




Office of Health Affairs
Andrew Agwunobi, MD, MBA
Chief Executive Officer
Executive Vice President
for Health Affairs

TO: Members of the Board of Trustees

FROM: Andrew Agwunobi 
Chief Executive Officer UConn Health

RE: Spending Plan for Fiscal Year 2018 for the University of Connecticut Health Center

DATE: June 28, 2017

RECOMMENDATION:

That the Board of Trustees approve the Spending Plan for Fiscal Year 2018 of \$1,078.2 million for the University of Connecticut Health Center.

BACKGROUND:

On Monday, June 12, the Board of Trustees Financial Affairs Committee met to discuss and review the FY18 draft operating budget for the University of Connecticut, Storrs and Regional Campuses and the University of Connecticut Health Center (UConn Health). On Monday June 19, a highly-detailed presentation was made to UConn Health's Board of Directors. Who endorsed and recommended this spending to the Board of Trustees. UConn Health was hopeful that the state would adopt a budget prior to the June 28 meeting of the Board of Trustees. This would have allowed UConn Health to have definitive information regarding our appropriation. However, as of today the state has not adopted a budget for next fiscal year. In part, this is due to the fact that the state is currently in the process of finalizing union contracts with the State Employee Bargaining Agent Coalition (SEBAC), which has a substantial impact on the state budget. It is unclear at this time when a budget will be adopted.

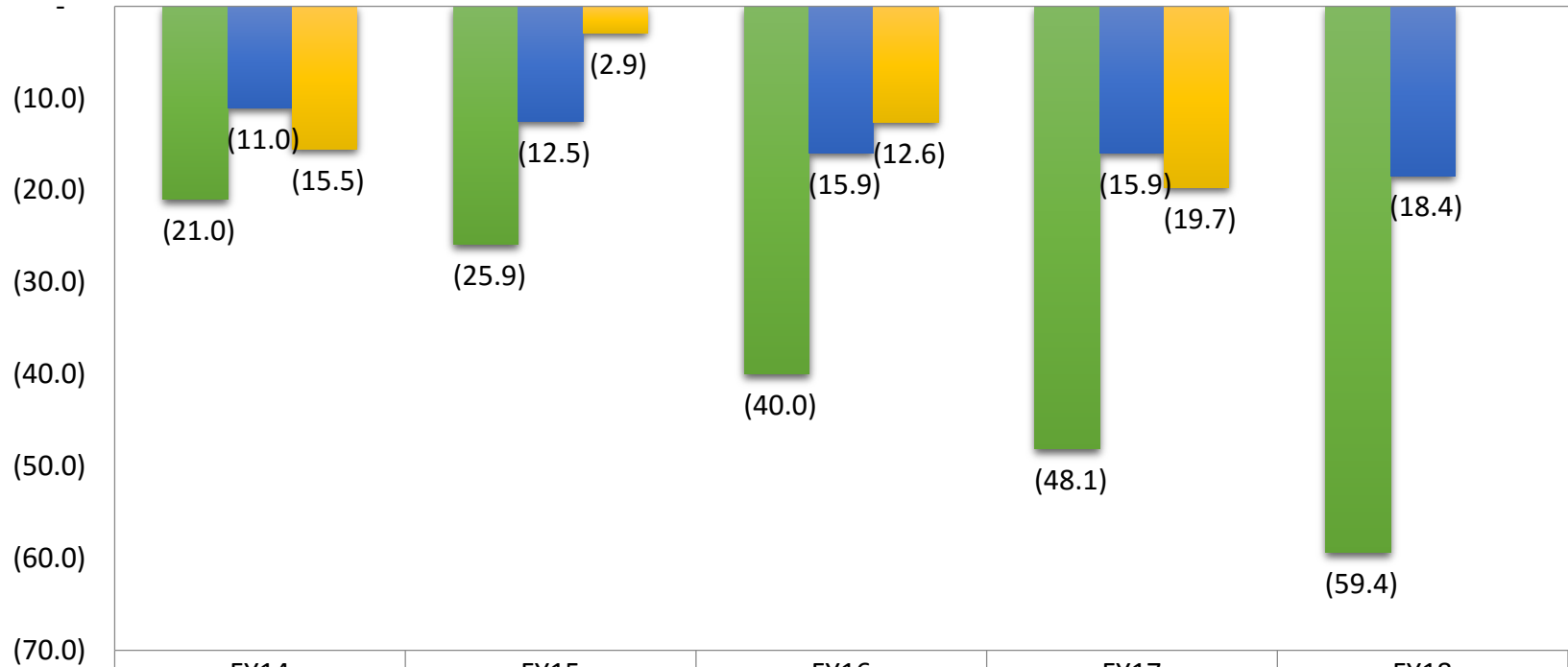
The attached FY18 Spending Plan includes the best estimates of anticipated revenue and expenditure based on the information we have at this time. Approving the FY18 Spending Plan will allow the UConn Health to continue to conduct essential business and move forward into the new fiscal year with a baseline budget. When the state's biennium budget is final, the potential SEBAC agreement is approved, and a FY18 fringe rate is set by the State Comptroller, we will return to the board with an updated budget that accounts for changes based on the impact of the final numbers.

