

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Proposed FY 2015 University of Michigan Hospitals and Health Centers (UMHHC) Operating Budget

Action

Requested: Approval

Background:

UMHHC has completed its annual operating budget process for FY 2015. The activity, revenue and expense projections result in a 3.0% operating margin plan of \$79M.

The FY15 Budget is predicated on several key assumptions: (a) Continued adjusted case activity growth of 4% from throughput efficiency improvements and activation of new patient capacity, including Northville Health Center and two additional on-site operating rooms; (b) Expense efficiencies realized through ongoing initiatives to improve quality, productivity and supply optimization; (c) Revenue per case growth of 1.4%, constrained by governmental payer policies.

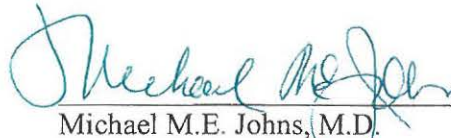
The FY 15 Operating Budget aligns with the operating margin levels necessary to support plans for future strategic clinical program growth and routine capital investments as described in the UMHS Strategic Financial Framework.

We recommend the Regents approve the proposed FY 2015 University of Michigan Hospitals and Health Centers' Operating Budget.

Respectfully submitted,



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer



Michael M.E. Johns, M.D.
Interim Executive Vice President
for Medical Affairs

June 19, 2014

**University of Michigan Hospitals and Health Centers
Operating Budget Assumptions
FY 2014 Forecast to FY 2015 Budget**

Activity

- 0.1% growth in discharges
- 16.4% growth in observation cases
- 88.2% occupancy rate, up from 88.1% in FY2014
- 4.3% growth in selected ambulatory care visits
- 4.0% adjusted case growth

Revenue

- Net revenue per case up 1.4%
- Strategic rate setting, weighted average increase of 4%
- Revenue cycle process improvements, \$3 M

Expenses

- \$20 M favorable impact in FY15 of Mi-Chart stage 3 activation, representing incremental expense no longer necessary following activation
- 2.5% labor productivity improvement
- Supply cost per case increase of 1.4% (commodity inflation and utilization), with gross \$28M increase in Supply Costs (volume + inflation)
- FY15 activations driving unfavorable one time incremental expense of \$12 M
 - Northville Health Center
 - Timekeeping and scheduling
 - Children's and Women's OR-16
 - Nurse Magnet – designation by American Nurses Credentialing Center; recognizing healthcare organizations for quality patient care, nursing excellence and innovations in professional nursing practice
 - Adult critical care Emergency Department

Margin Target

- 3.0% operating margin target

**University of Michigan Hospitals and Health Centers
Revenue and Expense Changes
FY 2014 Forecast to FY 2015 Budget**

Operating Revenue		
Forecast FY 2014	\$2,523 M	
• Increase in patient activity	91 M	
• Changes in payer mix	(10) M	
• Change in reimbursement rates	53 M	
Operating Revenue Budget FY 2015	\$2,657 M	5.3%
Total Expense		
Forecast FY 2014	\$2,506 M	
• Payroll	62 M	
• Supplies	28 M	
• Depreciation	(6) M	
• Other Expenses	(12) M	
Total Expense Budget FY 2015	\$2,578 M	2.9%

**UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS
FY 2015 OPERATING BUDGET**

Amounts in \$ M

	FY 15 Budget <i>% compared to FY14 Forecast</i>		FY 14 Forecast <i>% compared to FY14 Budget</i>		FY 14 Budget <i>% compared to FY13 Actual</i>	
Operating Revenue	\$2,657.0	5.3%	\$2,522.9	7.2%	\$2,523.7	7.3%
Operating Expenses						
Payroll	1,337.2	4.9%	1,274.8	7.3%	1,284.9	8.2%
Supplies	548.0	5.4%	520.0	7.9%	529.2	9.8%
Depreciation	203.9	-2.6%	209.4	1.5%	210.0	1.8%
Other Non-Salary	488.9	-2.5%	501.4	5.7%	480.4	1.3%
Total Expenses	\$2,578.0	2.9%	\$2,505.6	6.6%	\$2,504.5	6.6%
Operating Margin	\$79.0		\$17.3		\$19.2	
Margin %	3.0%		0.7%		0.8%	
Operating Cash Flow Margin	\$282.9		\$226.7		\$229.2	
Margin %	10.6%		9.0%		9.1%	