with the Zero-Based Budgeting and Capital Workbook processes. It ends in August with the department operating budget reviews with their Financial Analysts.

Statistics:

- 2,100 routine capital budget requests totaling \$105.8 million submitted (excludes Facilities, IT and Strategic Growth)
- 1,059 operating budget workbooks built and populated by the Finance staff with the input of System leaders:
 - \$3 billion in total operating revenue
 - 14,813 FTEs for \$1.6 billion in Salaries and Benefits expense
 - \$346 million in purchased services identified through the ZBB process built into the workbooks
 - \$912 million in all other expenses analyzed, updated and reviewed with System leaders



Volume Assumptions



Inpatient Volume Assumptions

	Actual 2022	Actual YTD July 2023	Projected 2023	Budget 2024	% Variance
Admissions					
Acute	78,462	67,264	80,309	81,737	1.8%
Post Acute	3,782	3,537	4,167	4,360	4.6%
Total Acute & Post Acute	82,244	70,801	84,476	86,097	1.9%
Newborns	6,721	5,641	6,857	6,933	1.1%
Total Admissions	88,965	76,442	91,333	93,030	1.9%
Average Length of Stay					
Acute	5.63	5.38	5.41	5.22	-3.6%
Post Acute	20.05	19.43	19.74	19.79	0.3%
Total Acute & Post Acute	6.30	6.09	6.12	5.95	-2.7%
Newborns	1.82	1.78	1.79	1.77	-1.2%
Total Average Length of Stay	5.96	5.77	5.80	5.64	-2.6%
Average Daily Census	1,638	1,650	1,647	1,641	-0.3%

Includes IP and OBS days

The 3.6% reduction in ALOS results in 15,500 acute care patient days resulting in decrease in average daily census of 42 and over \$15.5 million in savings¹

¹Assumes costs of \$1,000 per patient day

ALOS reduction initiatives are imperative to a successful FY 2024 to relieve pressure caused by staffing shortages, accommodate bed needs and reduce cost per admission:

1. Reduce Hospital Excess Days
2. Routine Discharge Processes Improvement
3. Skilled Nursing Facility Access



Outpatient Volume Assumptions

Lee Health Strategies focus on continued growth of ambulatory services including Ambulatory Surgery Centers and Primary and Specialty Care providers.

Outpatient revenue growth is projected to contribute 1.2% of the overall 3.1% increase in adjusted admissions for Lee Health.

	Actual 2022	Actual YTD July 2023	Projected 2023	Budget 2024	% Variance
OP Registrations					
Emergency Room Visits	263,870	231,749	276,908	290,969	5.1%
OP Surgery Cases	35,430	31,389	37,552	40,938	9.0%
Subtotal	299,300	263,138	314,460	331,907	5.5%
Visits / Encounters					
Home Health Visits	71,433	45,321	55,372	60,000	8.4%
Physician Encounters	2,130,965	1,938,236	2,333,627	2,458,279	5.3%
Trauma Service District	16,203	14,253	16,805	17,000	1.2%
Subtotal	2,218,601	1,997,810	2,405,804	2,535,279	5.4%
OP Center Procedures	1,026,598	872,982	1,029,930	1,081,353	5.0%
Total Outpatient	3,544,499	3,133,930	3,750,194	3,948,539	5.3%



Outpatient Surgery Growth

Case Volume by Service Line and Primary Procedure					
Outpatient Surgical Volumes as of July 31, 2023					
Service Line	FYTD 22	FYTD 23	Change	% Change	
+ ANESTHESIA	119	81	-38	-31.9%	
+ CARDIOLOGY	12	4	-8	-66.7%	
+ CARDIOTHORACIC	39	21	-18	-46.2%	
+ DENTAL	42	53	11	26.2%	
+ ENDOVASCULAR LAB	69	111	42	60.9%	
+ ENT	2,456	2,429	-27	-1.1%	
+ GASTROENTEROLOGY	2,107	2,391	284	13.5%	
+ GENERAL	4,921	5,432	511	10.4%	
+ GENERAL/VASCULAR	2,571	2,451	-120	-4.7%	
+ MAXILLOFACIAL	45	39	-6	-13.3%	
+ NEUROSURGERY	918	1,028	110	12.0%	
+ OB/GYN	2,814	2,897	83	2.9%	
+ OPHTHALMOLOGY	244	315	71	29.1%	
+ ORTHOPEDICS	5,615	5,353	-262	-4.7%	
+ PEDIATRIC GENERAL	726	625	-101	-13.9%	
+ PEDIATRIC ORTHOPEDICS	740	741	1	0.1%	
+ PLASTICS	511	432	-79	-15.5%	
+ PODIATRY	733	625	-108	-14.7%	
+ PULMONARY		1	1		
+ RADIOLOGY		1	1		
+ TRAUMA	7	4	-3	-42.9%	
+ UROLOGY	4,908	6,435	1,527	31.1%	
Grand Total	29,597	31,469	1,872	6.3%	

