



HALIFAX HEALTH

Board of Commissioners and Audit & Finance Committee Budget Workshop

4:00 p.m., Wednesday, July 15, 2020

France Tower Conference Room A
303 N. Clyde Morris Boulevard
Daytona Beach, FL

HALIFAX HOSPITAL MEDICAL CENTER
COMBINED BOARD OF COMMISSIONERS AND
AUDIT & FINANCE COMMITTEE
FISCAL YEAR 2021 BUDGET WORKSHOP

4:00 p.m., Wednesday, July 15, 2020

AGENDA

- I.** Call to Order
- II.** Roll Call
- III.** Management Presentation and Discussion
- IV.** Adjourn

Fiscal Year 2021 Budget Workshop

Eric M. Peburn
Chief Financial Officer

Presentation to the Halifax Hospital Medical Center
Board of Commissioners and Audit & Finance
Committee

July 15, 2020



HALIFAX HEALTH

FY 2021 Budget Workshop

- FY 2020 Financial Update
- FY 2021 Preliminary Budget
- Ad valorem tax schedules

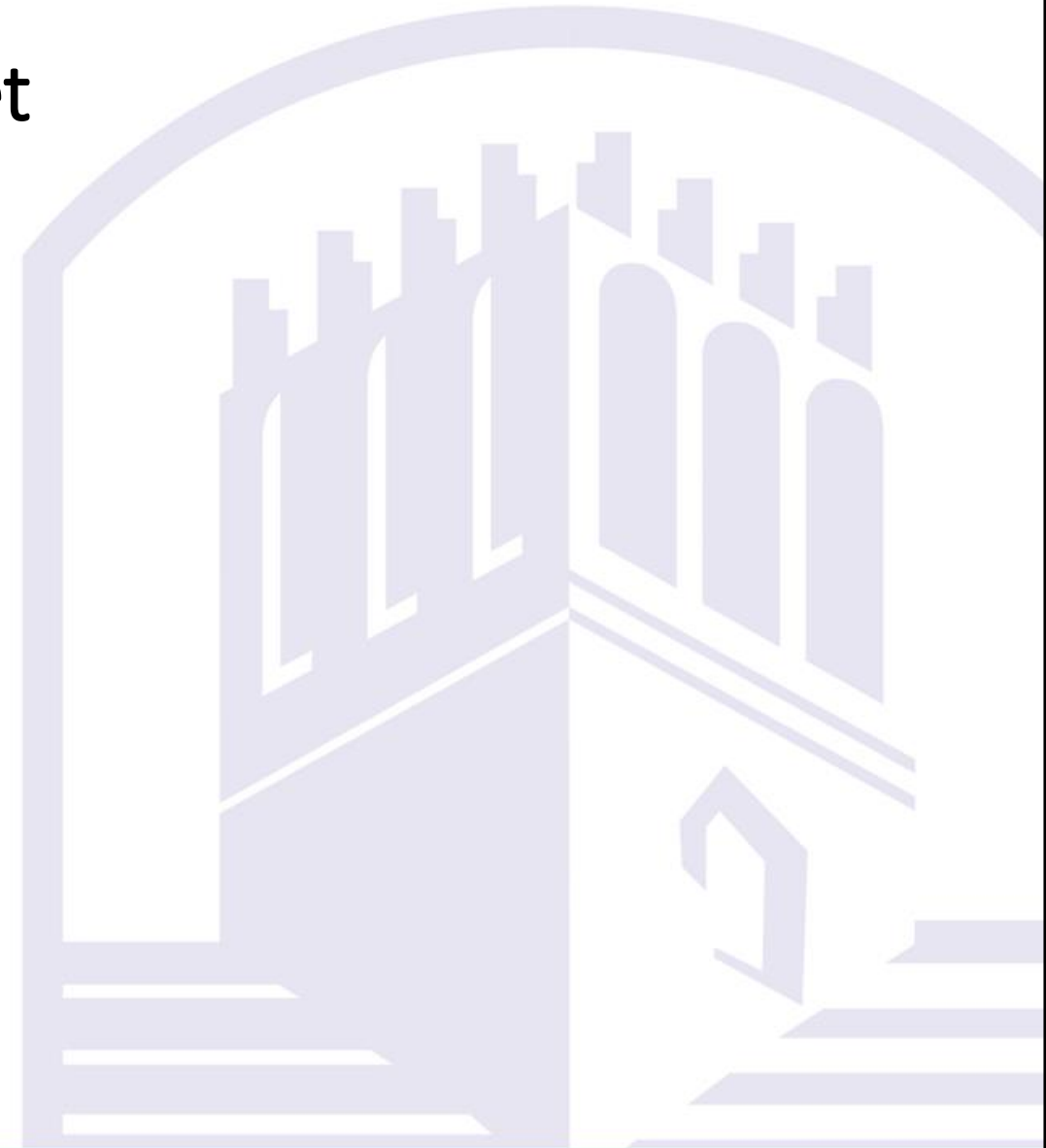


FY 2020 Financial Update

- Significantly lower volumes and revenue started the last two weeks of March and has continued through the summer due to the COVID-19 pandemic
- Forecasting \$49.8M in lost revenue related to COVID-19 through September 30th
- Estimating \$6.8M in increased expenses in FY 2020 related to COVID-19
- Received CARES Act funding to offset increased expenses and revenue losses in FY 2020
- Anticipating additional costs related to COVID-19 going forward related to workforce, equipment and facilities infrastructure
- Not anticipating additional federal government funding

Halifax Health FY 2020 Forecast \$ in thousands	FY 2020		
	Oct - May Actual	Jun - Sept Forecast	Total
Operating revenues:			
Net patient service revenue	\$337,900	\$180,198	\$518,098
Ad valorem taxes	4,393	2,196	6,589
Other revenue	32,416	(591)	31,825
Total operating revenues	374,709	181,803	556,512
Operating expenses:			
Salaries and benefits	188,076	102,561	290,637
Purchased services	63,302	30,812	94,114
Supplies	70,667	36,532	107,199
