



TO: Midland Memorial Hospital Finance Committee  
Midland Memorial Hospital Board of Trustees  
Midland County Hospital District Board of Directors

FROM: Stephen Bowerman, Chief Financial Officer

DATE: September 18, 2019

RE: FY2020 Budget Highlights

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Enclosed are the proposed fiscal year 2020 operating and capital budgets for Midland County Hospital District (MCHD). We have included five exhibits that provide the major components and assumptions for these budgets. The highlights of each summary schedule are discussed below:

- I. **Statistic Schedules (See Exhibit 1)**

The schedule presents the estimated volumes for budget year 2020. For comparison, the statistics for fiscal year 2018 and the projected fiscal year 2019 are also presented. We expect overall volume to increase by 2% in inpatient activity; as well as increase in volume growth related to the opening of our new Neonatal Intensive Care Unit. Surgery volume will remain consistent in 2020 with the 2019 projections. Emergency room activity and other outpatient services are projected to increase in 2020 by about 2% as well.
- II. **Income Statements for Operations (See Exhibit 2).** This schedule presents the overall revenues and expenses for the budgeted fiscal year.
  - A. **Initiatives Impacting Fiscal Year 2020 Operations**
    1. Volume – We have budgeted 2% growth in Fiscal Year 2020 from our Fiscal Year 2019 activity.
    2. Rate Adjustment – We have accounted for rate adjustments of 5.00% for fiscal year 2020 which will add about \$2.5 million in net patient receipts.
    3. Gov’t Reimbursement – Medicare reimbursement will increase with the move to new reporting on uncompensated care in FY2020; we are projecting a benefit of \$1.5 million from the BPCI-Advance program, which should be paid to MMH in the summer of 2021.
    4. DSH and 1115 Waiver Funding –QIPP (Nursing Homes), NAIP, Disproportionate Share Funding and the 1115 Waiver funds should continue at similar levels in FY 2020. DSRIP will be the first program to experience cuts in a couple of years, before being eliminated altogether in 2022. This program is worth approximately \$10M annually to MMH. After working with other public hospitals to adjust MMH’s status to a transferring hospital, funding DSH for the entire state, MMH was denied this status change for FY 2020.

Fiscal Year 2020  
Operating & Capital Budget  
Budget Highlights

5. Market and Inflation Adjustments – Annual and market increases for all staff will equate to an overall increase of 3.0% in order to maintain market competitiveness in our economy. We have also budgeted \$150,000 for housing stipends for low income employees. We will continue to utilize an HSA/High Deductible Plan and fund along the same lines as prior years and will implement changes to the health plan to offset any forecasted growth before finalizing the January 1, 2020 plan year. Paid FTE's increase from Fiscal Year 2019, with additional growth and with the opening of the new Neonatal Intensive Care Unit for support staff.
6. Maintenance & Operations Tax Rate – We will recommend the district adopt a tax rate above the effective tax rate for FY2020 which will decrease the M&O rate from \$0.100960 to \$0.082618 per \$100 valuation for 2020. This will generate \$2,359,939 in additional tax revenues and new property will generate \$1,069,265 in new tax revenues.
7. Interest & Sinking Tax Rate – We will recommend the district adopt a tax rate of \$0.016454 per \$100 valuation, in order to pay principal and interest in the coming year on the general obligation bonds.
8. Combined Ad Valorem Tax Rate – The combine tax rate we are proposing for the BY2020 year is \$0.099072 per \$100 valuation for 2020, this is an increase from the effective tax rate of FY2019 by 7.99%. The current year total tax rate is \$0.126158 per \$100 valuation.
9. Non-Operating Income (Loss) activity will be heavily impacted in 2020 from the FY2019 projected activity due to one-time grant funding received in 2019 from Midland County of \$2.5 million.

III. Net income for BY2020 is \$7,714,656 compared to a forecasted net income in FY2019 of \$8,786,452, a decrease from our Fiscal Year 2019 forecast by \$1.2 million and an improvement over Fiscal Year 2018 by \$25.2 million.