FY17 Financial Overview and FY18 Proposed Budget

Board of Trustees
June 28, 2017

Financial Overview

UConn Health Net Losses – FY14 – FY18



	FY14	FY15	FY16	FY17	FY18
Orig Projection	(21.0)	(25.9)	(40.0)	(48.1)	(59.4)
Final Budget	(11.0)	(12.5)	(15.9)	(15.9)	(18.4)
Actuals/Forecast	(15.5)	(2.9)	(12.6)	(19.7)	

FY17 Year End Projection

UConn Health FY17 forecasted loss is \$19.7 million
versus a budgeted loss of \$15.9 million

FY17 Profit and Loss Statement (unaudited)

Revenues (\$M)		Expenditures (\$M)	
Appropriation	\$ 121.8	Personal services	\$ 384.3
Fringe benefits & adjustments	100.7	Fringe benefits	204.6
Total state support	\$ 222.5	Correctional Managed Health Care	83.5
Tuition and fees	23.3	Drugs/medical supplies	82.3
Grants and contracts	86.4	Other expenses	215.2
Interns/residents	63.0	Depreciation	37.9
Net patient revenue	457.7	Total operating expenses	\$ 1,007.8
Correctional Managed Health Care	83.5		
Other revenue	51.7	Net gain/(loss)	\$ (19.7)
Total operating revenues	\$ 988.1		

FY17 Year End Projection

FY17 Spending Plan (Cash Sources and Uses)

Revenues (\$M)		Expenditures (\$M)	
Appropriation	\$ 121.8	Personal services	\$ 384.3
Fringe benefits & adjustments	100.7	Fringe benefits	204.6
Total state support	\$ 222.5	Correctional Managed Health Care	83.5
Tuition and fees	23.3	Drugs/medical supplies	82.3
Grants and contracts	86.4	Other expenses	215.2
Interns/residents	63.0	Debt/service projects	16.9
Net patient revenue	457.7	Total operating fund	\$ 986.8
Correctional Managed Health Care	83.5		
Other revenue	51.7	Research & restricted expenditures	29.4
Total operating fund	\$ 988.1	Total operating expenditures	\$ 1,016.2
Research & restricted funds	29.4		
Total current funds revenues	\$ 1,017.5	Net gain/(loss)	\$ 1.3