Depreciation and amortization	18,586	9,724	28,310
Interest	13,946	6,726	20,672
Ad valorem tax related expenses	4,116	2,121	6,237
Leases and rentals	11,960	3,391	15,351
Other	19,973	9,603	29,576
Total operating expenses	390,626	201,470	592,096
Loss from operations	(15,917)	(19,667)	(35,584)
Nonoperating revenues, expenses, and gains/(losses):			
Realized investment income/(losses)	11,588	638	12,226
Unrealized investment income/(losses)	(7,047)	(1,250)	(8,297)
Donation revenue	1,432	265	1,697
Interest - bond issue costs	(826)	-	(826)
Nonoperating gains/(losses), net	656	261	917
CARES Act funding	-	56,646	56,646
Total nonoperating revenues, expenses, and gains/(losses)	5,803	56,560	62,363
Increase in net position	(\$10,114)	\$36,893	\$26,779
Operating Margin	-4.2%	-10.8%	-6.4%
Total Margin	-2.7%	15.5%	4.3%

Preliminary FY 2021 Operating Budget



Budget Premise and Policy

Premise:

- Generating fiscally sound policy while maintaining quality patient care is our commitment to the future of Halifax Health and the community we serve.

Policy:

- To maintain employee salaries and benefits at competitive levels and allocate financial resources consistent with the standards, guidelines and parameters of nursing care required for patients
- To replace and enhance existing facilities and equipment with new and expanded services and technologies
- To develop a financial operation that is sufficiently flexible to react to the anticipated changes in the healthcare environment
- To sustain the Cornerstone initiative for our patients, our employees and our community

FY 2021 Budget

Key Factors in Setting Budget

- Create flexible operation to adapt to the current environment related to COVID-19
- Continuation of critical community services and benefits
- Create a sustainable financial plan that achieves positive cash flow after capital and pension funding
- Identified \$19.3M in margin improvements for FY 2021

