THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Proposed FY 2016 University of Michigan Hospitals and Health Centers (UMHHC) Operating Budget

Action Requested: Approval

Background:

The FY16 UMHHC Operating Budget results in a projected 4.0% operating margin of $116M.

The FY16 Budget is predicated on several key assumptions: (a) Continued inpatient and outpatient growth expected during FY 2016 primarily driven by activation of incremental operating rooms and beds, coupled with access and throughput improvement initiatives; (b) Expense efficiencies realized through ongoing initiatives to improve quality, productivity and supply utilization; (c) Revenue per case growth constrained by continued Federal and State funding changes, and increased options and consumer driven choices.

The FY 16 Operating Budget aligns with the profitability levels necessary to support plans for future strategic and routine capital investments as described in the previously presented Strategic Financial Framework.

We recommend the Regents approve the proposed FY 2016 University of Michigan Hospitals and Health Centers' Operating Budget.

Respectfully submitted,

Kevin P. Hegarty
Executive Vice President and Chief Financial Officer

Marschall S. Runge, M.D., Ph.D.
Executive Vice President for Medical Affairs

June 18, 2015
University of Michigan Hospitals and Health Centers
Operating Budget Assumptions
FY 2015 Forecast to FY 2016 Budget

Activity
- 2.6% growth in discharges
- 1.1% growth in observation cases
- 86.5% occupancy rate, compared to 86.9% in FY2015
- 3.4% growth in ambulatory visits

Revenue
- Facility net revenue per case up 1.5%
- Strategic rate-setting with weighted average increase of 4%
- Capacity activations with net margin impact of $7.3M.
  - Kellogg Eye Center operating room #6
  - Adult Emergency Critical Care Center
  - New operating room for adults in Children’s and Women’s Hospital
  - 22 bed adult medical short-stay unit

Expenses
- Total expense per case up 0.3% over FY15
- Selected operating improvement plans with reduction of $10.5M
- Various operating unit investments ($4.4M)
  - Program Management office
  - Timekeeping and Scheduling Initiative
  - Controlled substance handling and safety compliance
- Ramp-up expense for 4 University Hospital operating rooms to open up in FY17 ($1M)
- Supply cost per case increase of 3.5% (commodity inflation and utilization), with gross increase ($48M) in supply costs (volume + inflation)

Margin Target
- 4.0% operating margin target
### University of Michigan Hospitals and Health Centers

**Revenue and Expense Changes**

**FY 2015 Forecast to FY 2016 Budget**

#### Operating Revenue

**Forecast FY 2015**

- Increase in patient activity: $115 M
- Change in reimbursement rates: $44 M
- Elimination of FY15 Favorable one-time items: $(10) M
- Payer Mix: $(1) M

**Operating Revenue Budget FY 2016**

- Total: $2,906 M

#### Total Expense

**Forecast FY 2015**

- Payroll: $62 M
- Supplies: $49 M
- Other Expenses: $9 M
- Depreciation: $(1) M

**Total Expense Budget FY 2016**

- Total: $2,790 M

**Budget Change**

- Total Expense Budget FY 2016: $2,790 M (4.5% increase over FY 2015)
## UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS
### FY 2016 OPERATING BUDGET

### Amounts in $M

<table>
<thead>
<tr>
<th></th>
<th>FY 16 Budget</th>
<th>FY 15 Forecast</th>
<th>FY 15 Budget</th>
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<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
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<tr>
<td></td>
<td>$2,906.1</td>
<td>$2,757.7</td>
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<tr>
<td><strong>Operating Expenses</strong></td>
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<td>Payroll</td>
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<tr>
<td>Other Non-Salary</td>
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<td>508.9</td>
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<td><strong>Total Expenses</strong></td>
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<td><strong>Operating Margin</strong></td>
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<td><strong>Operating Cash Flow Margin</strong></td>
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<td>10.5%</td>
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