

Approved by the Regents  
June 20, 2013

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Proposed FY 2014 University of Michigan Hospitals and Health Centers (UMHHC) Operating Budget

Action

Requested: Approval

Background:

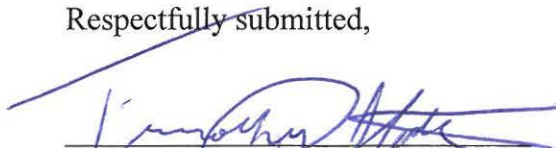
UMHHC has completed its annual operating budget process for FY 2014. The activity, revenue and expense projections result in a 0.8% operating margin of \$19M.


The FY14 Budget is predicated on several key assumptions: (a) continued activity growth associated with capacity activation and throughput improvement; (b) inflationary rate increases; (c) improvements to labor efficiency and supply expense per case; (d) \$33M incremental operating expense burden associated with launch of the MiChart inpatient phase (Stage 3), scheduled for June 2014; (e) Medicare revenue reductions due to sequestration.

The FY 14 Operating Budget aligns with the longer term plan to generate operating margins sufficient to support plans for future strategic and routine capital investments.

We recommend the Regents approve the proposed FY 2014 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 20, 2013

**University of Michigan Hospitals and Health Centers  
Operating Budget Assumptions  
FY 2013 Forecast to FY 2014 Budget**

**Activity**

- 3.1% growth in discharges
- 15.1% growth in observation cases
- 6.1% growth in discharges + observation cases
- 87.0% occupancy rate, up from 86.5% in FY2013
- 3.0% growth in ambulatory visits
- 4.5% adjusted case growth

**Revenue**

- Coding and documentation / case mix improvement, \$5M
- Revenue cycle process improvements, \$5M
- Negative impacts from sequestration -2% Medicare, \$11M
- Strategic rate setting, weighted average increase of 5%

**Expenses**

- Negative impact in Q4 from MiChart Stage 3 activation, incremental \$33M
- Favorable 1.9% productivity improvement
- Supply cost per case increase of 4.3% (commodity inflation and utilization), with gross \$43M increase in supply costs (volume + inflation)
- Flat year-over-year utility rates based on University estimates.
- 2% health benefit savings during second half of FY14 associated with favorable claims experience.

**Margin Target**

- 0.8% Operating Margin target

**University of Michigan Hospitals and Health Centers  
Revenue and Expense Changes  
FY 2013 Forecast to FY 2014 Budget**

<b>Operating Revenue</b>		
<b>Forecast FY 2013</b>	<b>\$2,374 M</b>	
• Increase in patient activity	103 M	
• Changes in payer mix	(13) M	
• Change in reimbursement rates	60 M	
<b>Operating Revenue Budget FY 2014</b>	<b>\$2,524 M</b>	<b>6.3%</b>
<b>Total Expense</b>		
<b>Forecast FY 2013</b>	<b>\$2,372 M</b>	
• Payroll	72 M	
• Supplies	43 M	
• Depreciation	4 M	
• Other Expenses	14 M	
<b>Total Expense Budget FY 2014</b>	<b>\$2,505 M</b>	<b>5.6%</b>

**UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS  
FY 2014 OPERATING BUDGET**

<i>Dollars in Millions</i>	<b>FY13 Budget</b>		<b>FY13 Forecast</b>		<b>FY14 Budget</b>	
Total Operating Revenue	\$2,313.9	6.2%	\$2,374.3	9.0%	\$2,523.7	6.3%
Payroll	1,197.8	5.8%	1,213.4	7.1%	1,284.9	5.9%
Supplies	473.4	6.7%	485.9	9.5%	529.2	8.9%
Depreciation	198.6	6.4%	206.2	10.5%	210.0	1.8%
Other Non Payroll Expenses	433.2	2.3%	466.6	10.2%	480.4	2.9%
Total Expenses	2,303.1	5.3%	2,372.2	8.5%	2,504.5	5.6%
<b>Total Operating Margin</b>	<b>\$10.8</b>		<b>\$2.1</b>		<b>\$19.2</b>	
<b>Operating Margin %</b>	<b>0.5%</b>		<b>0.1%</b>		<b>0.8%</b>	