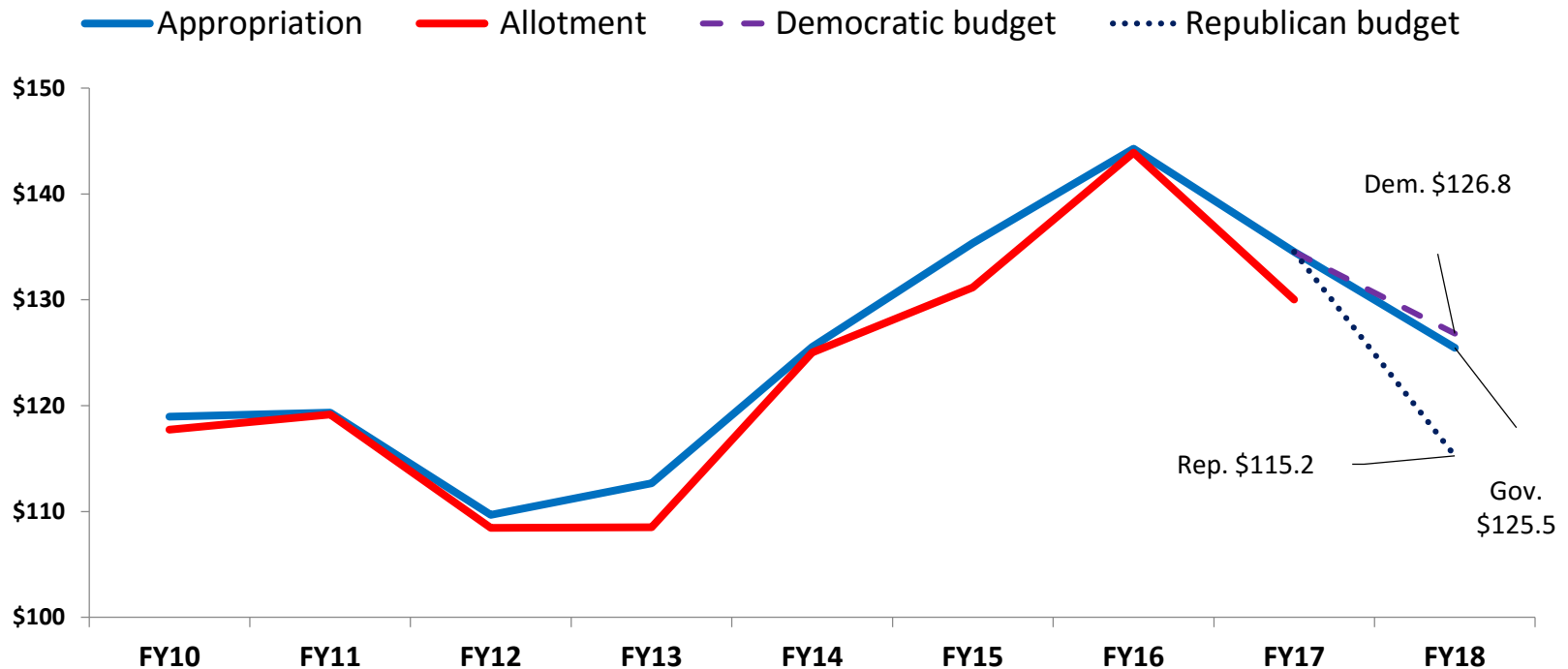
FY18 budget assumptions

The following presentation assumes:

- **Tuition and fees** - overall 4.5% rate increase
- **Research revenue** - slight increase offset by additional expenses
- **Salaries** - no increase related to bargaining units due to no settled contracts as of budget preparation
- **Fringes** - State Comptroller's estimated state retirement rates used and Health/Dental insurance based on Comptroller's May 8, 2017 rates
- **Appropriation** - Governor's Recommended Revised budget as of May 15, 2017

State appropriation

UConn Health's projections are based on the Governor's revised proposal, which will be a negative financial impact of \$15.6M for FY18. Additional cuts would be difficult for UConn Health to manage.



- Allotment includes fund sweep reductions
- Appropriation includes the Governor's proposed revised budget for FY18 (Block Grant, Bioscience CT and Workers' Compensation)
- Bioscience CT funding began in FY13 and workers compensation was included in the appropriation in FY16

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FY18 Proposed Budget Profit and Loss Statement

Revenues (\$M)		Expenditures (\$M)	
Appropriation	\$ 117.8	Personal services	\$ 389.6
Fringe benefits & adjustments	100.6	Fringe benefits	221.1
Total state support	\$ 218.4	Correctional Managed Health Care	80.4
Tuition and fees	24.4	Drugs/medical supplies	84.7
Grants and contracts	87.2	Other expenses	216.6
Interns/residents	66.7	Depreciation	35.8
Net patient revenue	475.1		
Correctional Managed Health Care	80.4	Total operating expenses	\$ 1,028.2
Other revenue	57.6		
Total operating revenues	\$ 1,009.8	Net gain/(loss)	\$ (18.4)

Balancing UConn Health's FY18 budget

	Bottom Line
FY18 bottom line – original projection	\$ (59.4)
Other revenue	3.2
Institutional workforce	11.0
Purchased services	.5
Other expenses	.4
Net patient revenue	9.9
Clinical workforce planning	4.7
Clinical non-labor	.1
Clinical revenue cycle	.9
State support (Governor's revised budget)	(2.4)
SEBAC (estimated savings)	12.7
FY18 bottom line target	\$ (18.4)