IV. Cash Flow (See Exhibit 3)

- A. Cash flow projections for Fiscal Year 2019 show total days cash on hand to be at 35.42. By the end of Fiscal Year 2020 we anticipate the days of cash on hand to be 45.15 or \$7,243,068 growth in cash.

V. Capital Budget (See Exhibit 4)

- A. Total Capital Budget for Fiscal Year 2019 - \$12,500,000. Major projects for FY2020 a replacement of the DaVinci Surgical Robot and a new Spine Robot for \$3.0 million.

Midland County Hospital District  
 Operating Budget  
 Operating Statistics  
 Fiscal Year 2018, Projected Fiscal Year 2019 and Budget Year 2020

	<u>2018</u>	<u>Projected 2019</u>	<u>Budgeted 2020</u>	<u>Variance</u>	<u>Percent</u>
Admissions	10,562	10,769	11,153	384	3.6%
Adjusted Admissions	26,345	26,591	27,215	624	2.3%
Patient Days	47,111	47,857	49,434	1,577	3.3%
Adjusted Patient Days	117,509	118,168	120,628	2,460	2.1%
Average Length of Stay	4.46	4.44	4.43	(0.01)	(0.3%)
Average Daily Census	129.1	131.1	135.1	4.0	3.1%
Deliveries	2,535	2,582	2,750	168	6.5%
Outpatient Visits (Excl ER)	92,539	91,788	93,607	1,819	2.0%
Inpatient Surgery Minutes	332,729	210,939	211,299	360	0.2%
Outpatient Surgery Minutes	472,335	632,958	634,040	1,082	0.2%
Emergency Visits	68,302	69,053	70,434	1,381	2.0%
Total Worked FTE's	1,545	1,568	1,594	26	1.7%
Total Paid FTE's	1,705	1,732	1,765	33	1.9%
Hospital Total CMI	1.45	1.44	1.45	0.01	0.7%
Worked Hours CMI Adj. Disch.	84.13	85.18	84.30	(0.88)	(1.0%)

