DRAFT – Advisory, Consultative and Deliberative

University Hospital, Newark, New Jersey

Proposed FY 2017 Operating Budget

June 28, 2016

FY 2017 Revenue Budget Assumptions

- The FY 2016 projected year end actuals include additional revenue and expense reductions resulting in UH achieving breakeven status. As previously reported, this is as a result of several projects coming to a successful conclusion. They include a provision of $2.5M for Newark EMS revenues as well as $2.3M for expense reductions related to workers comp ($1.2M) and utilities ($1.1M). Specific assumptions relating to the FY 2017 budget are as follows:

- Medical inpatient volumes are projected to remain unchanged from the FY 2016 year-end projections, however inpatient surgical volumes are projected to increase by 240 or 5% as a performance improvement plan (PIP) has been initiated to extend the service hours of the operating room suites. Similarly the Observation Unit has initiated a PIP to expand the unit from 18 to 30 beds, resulting in an increase in volumes of 2,460 visits. All other outpatient volumes are anticipated to remain at similar levels as experienced in FY 2016.

- Other variables such as case mix, patient type, and payer mix ratios are also anticipated to remain consistent with those experienced in FY 2016.

- An average increase of 4% in charges is proposed to be implemented August 1, 2016. This increase is projected to increase net revenues by $1.4 million for indemnified payers and has been included in the proposed revenue budget.

- A recent managed care agreement is projected to increase inpatient revenue by $2.9 million, a 26% increase over the prior year. An overall average increase of 1.7% has been projected for other payers increasing net revenues in FY 2017 by $6.3 million.

- At this time it is anticipated that University Hospitals Charity Care subsidy will decrease by $13.0 million in FY 2017 which will be partially offset by a $7.0 million increase in Medicaid GME payments. As of this date no further Charity Care subsidy reductions have been projected, as the state examines the possibility of protecting funding for 'safety-net' hospitals. Other state subsidies for Delivery System Reform Incentive Payments (DSRIP) as well as the Mental Health subsidy have been projected in their entirety of $13.1 million.

- It has been projected that University Hospital's State Appropriation of $43.8 million will remain unchanged from FY 2016.

- The proposed FY 2017 budget assumes a $2.5 million in revenue from the EMS contract with the City of Newark. Other miscellaneous revenue sources including grants are anticipated to remain fairly consistent with the prior year.

FY 2017 Expense Budget Assumptions

- The proposed FY 2017 budget includes a provision for salary increases in FY 2017 as well as a provision for retroactive salary adjustments for FY 2016 and FY 2015. This is still an open item, pending finalization of the union contracts currently being negotiated. Additionally $3.4 million in new salaries has been projected for new positions related to performance improvement plans resulting in additional patient revenues as well as improving patient outcomes and satisfaction scores.

- The Clinical Service Agreements and GME agreements with Rutgers have been projected to increase by $5.5 million or 7.5 % as compared to FY 2016 ($60.0 million for the clinical services agreement and the graduate medical education agreement for $18.4 million for residents and fellows). As of the date of this preparation, this is still an open item, as negotiations between University Hospital and Rutgers continue.

- The CSA / TSA agreements with RBHS are assumed to increase by $.6 million in FY 2017. This is a result of salary increases and other economic factor adjustments offset by savings in rent and utility payments.

- University Hospital interest payments have been projected using amortization tables for the $255 million bond, offset by the bond premium calculated at the effective interest rate.

- Depreciation expense is projected to be $22.2 million in FY 2017, or $3.3 million greater than the $18.9 million depreciation expense projected for year-end FY 2016. This is a result of FY 2017 projected operating capital expenditures of $8 million for routine and emergency capital needs, IT capital purchases of $14 million as well as $16 million in other capital needs related to OR suite expansion, the Cancer Center and Radiology capital as outlined in the Series 2015A Bond official statement. Additional capital expenditures of $14 million has also been projected for the Higher Education Trust Fund Grant.

Proposed FY 2017 Budget Volumes

	FY 2016 Budget	FY 2016 Projected YE	FY 2017 Proposed Budget
Discharges	16,600	17,150	17,390
Adjusted Discharges	23,920	24,440	24,690
Patient Days	99,600	107,000	108,500
Average Length of Stay	6.00	6.24	6.24
Average Daily Census	272.1	292.3	297.3
Emergency Department Net Visits	79,520	79,900	79,900
Observation Visits	3,540	5,120	7,580
Ambulatory Clinic Visits	160,900	170,800	170,800
Inpatient Surgery Volume	4,100	4,660	4,900
Outpatient Surgery	9,010	9,420	9,420
Inpatient Case Mix	1.670	1.681	1.681
Inpatient Medicare Case Mix	1.840	1.843	1.843

