

FY 2023 Operating & Capital Budgets

Fiscal Year Ending September 30, 2023

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September 15, 2022



Volume & Revenue Projections

Inpatient Volume Summary

	Actual	Projected	Budget	%
	2021	2022	2023	Variance
Admissions				
Acute	79,263	79,048	78,947	-0.1%
Post Acute	3,357	3,792	3,966	4.6%
Total Acute & Post Acute	82,620	82,840	82,913	0.1%
Newborns	6,254	6,561	6,858	4.5%
Total Admissions	88,874	89,401	89,771	0.4%
Average Length of Stay				
Acute	5.31	5.59	5.29	-5.3%
Post Acute	19.35	20.02	21.00	4.9%
Total Acute & Post Acute	5.88	6.25	6.04	-3.3%
Newborns	1.83	1.81	1.82	0.6%
Total Average Length of Stay	5.59	5.92	5.72	-3.4%
Average Daily Census	1,508	1,630	1,573	-3.5%

Includes IP and OBS days

ALOS reduction initiatives are imperative to a successful FY 2023 to relieve pressure caused by staffing shortages, accommodate bed needs and reduce cost per admission:

1. COVID ALOS Impact
2. Routine Discharge Processes Improvement
3. Skilled Nursing Facility Access

Outpatient Volume Summary

Continued focus on Ambulatory services will drive 2.3% growth in adjusted admissions

	Actual	Projected	Budget	%
	2021	2022	2023	Variance
OP Registrations				
Emergency Room Visits	242,800	261,655	259,304	-0.9%
OP Surgery Cases	32,296	35,322	37,907	7.3%
Subtotal	275,096	296,977	297,211	0.1%
Visits / Encounters				
Home Health Visits	77,603	76,650	92,888	21.2%
Physician Encounters	1,977,597	2,228,546	2,301,461	3.3%
Trauma Service District	15,724	18,934	16,709	-11.8%
Subtotal	2,070,924	2,324,130	2,411,058	3.7%
OP Center Procedures	1,003,929	1,041,073	1,110,455	6.7%
Total Outpatient	3,349,949	3,662,180	3,818,724	4.3%

Patient Revenue Assumptions

- Hospital gross charge increases will be set within the parameters of the *Hospital Rate Setting Guiding Principals* with the estimated average at 5 percent.
- Overall net patient revenue rate increase of 0.4% per adjusted admit:
 - Payer mix consistent with FY 2022
 - Medicare increase of 2.0%
 - Medicaid rates flat
 - GME reimbursement for new residency program \$3.6 million
- Commercial rate increases through contract negotiations, revenue cycle continuous improvements and technology advances estimated at 4 - 5%
 - Impact Advisors for Ambulatory Revenue Cycle
 - Crowe Healthcare Suite for System-wide reimbursement accounting

Other Operating Revenue Assumptions

Strategic revenue growth and diversification is key to Lee Health's financial success:

- Specialty Pharmacy – continued growth with conversion of physician specialty offices to FQHC-LA eligible for 340B pricing
 - LHCP and LCH Retail Pharmacies budget of \$8.1 million net gain
- Value Based Care Models (shared savings opportunities)
 - Best Care Collaborative (Medicare Shared Savings Program)
 - Aetna Medicare Advantage
 - Florida Blue Medicare Advantage
 - Florida Blue APO
 - Florida Blue – My Blue Exchange Plan



Operating Expense Assumptions

Key Assumptions - Salaries

- FTEs per Adjusted Occupied Bed (AOB) at 4.97:
 - Baseline FY 2022 Budget less an approximate 5% vacancy factor to adjust for recruitment challenges
 - Budget FY 2023 FTEs at 14,125; greater than YTD July by 518 FTEs
- Average hourly rate reflects:
 - Across-the-board 3% compensation increase in January 2023 estimated at \$19.5 million per Total Rewards presentation
 - Market Adjustment of \$13 million to remain competitive in the labor market
 - Reduction in Extra Shift Incentives to reflect new rates effective July 2022 for \$12 million in salaries savings
- Contract Labor Initiatives:
 - Budget FY 2023 of 202 FTEs at an average rate of \$94 based on current contracts
 - July year-to-date at 571 FTEs at an average rate of \$147
 - Total Budget Contract Labor at \$39.8 million compared to \$146 million YTD July
 - Recruitment and Retention to reduce need of contract labor and premium pay
 - Expansion of Staffing Resource Program