**Midland County Hospital District**  
**GAAP Operating Budget**  
**Fiscal Year 2018, Projected 2019 and Budget 2020**

	<u>FY 2018</u>	<u>FY 2019 Projection</u>	<u>2020 Budget</u>	<u>Variance</u>	
<b><u>Patient Revenue</u></b>					
IP Revenue	405,782,090	455,739,559	484,152,042	28,412,483	6.23%
OP Revenue	606,360,960	669,566,739	697,269,033	27,702,294	4.14%
Gross Revenue	<u>1,012,143,050</u>	<u>1,125,306,299</u>	<u>1,181,421,075</u>	<u>56,114,776</u>	<u>4.99%</u>
<b><u>Deductions from Revenue</u></b>					
IP Deductions	291,788,654	339,530,327	363,065,660	23,535,333	6.93%
OP Deductions	436,020,348	498,966,790	524,713,980	25,747,190	5.16%
Bad Debts	78,504,335	53,084,143	56,404,774	3,320,631	6.26%
Charity Deductions	8,775,014	5,494,506	6,244,396	749,890	13.65%
Total Deductions	<u>815,088,350</u>	<u>897,075,766</u>	<u>950,428,810</u>	<u>53,353,044</u>	<u>5.95%</u>
Net Patient Revenue	197,054,699	228,230,532	230,992,265	2,761,733	1.21%
1115 Waiver/DSH/QIPP/UC/NAIP <i>(detail next page)</i>	35,722,903	28,463,260	30,000,000	1,536,740	5.40%
Other Operating Revenue	9,348,299	9,029,025	8,347,925	(681,100)	(7.54%)
<b>Net Operating Revenue</b>	<u>242,125,901</u>	<u>265,722,817</u>	<u>269,340,190</u>	<u>3,617,373</u>	<u>1.36%</u>
<b><u>Operating Expenses</u></b>					
Salaries & Wages	105,542,221	108,171,082	110,722,913	2,551,831	2.36%
Contract Labor	3,121,757	7,253,659	7,011,828	(241,831)	(3.33%)
Benefits	23,743,923	23,995,566	24,110,110	114,544	0.48%
Supplies	47,433,836	50,709,328	50,789,576	80,248	0.16%
Purchased Services	18,460,834	17,263,956	19,104,040	1,840,084	10.66%
Professional Fees	3,183,785	3,651,443	3,113,200	(538,243)	(14.74%)
Marketing	1,212,414	951,041	1,100,800	149,759	15.75%
Repairs & Maintenance	4,260,499	3,874,943	3,890,365	15,422	0.40%
Rents & Leases	2,547,438	2,146,243	2,059,628	(86,615)	(4.04%)
Utilities	3,964,516	3,549,325	3,663,652	114,327	3.22%
Insurance	614,435	614,657	629,016	14,359	2.34%
1115 Waiver (Private)**	16,058,681	15,849,997	15,850,000	3	0.00%
DIA/WTT Distributions	7,283,040	7,628,286	7,636,351	8,065	0.11%
Other	3,258,156	3,762,577	3,494,773	(267,804)	(7.12%)
<b>Total Operating Expense</b>	<u>240,685,534</u>	<u>249,422,101</u>	<u>253,176,252</u>	<u>3,754,151</u>	<u>1.51%</u>
Operating EBITDA	1,440,368	16,300,716	16,163,938	(136,778)	(0.84%)
Depreciation	(22,183,591)	(22,952,612)	(24,505,983)	(1,553,371)	6.77%
Amortization	(444,214)	(406,814)	(406,817)	(3)	0.00%
Gain/Loss on Asset Sales	94,510	-	-	-	0.00%
Interest Expense	(2,428,970)	(4,001,671)	(1,765,500)	2,236,171	(55.88%)
Interest Expense GOB	(6,212,451)	(2,186,233)	(3,961,303)	(1,775,070)	81.19%
	<u>(31,174,716)</u>	<u>(29,547,330)</u>	<u>(30,639,603)</u>	<u>(1,092,273)</u>	<u>3.70%</u>
<b>Operating Income (Loss)</b>	<u>(29,734,348)</u>	<u>(13,246,614)</u>	<u>(14,475,665)</u>	<u>(1,229,051)</u>	<u>9.28%</u>
Advalorem Taxes	34,319,168	36,340,203	38,653,673	2,313,470	6.37%
Investment Income	187,497	314,748	420,000	105,252	33.44%
Other <i>(detail next page)*</i>	(22,275,234)	(14,621,884)	(16,883,352)	(2,261,468)	15.47%
<b>Total Other NonOperating</b>	<u>12,231,431</u>	<u>22,033,066</u>	<u>22,190,321</u>	<u>157,255</u>	<u>0.71%</u>
<b>Net Income (Loss)</b>	<u>(17,502,918)</u>	<u>8,786,452</u>	<u>7,714,656</u>	<u>(1,071,796)</u>	<u>(12.20%)</u>

