

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the
Regents
June 18, 2015

ACTION REQUEST

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

Action

Requested: Approval

Background:

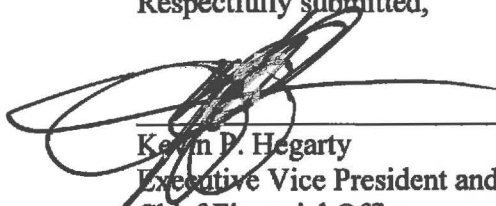
The FY16 UMHHC Operating Budget results in a projected 4.0% operating margin of \$116M.

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.

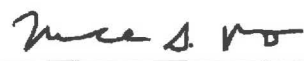
The FY 16 Operating Budget aligns with the profitability levels necessary to support plans for future strategic and routine capital investments as described in the previously presented Strategic Financial Framework.

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

\$2,758 M

- 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

\$2,906 M

5.4%

Total Expense

Forecast FY 2015

\$2,671 M

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

Total Expense Budget FY 2016

\$2,790 M

4.5%

**UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS
FY 2016 OPERATING BUDGET**

Amounts in \$ M

	FY 16 Budget		FY 15 Forecast		FY 15 Budget	
Operating Revenue	\$2,906.1	5.4%	\$2,757.7	9.3%	\$2,659.1	5.4%
Operating Expenses						
Payroll	1,419.9	5.7%	1,343.8	6.0%	1,346.8	6.2%
Supplies	664.9	7.8%	616.6	17.8%	540.5	3.3%
Depreciation	200.0	-0.7%	201.5	-3.8%	203.9	-2.7%
Other Non-Salary	505.2	-0.7%	508.9	0.6%	488.9	-3.4%
Total Expenses	\$2,790.0	4.5%	\$2,670.8	6.5%	\$2,580.1	2.9%
Operating Margin	\$116.1		\$86.9		\$79.0	
Margin %	4.0%		3.2%		3.0%	
Operating Cash Flow Margin	\$316.1		\$288.4		\$282.9	
Margin %	10.9%		10.5%		10.6%	