Budget Assumptions Summary

Volumes	Adjusted Admit Growth	2.3%
	Admissions	0.1%
	Average Length of Stay Reduction	-3.3%
	Outpatient Factor Growth	2.2%
Net Revenue	Net Revenue per Adjusted Admit Growth	0.4%
Expense Spend Targets	Total Expense % of Net Operating Revenue	95.0%
	Salaries & Benefits	53.6%
	Supplies	18.4%
	Purchased & Other Services	17.2%
	Depreciation, Amortization & Interest	5.8%
Operating Margin	FY 2023 Budget	5.0%
Investments	Investment Return Gross of Fees	4.8%
Debt	Average Cost of Capital	3.8%
Capital Expenditures	Capital Budget	198,553,758
	Capital Budget as a % of Cash Flow	72.9%

Statement of Operations

(in thousands)

	Actual	Projected	Budget	Variance	
	2021	2022	2023	Budget to Projection	
Net Patient Revenue	2,296,033	2,509,496	2,578,282	68,787	2.7%
Other Operating Revenue	175,259	265,194	257,602	(7,592)	-2.9%
Total Operating Revenue	2,471,292	2,774,690	2,835,884	61,195	2.2%
Operating Expenses					
Salaries & Wages	1,062,826	1,303,335	1,311,401	8,066	0.6%
Employee Benefits	167,386	181,164	209,824	28,661	15.8%
Supplies	489,515	515,715	523,081	7,366	1.4%
Purchased Services	226,042	261,338	291,846	30,508	11.7%
Other Services	168,176	183,654	194,984	11,330	6.2%
Total Operating Expenses	2,113,945	2,445,206	2,531,137	85,930	3.5%
Depreciation & Amortization	138,376	143,966	131,704	(12,262)	-8.5%
Interest	29,547	30,584	32,666	2,082	6.8%
Gain From Operations	189,425	154,933	140,377	(14,556)	-9.4%
Non Operating Revenue	197,082	(46,993)	75,606	122,599	260.9%
Excess of Revenue over Expenses	386,506	107,940	215,983	108,043	100.1%
Operating Margin %	7.7%	5.6%	5.0%	-0.6%	-11.3%



Financial Ratios

	Moody's Medians		Actual	Projected	Budget	Debt
	A		2021	2022	2023	Covenants
Profitability Ratios:						
Operating Margin	3.1%	+	7.7%	5.6%	5.0%	NA
Excess Margin	6.7%	+	14.5%	4.0%	7.4%	NA
Operating Cashflow Margin	8.8%	+	14.5%	11.9%	10.7%	NA
Liquidity Ratios:						
Days Cash on Hand	268.4	+	279.5	243.5	245.1	Not less than 100 days (Loans)
Cushion Ratio	31.5	+	20.1	16.8	17.5	NA
Cash-to-Debt	220.4%	+	189.7%	163.6%	182.3%	NA
Capitalization Ratios:						
Debt-to-Capitalization	29.1%	(-)	29.0%	31.3%	28.0%	Not greater than 65% (Loans) Not less than 1.25 to 1.0 (Loans)
Annual Debt Service Coverage	6.0	+	5.8	5.1	3.8	Not less than 1.10 (Bonds)
Debt-to-Cash Flow	2.6	(-)	2.1	2.3	3.0	NA
Ratings						At least BBB At lease Baa2 (Loans)
S&P			A+	A+		
Moody's			A2	A2		

Note:

+ = Ratios that should be above the Moody's median

(-) = Ratios that should be lower than the Moody's median

Capital Budget & Cash Flow

Routine

Acute Care	28,363,981
Lab Services	1,165,959
Subs & Corporate	2,420,287
HPCC/SNU	205,020
Rehab Hospital	4,600
Home Health	107,290
Outpatient Centers	6,618,144
LPG/MSO	2,938,558
Surgical Services	17,791,919
SPD	1,332,716
Radiology	11,219,731
Furniture	1,000,000
Contingency	1,650,000

Routine	74,818,205
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Facilities	22,000,000
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Information Systems	18,735,553
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Strategic Program Development Strategic Growth Capital	83,000,000
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Total Proposed Capital Budget FY 2023

198,553,758

Cashflow from Operations Available for Capital

272,192,323

Capital Budget as a % of Cash Flow

72.9%





Motions to Recommend Approval
Operating and Capital Budgets FY 2023

Motion to Recommend Approval – FY 2023 Operating Budget

Motion to recommend approval to the full Board of Directors of the FY 2023 operating budget that provides a 5.0% operating margin.

The approval of the FY 2023 operating budget will provide the funding for the FY 2023 Capital Budget of \$198,553,758.

Motion to Recommend Approval – FY 2023 Capital Budget

Requesting a motion to approve the FY 2023 Capital Budget of \$198,553,758 including contingency in the amount of \$1,650,000.

The total FY 2023 Capital Budget will be fully funded from cash flow of operations and represents approximately 72.9% of the cash flow available for capital.

Thank You