**Midland County Hospital District**  
**GAAP Operating Budget**  
**Fiscal Year 2018, Projected 2019 and Budget 2020**

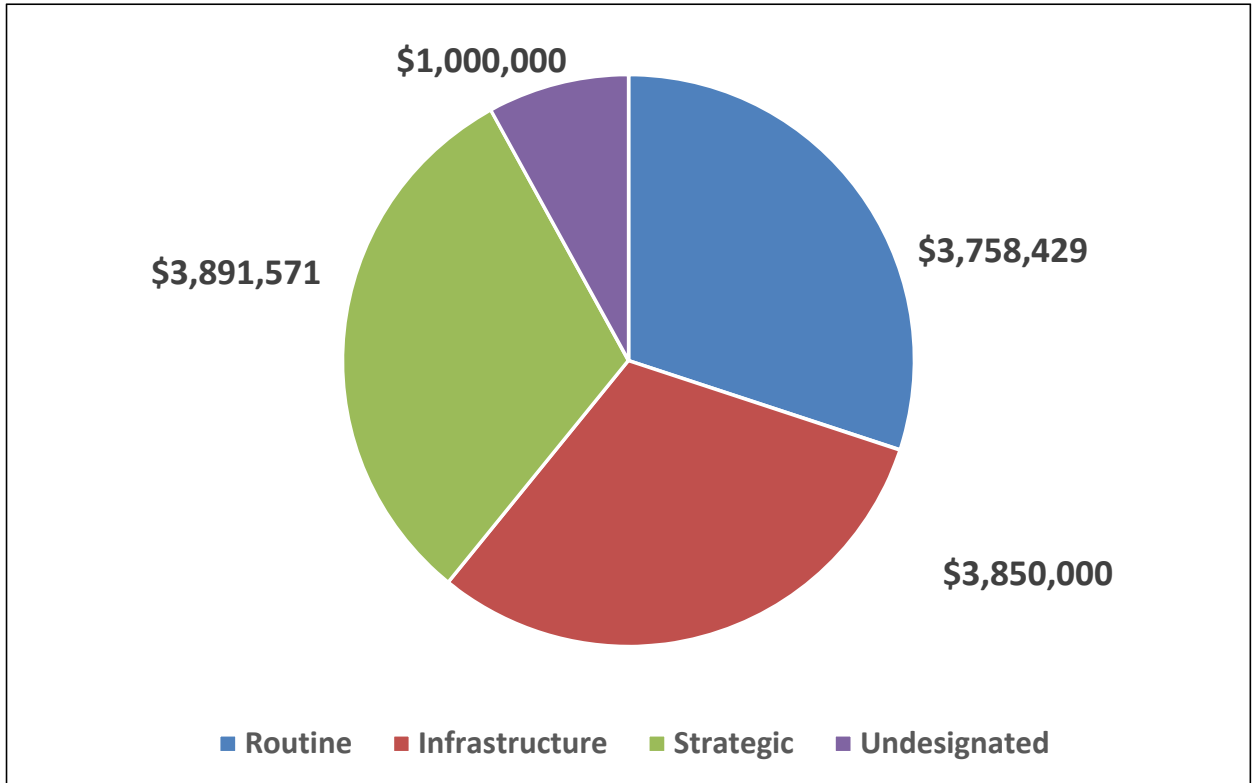
	<u>FY 2018</u>	<u>FY 2019 Projection</u>	<u>2020 Budget</u>	<u>Variance</u>	
<i>Continue from prior page</i>					
<b>Detail Other Non-Operating Expense:</b>					
Foundation Management Fee	(1,100,000)	(1,100,000)	(1,100,000)	-	0.00%
501A-Premier Family Care*	(3,589,217)	(3,531,303)	(3,713,041)	(181,738)	5.15%
501A-Permian Cardiology, Inc.	(1,999,514)	(1,793,210)	(1,759,116)	34,094	(1.90%)
501A-Midland, Tx Orthopedic Group*	(2,841,562)	(3,332,479)	(3,128,704)	203,775	(6.11%)
501A-Midland Inpatient Medical Association*	(6,095,743)	(5,676,009)	(5,932,862)	(256,853)	4.53%
Texas Health Care Linen	135,687	106,846	140,000	33,154	31.03%
Texas Surgery Center	507,941	563,269	500,000	(63,269)	(11.23%)
TSC-MID Real Estate	-	-	-	-	0.00%
Continue Care (LTACH)	(3,814,477)	200,000	-	(200,000)	(100.00%)
Foundation Grants	-	1,591,400	1,750,000	158,600	9.97%
HealthSouth	2,712,277	1,412,784	1,500,000	87,216	6.17%
Permian Basin Community Center	1,913,036	1,899,996	1,900,000	4	0.00%
Tobacco/Other	548,672	623,643	477,000	(146,643)	(23.51%)
Texas Purchasing Coalition Equity	424,509	807,118	350,000	(457,118)	(56.64%)
Midland County Grant Funding	-	2,500,000	-	(2,500,000)	(100.00%)
Waiver Other Provider Expenses	(9,076,843)	(8,893,939)	(7,866,629)	1,027,310	(11.55%)
<b>Total Other NonOperating Income (Loss)</b>	<u>(22,275,234)</u>	<u>(14,621,884)</u>	<u>(16,883,352)</u>	<u>(2,261,468)</u>	<u>15.47%</u>