- The system is expected to increase outpatient surgeries by 9% which equates to about 3,386 cases system wide.
- Outpatient surgical volumes were down from budget by 29%/942 cases in October due to the closure of two hospitals and pause on elective surgeries for two weeks following Hurricane Ian. Volumes will not have this same impact in FY24.
- Seeing 6.3% growth in outpatient volumes YOY with the highest growth in General, Gastroenterology, and Urology.
- Growth expected to continue due to the addition of 2 new ORs (CCH and Urology) and enhancements in room utilization (LeanTaas/iQueue) and robotic availability for minimally invasive surgeries.
- Additional room in Urology ASC expected to bring 1,500 cases.



Primary Care Physician Growth

With 19 Primary Care locations, Lee Health continues to pursue the *Front Door Strategy* to the System.

	Actual	Actual	Budget	Budget	Growth	Recruitment Status		
	2022	YTD July 2023	2023	2024	Budget 2024 to YTD Actual	As of August 31, 2023		
						Started FY 2023	Signed Not Started	Open Positions
Office Physicians	54	57	72	74	17	9	8	14
Advanced Provider I	22	21	38	32	11			
Advanced Provider II	15	19	24	31	12			
Total Advanced Providers	37	40	62	63	23	17	4	23
Grand Total Providers	91	97	134	137	40	26	12	37

Not Included Above:

GME Residents

(Family & Internal Medicine)	35	49	48	62	13			
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The Primary Care Division includes Family and Internal Medicine Practices, does not include Virtual Health. Positions may be budgeted for or start mid-year, reducing the FTE value.



Operating Revenue & Expense Assumptions



Patient Revenue

- Hospital gross charge increases will be set within the parameters of the *Hospital Rate Setting Guiding Principals* with the estimated average at 5 percent.

- Overall net patient revenue rate increase of 1.8% per adjusted admit:
 - Payer mix changes – Medicaid reduction/commercial & self pay increase
 - Medicare increase 4.2% due primarily to an increase in market basket rate and wage index factor, offset in part by changes in disproportionate share patient percentage
 - Medicaid APDRG reimbursement rates are expected to have a \$10 million increase that includes a one-time \$2.7m supplemental GME funding addition for FY24
 - Inflationary increases for commercial contracts



Other Operating Revenue

Strategic revenue growth and diversification is key to Lee Health's financial success:

- Specialty Pharmacy – continued growth with conversion to FQHC-LA eligible for 340B pricing:
 - 9 Specialty offices added in FY 2023 and 4 Primary Care early FY 2024
 - LHCP and LCH Retail and Contract Pharmacies budget of \$21.6 million net gain compared to \$8.6 million budget in FY 2023

- Lee HealthCare Holdings, LLC:
 - Orthopedic ASC - \$3.5 million operating gain
 - Encompass - \$1.3 million non-operating gain for minority interest

- Center for Care Transformation Savings Target \$6 million:
 - Medicare Shared Savings Program - \$4.2 million
 - Commercial Value Based Earnings - \$1.8 million



Operating Expenses

FY 2023 Financial Resiliency Plan laid the foundation of key initiatives necessary for strong financials in FY 2024:

➤ Labor Expense Management:

- FTEs per Adjusted Occupied Bed (AOB) at 5.02 compared to 4.97 YTD July
- 5% Productivity improvement applied to all areas outside of physicians and nursing units
- 40% Reduction in Contract Labor utilization and lower pay rates per the new contract terms
 - \$52 million target in FY 2024 vs. FY 2023 Projection of \$98 million

➤ Non-Labor Expense Management:

- Lee Health has engaged with Vizient to identify and implement expense savings initiatives for non-clinical supplies, purchased services and other services.
- Purchased Services incorporate recurring savings identified as part of the Financial Resiliency Plan - \$12 million savings
- Other Services expense reductions such as stricter approval process for cell phone expenditure and non-essential travel



