

June 18, 2009

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Proposed FY 2010 University of Michigan Hospitals and Health Centers (UMHHC)
Operating Budget

Action

Requested: Approval

Background:


UMHHC has completed its annual operating budget process for FY 2010. The enclosed budget is predicated upon a combination of modest patient activity growth, inflationary rate increases, and expense management. The activity, revenue and expense projections result in a 1.7% operating margin.


The current economic conditions and the reimbursement climate for health care are expected to continue as significant challenges in FY 2010.

Demand for both inpatient and outpatient services continues to grow. Additional observation beds are planned for the new fiscal year, providing increased access to meet growing patient demands. This budget includes an ongoing commitment to productivity improvements and cost effectiveness strategies across inpatient and outpatient areas. The FY 2010 UMHHC Operating Budget also reflects incremental increases in expenditures necessary to achieve the activity projections.

We recommend the Regents approve the proposed FY 2010 University of Michigan Hospitals and Health Centers' Operating Budget.

Respectfully submitted,


Timothy P. Slottow
Executive Vice President and
Chief Financial Officer


Ora Hirsch Pescovitz, M.D.
Executive Vice President
for Medical Affairs

June 18, 2009

**University of Michigan Hospitals and Health Centers
Operating Budget Assumptions
FY 2009 Forecast to FY 2010 Budget**

Activity

- 3.6% increase in physical bed capacity (staffing will flex with patient activity)
- 86.1% occupancy rate, up slightly from 85.8% in FY09
- 1.1% growth in patient days
- 4.8% growth in outpatient activity

Revenue

- No increase in Medicare payment per case
- No increase in Medicaid payment per case; lump sum payments increase \$3M
- Blue Cross contractual increase 3.2%
- Continued shift towards government payers and uncompensated care
- Risk of payment reductions from government payers as state and federal FY 2010 budgets unfold

Expenses

- Maintain competitive salaries
- Activity growth and inflation on supplies of \$23M
- Increased bad debt of \$5M

Margin Target

- 1.7% operating margin target

**University of Michigan Hospitals and Health Centers
Revenue and Expense Changes
FY 2009 Forecast to FY 2010 Budget**

Operating Revenue Forecast FY 2009	\$1,833 M	
• Increase in patient activity	43 M	
• Changes in payer mix	(5)M	
• Increase in charity care	(6)M	
• Change in reimbursement rates	49 M	
 Operating Revenue Budget FY 2010	 \$1,914 M	 4.4%
 Total Expense Forecast FY 2009	 \$1,819 M	
• Payroll	39 M	
• Supplies	23 M	
• Depreciation	1 M	
• Other Expenses/Bad Debt	(1) M	
 Total Expense Budget FY 2010	 \$1,881 M	 3.4%

UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS
FY 2010 OPERATING BUDGET
(Dollars in Millions)

	FY09	FY09		FY10	
	Plan	Forecast	% Change	Plan	% Change
Operating Revenue	\$1,893	\$1,833	-3.2%	\$1,914	4.4%
Operating Expenses					
Payroll	\$1,015	\$994	-2.1%	\$1,033	3.9%
Supplies	\$354	\$357	0.8%	\$380	6.4%
Depreciation	\$126	\$128	1.6%	\$129	0.8%
Bad Debt	\$58	\$53	-8.6%	\$58	9.4%
Other Operating Exp	\$284	\$287	1.1%	\$281	-2.1%
Subtotal	\$1,837	\$1,819		\$1,881	
Total Expenses	\$1,837	\$1,819	-1.0%	\$1,881	3.4%
Operating Margin	\$56	\$14		\$33	
Margin %	3.0%	0.8%		1.7%	