**Midland County Hospital District  
Cash Projections  
Fiscal Year 2018, Projected 2019 and Budget 2020**

**Cash Flow Projection**

	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>
<b>Unrestricted cash available (beginning balance)</b>	<b>22,015,338</b>	<b>27,937,199</b>	<b>10,132,959</b>	<b>22,389,524</b>
<b>Receipts:</b>				
Receipts on Patient Accounts	211,466,608	204,827,993	224,256,845	227,496,737
Supplemental Payments Gross	57,344,510	46,555,777	62,624,396	46,641,539
Supplemental Payments IGT	(26,561,134)	(19,586,446)	(29,850,115)	(16,687,530)
Other Cash Receipts	14,990,485	10,778,720	16,606,183	15,367,452
Other Cash Receipts Rental Income	3,587,888	3,512,310	3,280,415	3,298,463
Equity Investment Distributions	395,501	1,036,766	1,693,534	1,331,000
Cost Report Settlements	2,347,841	2,703,033	2,104,375	968,500
PBCC Grant	1,972,316	1,970,184	1,961,686	1,900,000
Ad Valorem Tax Receipts (Excluding I&S)	22,259,680	24,977,729	29,210,155	32,233,892
Midland County Grant	-	-	2,500,000	-
Foundation Grants/Reimbursement	3,299,143	2,717,748	6,882,596	2,518,169
Prosperity Letter of Credit	5,000,000	18,900,000	21,714,996	-
Sale of Property	7,310,477	-	-	-
Investment Income/Tobacco Settlement	116,214	726,843	947,307	897,000
<b>Subtotal Receipts</b>	<b>303,529,529</b>	<b>299,120,656</b>	<b>343,932,373</b>	<b>315,965,222</b>
<b>Disbursements Operating Expenses:</b>				
Labor	(132,367,966)	(133,020,667)	(140,473,674)	(144,344,851)
Accounts Payable	(110,050,823)	(125,699,539)	(137,580,031)	(126,168,317)
Physician Practice Support	(7,606,036)	(13,462,284)	(13,588,358)	(14,660,000)
<b>Subtotal Disbursements Operating Expenses</b>	<b>(250,024,825)</b>	<b>(272,182,490)</b>	<b>(291,642,063)</b>	<b>(285,173,168)</b>
<b>Other Disbursements:</b>				
Payment for debt service (excluding GO Bond)	(24,267,497)	(27,880,234)	(11,504,948)	(9,987,986)
Payment on letter of credit	-	-	(21,714,996)	-
Capital Purchases	(23,315,344)	(16,862,173)	(6,813,801)	(13,561,000)
<b>Subtotal Other Disbursements</b>	<b>(47,582,841)</b>	<b>(44,742,407)</b>	<b>(40,033,745)</b>	<b>(23,548,986)</b>
<b>Unrestricted cash available (ending balance)</b>	<b>27,937,200</b>	<b>10,132,958</b>	<b>22,389,524</b>	<b>29,632,592</b>
<b>Average Daily Expense</b>	<b>693,397</b>	<b>667,925</b>	<b>678,898</b>	<b>691,738</b>
<b>Days Cash on Hand (Bond Rating)</b>	<b>40.29</b>	<b>15.17</b>	<b>32.98</b>	<b>42.84</b>
<b>Days Cash on Hand (Committee)</b>	<b>40.78</b>	<b>13.59</b>	<b>27.34</b>	<b>38.03</b>

Midland County Hospital District  
Operating and Capital Budgets  
Capital Budget



**Total FY 2020 Capital Budget \$12,500,000**