Budget Assumptions Summary

Volumes	Adjusted Admit Growth	3.1%
	Admissions	1.9%
	Average Length of Stay Reduction	-2.7%
	Outpatient Factor Growth	1.2%
Net Revenue	Net Revenue per Adjusted Admit Growth	1.8%
Salaries	Annual Salary Increase Effective January 2024	3.0%
Expenses	Supply Expense per Adjusted Patient Day	1.4%
	Purchased & Other Services	2.8%
Investments	Investment Return Gross of Fees	6.0%
Debt	Average Cost of Capital	3.9%
Operating Margin	FY 2023 Projection	1.8%
	FY 2024 Goal	5.0%
Capital Expenditures	Capital Budget	\$ 264,000,000



Final Budget Outcome



Income Statement

In Thousands (000's)

	Actual 2022	Actual YTD July 2023	Projected 2023	Budget 2024	Variance Budget to Projection	
Patient Revenue						
Net Patient Revenue	2,538,468	2,236,192	2,695,093	2,830,370	135,277	5%
Other Operating Revenue	262,946	191,273	221,597	228,423	6,827	3%
Total Operating Revenue	2,801,414	2,427,465	2,916,690	3,058,793	142,103	5%
Operating Expenses						
Salaries & Wages	1,342,343	1,167,337	1,421,845	1,439,081	(17,236)	-1%
Employee Benefits	182,684	187,030	207,305	210,102	(2,797)	-1%
Supplies	518,468	496,790	601,498	611,930	(10,432)	-2%
Purchased Services	259,659	278,970	333,200	345,762	(12,562)	-4%
Other Services	193,109	118,238	136,824	137,381	(556)	0%
Total Operating Expenses	2,496,263	2,248,365	2,700,672	2,744,256	(43,584)	-2%
Depreciation & Amortization	115,457	105,296	127,480	129,336	(1,856)	-1%
Interest	32,272	29,907	36,038	33,781	2,257	6%
Gain From Operations	157,423	43,897	52,500	151,421	98,920	188%
Non Operating Revenue	(160,695)	233,572	235,502	104,070	(131,432)	-56%
Excess of Revenue over Expenses	(3,273)	277,469	288,002	255,491	(32,512)	-11%
Operating Margin %	5.6%	1.8%	1.8%	5.0%	3.2%	175%



Financial Ratios

	Moody's Medians		Actual	Actual July	Projected	Budget	Debt
	A		2022	2023	2023	2024	Covenants
Profitability Ratios:							
Operating Margin	3.1%	+	5.6%	1.8%	1.8%	5.0%	NA
Excess Margin	6.7%	+	-0.1%	10.4%	9.1%	8.1%	NA
Operating Cashflow Margin	8.8%	+	10.9%	7.4%	7.4%	10.3%	NA
Liquidity Ratios:							
Days Cash on Hand	268.4	+	217.3	211.1	214.9	229.5	Not less than 100 days (Loans)
Cushion Ratio	31.5	+	15.2	12.0	10.6	18.3	NA
Cash-to-Debt	220.4%	+	143.8%	155.8%	161.1%	185.6%	NA
Capitalization Ratios:							
Debt-to-Capitalization	29.1%	(-)	33.3%	29.9%	29.5%	26.2%	Not greater than 65% (Loans)
Annual Debt Service Coverage	6.0	+	4.8	2.8	2.7	4.0	Not less than 1.25 to 1.0 (Loans) Not less than 1.10 (Bonds)
Debt-to-Cash Flow	2.6	(-)	2.5	3.2	3.4	2.9	NA

Note:

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

Improvement to FY 2023

Excess Margin reduction due to projecting return on investments at 6% compared to 14% YTD July

Improvement in Liquidity and Capitalization Ratios impacted by principal payments on debt:

- \$50 million line of credit payoff in FY2023
- \$57 million in routine principal payments in FY2024



Capital Budget and Cash Flow

Routine

Acute Care	20,076,591
Lab Services	1,098,253
Subs & Corporate	1,538,295
HPCC/SNU	350,629
Rehab Hospital	9,400
Home Health	13,500
Outpatient Centers	6,862,714
LPG	3,963,621
Radiology	11,999,466
SPD	2,998,218
Surgical Services	17,962,213
Contingency	3,127,100

Routine	70,000,000
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Facilities	26,000,000
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Information Systems	18,000,000
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Strategic Program Development	
Strategic Growth Capital - RAC	150,000,000

Total Proposed Capital Budget FY 2024	264,000,000
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Cashflow from Operations Available for Capital	334,514,212
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Capital Budget as a % of Cash Flow	78.9%
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Strategic growth capital budget of \$150 million represents a commitment and placeholder for FY 2024 cash flow allocated to long term ambulatory growth & master facility plan (multi-year projects). Projects will be presented to the Board for approval once developed.



Thank You