Volume/Revenue Assumptions

- Volumes
 - Assumes volumes return to pre-COVID-19 levels in October and maintains at that level throughout fiscal year
 - Targeted increases in neurosurgery and plastic surgery at Daytona Beach campus
 - Targeted increases in orthopedics and other inpatient volumes at Deltona campus
 - Orthopedic volume decline due to volume shifting to outpatient surgery centers
- Revenue
 - Medicare
 - Inpatient/Outpatient rates
 - Assuming \$2.1 million increase based on proposed rule
 - Medicare DSH payment
 - Assuming decrease of \$362k based on proposed rule
 - Medicaid
 - Annual increase of \$2.4 million between rates and special payments
 - Rates - assuming no increase
 - DSH - \$2.3k increase
 - LIP - \$217k increase
 - Residency payments – \$79k decrease

Expense Assumptions

- Merit – Freeze merit increases for FY 2021
- Market adjustments - \$500k
- 403b employer funding – Continue to match up to 3%
- Pension expense – Expense will depend on investment return as of 9/30/20; \$6.7M increase due to investment returns below 6.75%
- Health Insurance increase – \$800k
- Supplies / Drugs increases – \$3.5 million
 - 3.5% increase – supplies
 - Drugs – 5% increase between hospital and oncology
 - Expected cost reductions of \$559k



Halifax Health
Statement of Revenues, Expenses and Changes in Net Position

FY 2021 Budget at Rolled Back Rate

(\$ in thousands)

	FY 2020 Actual/Projected	FY 2021 Budget		
		Initial Forecast	Margin Improvements	Prel Budget
Operating revenues:				
Net patient service revenue	\$518,098	\$558,993	\$7,100	\$566,093
Ad valorem tax revenue	6,589	6,589	-	6,589
Other revenue	31,825	31,095	-	31,095
Total operating revenues	\$556,512	\$596,676	\$7,100	\$603,776
Operating expenses:				
Salaries and Benefits	290,637	308,095	(\$11,502)	296,593
Purchased Services	94,114	99,913	(\$639)	99,274
Supplies	107,199	114,221	(\$59)	114,162
Depreciation and Amortization	28,310	29,284	-	29,284
Interest Expense	20,672	18,715	-	18,715
Ad valorem tax related expenses	6,237	6,251	-	6,251
Lease/Rentals	15,351	11,280	-	11,280
Other	29,576	29,371	-	29,371
Total operating expenses	592,096	617,129	(12,200)	604,929
Income (loss) from operations	(\$35,584)	(\$20,453)	\$19,300	(\$1,153)
Nonoperating revenues, expenses, and gains/(losses)				
Investment income	3,929	7,632	-	7,632
Donation revenue	1,697	2,107	-	2,107
Bond issue costs	(826)	-	-	-
Nonoperating gains (losses), net	917	1,211	-	1,211
Cares ACT funding	54,461	-	-	-
Total Nonoperating revenues, expenses, and gains/(losses)	60,178	10,950	-	10,950
Increase (decrease) in net position	\$24,594	(\$9,502)	\$19,300	\$9,798
Operating Margin	-6.4%	-3.4%	271.8%	-0.2%
Total Margin	4.0%	-1.6%	271.8%	1.6%

Halifax Health
Statement of Revenues, Expenses and Changes in Net Position

FY 2021 Budget at 1.00 Mill

(\$ in thousands)