Proposed FY 2017 Operating Budget

	FY 2016 Budget	FY 2016 Projected YE *	FY 2017 Proposed Budget
Net Patient Revenue	$ 386,679,700	$ 415,182,000	$ 442,247,000
DSRIP & Charity Care Subsidy	67,756,300	64,144,000	53,554,000
Total Net Patient Service Revenue	454,436,000	479,326,000	495,801,000
Other Income			
Fringe Benefits reimbursement	92,350,000	92,351,000	96,000,000
State Appropriation	43,841,000	43,841,000	43,841,000
Miscellaneous Income	26,539,800	26,000,000	24,330,000
Total Other Income	162,730,800	162,192,000	164,171,000
Total Revenue	**617,166,800**	**641,518,000**	**659,972,000**
Expenditures:			
Salaries & Wages	241,608,300	240,779,000	248,732,000
Contracted MDs	55,027,000	54,863,000	60,000,000
Contracted Residents	18,445,700	18,032,000	18,428,000
Fringe Benefits	95,150,000	95,348,000	99,200,000
Supplies and Others	165,593,100	182,729,000	192,719,000
Interest Expense	11,596,000	13,200,000	16,296,000
Facilities Service Agreements	18,559,300	17,496,000	18,072,000
Depreciation	21,000,000	18,918,000	22,200,000
Total Expenditures	**626,979,400**	**641,365,000**	**675,647,000**
Surplus/(Deficit) from Operations (Excluding Bond Issuance Costs)	**(9,812,600)**	**153,000**	**(15,675,000)**
Retro PIP Adjustments (Schedule 2)	-	-	8,791,000
Adjusted Surplus/(Deficit) from Operations	**(9,812,600)**	**153,000**	**(6,884,000)**
Bond Issuance Costs	-	2,890,000	600,000
Deficit from Operations (Excluding Bond Issuance Costs)	**(9,812,600)**	**(2,737,000)**	**(7,484,000)**
Higher Education Grant	-	4,104,000	14,000,000
Surplus/(Deficit) from Operations and Capital projects	**(9,812,600)**	**1,367,000**	**6,516,000**
GASB #68 State Pension related costs	-	20,000,000	22,000,000
Surplus/(Deficit) from Operations, Capital projects And Pension Expense	**$ (9,812,600)**	**$ (18,633,000)**	**$ (15,484,000)**

2017 Operating Capital Budget

Series 2015A Bond Proceeds (Exhibit 1)		$ 107.0 *
FY 2016 Encumbered Capital Purchases		$ (12.0) **
Projected Remaining Balance as of 6/30/2016		$ 95.0
Use of Funds:		
FY 2017 Capital Projects:		
IS&T (Exhibit 2)	$ (13.8)	
Routine/ Emergency Capital Needs	$ (8.0)	
Other Capital Projects including OR Suites, CINJ and Diagnostic Radiology	$ (16.0)	
Total FY 2017 Capital		$ (37.8)
Projected Remaining Balance from Bond Proceeds as of 6/30/2017		**$ 57.2**

* **Includes $7M capital carryover from defeased $150M BAN**

* * **Includes $4M in FY2016 IS&T Capital**

2017 Higher Education Grant Capital Budget

		(in Millions)
Source of Funding :		
Higher Education Trust Fund (HEFT Grant)		$ 37.0
FY 2016 Encumbered Capital Purchases		$ (4.1)
Projected Remaining Balance as of 6/30/2016		$ 32.9
Use of Funds:		
FY 2017 Capital Projects:		
Emergency Power Generator	$ (6.0)	
Sprinkler System	$ (4.3)	
HVAC System Upgrades	$ (3.7)	
Total FY 2017 Capital		$ (14.0)
Projected Remaining Balance from HEFT Grant Proceeds as of 6/30/2017		**$ 18.9**

Forecasted Cash Flow for FY 2017

		FY 2017 Proposed Budget
Cash flows from operating activities		
Change in net assets	$	(7,484,000)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Add back depreciation and amortization		22,200,000
Increase (decrease) in cash resulting from a change in:		-
Increase (decrease) in accounts payable, payroll and accrued expenses		(22,400,000)
Net cash gain (loss) from operating activities		(200,000)
Cash flows from investing activities:		
Deduct capital expenditures:		
Bond specific purpose related capital expenditures		(29,800,000)
Bond routine and emergency capital replacement		(8,000,000)
Higher education grant capital expenditures		(14,000,000)
Net cash used in investing activities		(51,800,000)
Cash flows from financing activities:		
Add funds reimbursed by Bond for capital investments		37,800,000
Add funds reimbursed by Higher Education grant capital investments		14,000,000
Net cash provided (used in) financing activities activities		51,800,000
Net increase (decrease) in cash and cash equivalents in this period		(7,684,000)
Cash and cash equivalents beginning of period	$	83,460,000
Cash and cash equivalents end of period	$	75,776,000
Days cash on hand begining of period		48.9
Days cash on hand at end of period		44.4