Growth

Statewide UConn inpatient market share grew from 2.1% to 2.3% FY 2013 to FY 2017

Inpatient Service Lines	FY 13 Statewide Market Share	FY 17 Statewide Market Share
Adult Medicine	2.2%	2.3%
Adult Surgery	2.3%	2.4%
Cardiology & Vascular Surgery (CVS)	2.0%	2.5%
Gynecology	2.0%	4.7%
Neurosciences	2.7%	3.3%
Newborn	1.2%	1.5%
Obstetrics	1.9%	2.0%
Oncology	2.0%	3.4%
Orthopedics	2.6%	2.8%
Pediatrics	0.1%	0.1%
Psychiatric Services	2.7%	2.8%
Grand Total	2.1%	2.3%

Growth

Farmington Valley – Six towns Inpatient market share comparison – Five area hospitals

John Dempsey Hospital's, Farmington Valley Inpatient Market Share grew by 3.0% from FY 2012 – FY 2016
The other 4 area hospitals all had slight Market Share declines in the Farmington Valley

	FY2012	FY2013	FY2014	FY2015	FY2016	Variance FY12 – FY16
UConn John Dempsey Hospital	22.7%	23.1%	24.7%	24.8%	25.7%	3.0%
Hartford Hospital	32.8%	32.8%	32.8%	32.3%	32.0%	-0.8%
Saint Francis Hospital	28.4%	28.2%	28.1%	27.7%	27.7%	-0.7%
Hospital of Central Connecticut	5.2%	4.6%	4.6%	4.6%	4.2%	-1.0%
Bristol Hospital	3.3%	3.3%	2.8%	3.1%	2.8%	-0.5%
Total market share – 5 hospitals	92.4%	92.0%	93.0%	92.5%	92.4%	0.0%

Growth

Eight Connecticut hospitals remain independent
19.5% market share

Statewide Market Share			Statewide Market Share	
Yale New Haven Health	33.1%		Western Connecticut Health Network	8.4%
Yale New Haven Hospital			Danbury Hospital	
Bridgeport Hospital			Norwalk Hospital	
Greenwich Hospital			New Milford Hospital	
L+M Hospital			Prospect Medical Holdings, LLC	5.8%
Day Kimball Hospital			Waterbury Hospital	
			Manchester (ECHN) Hospital	
Hartford HealthCare	21.1%		Rockville (ECHN) Hospital	
Hartford Hospital				
Hospital of Central CT			Independent Hospitals	19.5%
Backus Hospital			UConn John Dempsey Hospital	2.3%
Midstate Hospital			Middlesex Hospital	3.4%
Windham Hospital			Bristol Hospital	1.7%
Charlotte Hungerford Hospital			Milford Hospital	0.7%
			Griffin Hospital	1.9%
Trinity Health New England	12.1%		Stamford Hospital	3.7%
St. Francis Hospital			St. Vincent's Hospital	4.2%
St. Mary's Hospital			Connecticut Children's Hospital	1.6%
Johnson Memorial Hospital				

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FY18 Proposed Budget Spending Plan (Cash Sources and Uses)

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Tuition and fees	24.4	Drugs/medical supplies	84.7
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Interns/residents	66.7	Debt/service projects	17.4
Net patient revenue	475.1	Total operating fund	\$ 1,009.8
Correctional Managed Health Care	80.4		
Other revenue	57.6	Research & restricted expenditures	68.4
Total operating fund	\$ 1,009.8	Total operating expenditures	\$ 1,078.2
Research & restricted funds	68.4		
Total current funds revenues	\$ 1,078.2	Net gain/(loss)	-

FY18 Operating Budget Risks

✓ **State Support**

- State budget not finalized
- The State can cut or sweep funds mid-year, which makes planning difficult.
- The overall financial outlook for the State of Connecticut is very concerning.

✓ **Fringe Benefits**

- Fringe benefit rates continue to rise, largely due to the unfunded pension liability. UConn Health has no control over rates, but must cover the costs.
- The Republican budget proposal includes a direct appropriated amount for fringe. This puts all the risk on UConn Health.

✓ **Collective Bargaining Increases**

- Final SEBAC agreement
- Under the tentative SEBAC agreement, FY19 includes a one-time salary increase as well as increases of 3.5% with a step increase in FY20 and FY21 for bargaining units. Until that contract is ratified, uncertainty exists in the out years.

✓ **Patient Revenue**

- Continued consolidation of other systems reducing outside referrals
- Payor mix and volume
- Provider based reimbursement
- Medicaid Reimbursement