	FY 2020 Actual/Projected	FY 2021 Budget		
		Initial Forecast	Margin Improvements	Prel Budget
Operating revenues:				
Net patient service revenue	\$518,098	\$558,993	\$7,100	\$566,093
Ad valorem tax revenue	6,589	19,899	-	19,899
Other revenue	31,825	31,095	-	\$31,095
Total operating revenues	\$556,512	\$609,986	\$7,100	\$617,086
Operating expenses:				
Salaries and Benefits	290,637	308,095	(11,502)	\$296,593
Purchased Services	94,114	99,913	(639)	\$99,274
Supplies	107,199	114,221	(59)	\$114,162
Depreciation and Amortization	28,310	29,284	-	\$29,284
Interest Expense	20,672	18,715	-	\$18,715
Ad valorem tax related expenses	6,237	8,913	-	8,913
Lease/Rentals	15,351	11,280	-	\$11,280
Other	29,576	29,371	-	\$29,371
Total operating expenses	592,096	619,791	(12,200)	607,591
Income (loss) from operations	(\$35,584)	(\$9,805)	\$19,300	\$9,495
Nonoperating revenues, expenses, and gains/(losses)			-	
Investment income	3,929	7,632	-	7,632
Donation revenue	1,697	2,107	-	2,107
Bond issue costs	(826)	-	-	-
Nonoperating gains (losses), net	917	1,211	-	1,211
Cares ACT funding	54,461	-	-	-
Total Nonoperating revenues, expenses, and gains/(losses)	60,178	10,950	-	10,950
Increase (decrease) in net position	\$24,594	\$1,145	\$19,300	\$20,445
Operating Margin	-6.4%	-1.6%	271.8%	1.5%
Total Margin	4.0%	0.2%	271.8%	3.3%

Halifax Health
Statement of Revenues, Expenses and Changes in Net Position
Margin Improvements for FY 2021
(\$ in Thousands)

	Revenues			Expenses						Income from Margin Improvements
	Patient service revenue	Other revenue	Total	Labor	Purchased services	Supplies	Leases	Other	Total	
1 MCD profitability improvements	\$5,000	\$0	\$5,000	\$500	\$250	\$500	\$0	\$0	\$1,250	\$3,750
2 Freeze merit increases started from April 2020 through FY 2021	-	-	-	(3,050)	-	-	-	-	(3,050)	3,050
3 Position eliminations and department restructures	-	-	-	(7,452)	-	-	-	-	(7,452)	7,452
4 Increase in volume in specific ares; neurosurgery and plastic surgery	600	-	600	-	-	-	-	-	-	600
5 Reduction to employer benefit costs	-	-	-	(1,500)	-	-	-	-	(1,500)	1,500
6 Redutction to vendor contracts	-	-	-	-	(889)	-	-	-	(889)	889
7 Supply and drug utilization and cost improvements	-	-	-	-	-	(559)	-	-	(559)	559
8 Coding, documentation and length of stay improvements	1,500	-	1,500	-	-	-	-	-	-	1,500
Total Margin Improvements	\$7,100	\$0	\$7,100	(\$11,502)	(\$639)	(\$59)	\$0	\$0	(\$12,200)	\$19,300

Budget Risk Factors

- Difficult to project volume and revenue due to COVID-19 pandemic
 - Potential second wave of cases causes lower elective surgeries and lower emergency room visits
 - Medical Center of Deltona volumes
- Potentially higher uninsured rates than what is expected due to economic downturn
- Investment losses inside pension plan in July – September could create increased pension costs in FY 2021
- Operational improvements targeted in length of stay and clinical documentation improvements
- Recruitment and retention of clinical workforce
- Medicaid funding – State Budget shortfall could result in rate cuts