Exhibit #1

UNIVERSITY HOSPITAL
Newark, New Jersey

Capital Needs That Would Be Funded With the Proposed Financing for University Hospital, Newark New Jersey

July 27, 2015

- University Hospital ("UH") proposes to borrow $250 million, which would provide: (a) $150 million that is needed to refinance its outstanding debt (typically referred to as the "BANs"), and (b) an additional $100 million that would be used by UH to fund certain capital investments over the next five years.

- The future capital needs of UH to be funded with the new financing fall into four major categories:

  (1) **Routine / Emergency Capital Needs:** The capital needs of University Hospital for routine and emergency capital expenditures, mostly for equipment replacement, are anticipated to be $40 million over the next five years (averaging $8 million per year for five years). UH proposes to use **$15 million of proceeds from the pending financing** to fund three-eighths of these capital expenditures, while funding the remaining $25 million of these capital investments with funds generated from operations.

  (2) **Information Services and Technology:** When University Hospital separated from UMDNJ, UH entered into ten Transitional Services Agreements ("TSAs") with Rutgers University ("RU"), under which RU operates a data center for use by UH as well as by RU, and provides access to and support for certain shared telecommunication systems and software applications that are used by both UH and RU (e.g., the Banner financial system). UH proposes to spend about $20 million for capital investments that are needed for UH to establish its own data center, implement its own software systems, and enable UH to separate its voice and data network, wireless network, telephone systems, and internet connections from RU and to then terminate the related Transitional Services Agreements with RU. UH proposes to use **$20 million of proceeds from the pending financing** to fund these IS&T capital investments.

  (3) **Other Capital Investments to Expand Services and Upgrade/Enhance UH's Facilities:** In addition to the above, **$65 million of the proposed financing** would be used for: (a) capital investments to upgrade and/or expand certain services at University Hospital in areas that would assist UH in achieving its strategic objectives and in better meeting the health care needs of the communities it serves, and (b) capital investments to upgrade and enhance University Hospital's facilities. It is anticipated that these investments would include the following:

     a. $10 million for investments to enhance/expand the Cancer Program at UH, including a new linear accelerator and CT simulation system and related facility renovations,

     b. $5 million for expanding and enhancing diagnostic imaging services, including the addition of a third CT system,

     c. $20 million investments to increase in the number of operating rooms and procedure rooms at UH, which are not adequate to meet the demand for OR time, and

d. $30 million for projects to upgrade and enhance University Hospital's HVAC systems and facilities.

- The life for the above investments is between eight years and thirty years.

EXHIBIT 2. CAPITAL AND OPERATING EXPENSES NEEDED TO IMPLEMENT UH'S STRATEGY FOR EXITING THE TRANSITIONAL SERVICES AGREEMENTS WITH RUTGERS

		FY2016-FY2017
Capital:		
I	**Data Center**	
	DC White Space Start-up	$150,000
	DC Recurring Annual Rental	
	DC Recurring Teleco	
	DC Planning	2,250,000
	Virtual Environment Start-Up	6,917,595
	Diaster Recovery	
II	**Epic Hosting Solution**	
III	**Network Separation / Start-up**	900,148
IV	**Network Refresh**	3,744,516
V	**ERP Separation / Start-Up**	1,293,718
VI	**Banner Eco-System Start-up**	2,500,000
		$17,755,977

Current Operating Expenses:		
	Departmental Budget	$17,000,000
	Rutgers TSAs	5,900,000
	CSAs	(800,000)
	Total	22,100,000
Operating New:		
I	**Data Center**	
	DC White Space Start-up	
	DC Recurring Annual Rental	711,000
	DC Recurring Teleco	102,912
	DC Planning	
	Virtual Environment Start-Up	
	Diaster Recovery	370,980
II	**Epic Hosting Solution**	1,974,500
III	**Network Separation / Start-up**	914,852
IV	**Network Refresh**	
V	**ERP Separation / Start-Up**	2,191,825
VI	**Banner Eco-System Start-up**	250,000
	Depreciation	3,551,000
		10,067,069
	TSA Reduction	(4,600,000)
	Total Expenses after completion	$27,567,069

Excludes any additional salaried positions.