

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Proposed FY 2012 University of Michigan Hospitals and Health Centers
(UMHHC) Operating Budget

Action
Requested: Approval

Background:

UMHHC has completed its annual operating budget process for FY 2012. The activity, revenue and expense projections result in a -1.1% or (\$23.5M) operating margin.

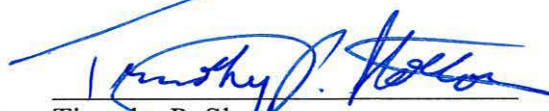
The FY12 Plan is predicated on several key assumptions: (a) modest patient growth; (b) inflationary rate increases; (c) \$13M reduction in State and Federal reimbursement; (d) \$89M net impact related to activation of the new C.S. Mott Children's and Von Voigtlander Women's Hospitals, the implementation of MiChart (Epic), and the new disease coding system (ICD-10).

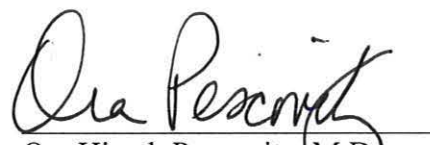
Given the anticipated FY12 operating loss, UMHHC leadership is developing a broader (36 month) Operating Plan for the FY12-FY14 period. The Operating Plan goal is to return UMHHC to profitability levels necessary to support plans for future strategic and routine capital investments.

Areas of focus include activity growth, improvements in revenue and expense per case and staff productivity. Leadership has presented expectations to the Operating Units, with goals to positively impact the projected FY12 performance.

We recommend the Regents approve the proposed FY 2012 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, 2011

**University of Michigan Hospitals and Health Centers
Operating Budget Assumptions
FY 2011 Forecast to FY 2012 Budget**

Activity

- 2.3% growth in patient days
- 86.7% occupancy rate, up from 85.2% in FY11
- 4.0% growth in outpatient activity

Revenue

- Minimal net changes in Medicare and Medicaid payments per case.
- Medicaid lump sum payments decrease as ARRA benefits expire and \$13M reduction in State and Federal reimbursement included.
- Blue Cross and commercial increase per contract.
- Continued but moderating shift towards government payers and uncompensated care.
- Risk of additional payment reductions from government payers as state and federal FY 2011 budgets unfold.

Expenses

- Maintain competitive salaries
- 0.6% productivity (3.2% improvement excluding Children's & Women's activation impacts)
- \$21M increase in Supply Costs (\$2M pertaining to activation)
- Increased bad debt of \$5M

Margin Target

- -1.1% operating margin target (+ 3.0% margin before activation impacts)

University of Michigan Hospitals and Health Centers
Revenue and Expense Changes
FY 2011 Forecast to FY 2012 Budget

Operating Revenue (*before activation impacts*)

Forecast FY 2011

\$2,097 M

- Increase in patient activity 59 M
- Changes in payer mix (5) M
- Increase in charity care (3) M
- Change in reimbursement rates 21 M

Operating Revenue Budget FY 2012

\$2,169 M

3.4%

Total Expense (*before activation impacts*)

Forecast FY 2011

\$2,044 M

- Payroll 24 M
- Supplies 19 M
- Depreciation 2 M
- Other Expenses 14 M

Total Expense Budget FY 2012

\$2,103 M

2.9%

Net Children's & Women's Activation Expense

\$70 M

MiChart & Other Activation Expense

\$19 M

UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS
FY 2012 OPERATING BUDGET
(Dollars in Millions)

	FY10 Actual	FY11 Forecast	Y2Y %	FY12 Forecast	Y2Y %
Operating Revenue	\$2,008.2	\$2,097.0	4.4%	\$2,168.9	3.4%
Operating Expenses					
Payroll	\$998.0	\$1,039.5	4.2%	\$1,063.2	2.3%
Supplies	\$385.9	\$403.6	4.6%	\$423.0	4.8%
Depreciation	\$135.7	\$144.2	6.3%	\$145.9	1.2%
Facility Bad Debt	\$60.4	\$68.3	13.1%	\$73.0	6.9%
Shared Services	\$50.7	\$55.5	9.5%	\$59.5	7.2%
Other Non-Salary	\$314.1	\$333.3	6.1%	\$338.4	1.5%
Total Expenses	\$1,944.8	\$2,044.4	5.1%	\$2,103.0	2.9%
Operating Margin before activation costs*	\$63.4	\$52.6		\$65.9	
Margin %	3.2%	2.5%		3.0%	
Net activation impact*	\$0.0	\$7.9		\$89.4	
Operating Margin	\$63.4	\$44.7		(\$23.5)	
Margin %	3.2%	2.1%		-1.1%	

*Net activation impacts related to the new C&W Hospitals and the MiChart/Epic project.