Ad Valorem Tax Schedules



**Haliux Health Medical Center
Schedule of Uses of Property Taxes
FY 2021 Preliminary Budget ***

	FY 2020 Actual/Projected	FY 2021 Budget - Millage Scenarios							
	0.3546 Mill	2.000 Mills	1.750 Mills	1.500 Mills	1.2500 Mills	1.0000 Mill	0.9879 Mill	0.3546 Mill	Rolled Back Rate
Gross property tax levy	\$6,588,852	\$39,797,120	\$34,822,480	\$29,847,840	\$24,873,200	\$19,898,560	\$19,657,787	\$7,056,029	\$6,702,171
Tax discounts and uncollectible taxes	(117,000)	(707,000)	(618,000)	(530,000)	(442,000)	(353,000)	(349,000)	(125,000)	(119,000)
Net property taxes collected	6,471,852	39,090,120	34,204,480	29,317,840	24,431,200	19,545,560	19,308,787	6,931,029	6,583,171
Amounts paid to Volusia County and Cities:									
Tax collector and appraiser commissions	(219,996)	(1,329,000)	(1,163,000)	(997,000)	(830,000)	(664,000)	(656,000)	(236,000)	(224,000)
Volusia County Medicaid matching assessment	(3,252,696)	(3,366,540)	(3,366,540)	(3,366,540)	(3,366,540)	(3,366,540)	(3,366,540)	(3,366,540)	(3,366,540)
Redevelopment taxes paid to Cities	(337,300)	(2,037,000)	(1,783,000)	(1,528,000)	(1,273,000)	(1,019,000)	(1,006,000)	(361,000)	(343,000)
Subtotal	(3,809,992)	(6,732,540)	(6,312,540)	(5,891,540)	(5,469,540)	(5,049,540)	(5,028,540)	(3,963,540)	(3,933,540)
Net taxes available for community health, wellness and readiness	2,661,860	32,357,579	27,891,939	23,426,299	18,961,659	14,496,020	14,280,247	2,967,489	2,649,630
Amounts paid for community health and wellness services:									
Preventive health services (clinics, Healthy Kids, etc.)	(510,136)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)	(550,000)
Physician services	(8,314,108)	(8,750,000)	(8,750,000)	(8,750,000)	(8,750,000)	(8,750,000)	(8,750,000)	(8,750,000)	(8,750,000)
Trauma services	(6,088,216)	(6,500,000)	(6,500,000)	(6,500,000)	(6,500,000)	(6,500,000)	(6,500,000)	(6,500,000)	(6,500,000)
Pediatric and neonatal intensive care services	(454,636)	(450,000)	(450,000)	(450,000)	(450,000)	(450,000)	(450,000)	(450,000)	(450,000)
Child and adolescent behavioral services	(1,333,880)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)
Subtotal	(16,700,976)	(17,650,000)	(17,650,000)	(17,650,000)	(17,650,000)	(17,650,000)	(17,650,000)	(17,650,000)	(17,650,000)
Deficiency of net taxes available to fund hospital operating expenses	(14,039,116)	14,707,579	10,241,939	5,776,299	1,311,659	(3,153,980)	(3,369,753)	(14,682,511)	(15,000,370)
Uncompensated care, at cost:									
Halifax Health patients at facilities inside of the Halifax Health tax district	(30,885,761)	(32,430,049)	(32,430,049)	(32,430,049)	(32,430,049)	(32,430,049)	(32,430,049)	(32,430,049)	(32,430,049)
Non-Halifax Health taxing district patients and other write-offs	(21,622,695)	(22,703,829)	(22,703,829)	(22,703,829)	(22,703,829)	(22,703,829)	(22,703,829)	(22,703,829)	(22,703,829)
Subtotal	(52,508,456)	(55,133,879)	(55,133,879)	(55,133,879)	(55,133,879)	(55,133,879)	(55,133,879)	(55,133,879)	(55,133,879)
Total deficiency of net taxes available to fund hospital operating expenses and uncompensated care provided by Halifax Health, at cost	(\$66,547,572)	(\$40,426,299)	(\$44,891,939)	(\$49,357,579)	(\$53,822,219)	(\$58,287,859)	(\$58,503,632)	(\$69,816,390)	(\$70,134,249)
Percentage of Total deficiency of net taxes to Total revenues	11.8%	6.2%	7.0%	7.7%	8.5%	9.3%	9.3%	11.3%	11.4%
Percentage of Net taxes available for community health, wellness and readiness to Total revenues	0.5%	5.0%	4.3%	3.7%	3.0%	2.3%	2.3%	0.5%	0.4%

* Based on Preliminary assessed total taxable value.

Halifax Health
Statement of Revenues, Expenses and Changes in Net Position
FY 2021 Budget with Millage Scenarios
(\$ in thousands)

	2.000 Mills	1.750 Mills	1.500 Mills	1.2500 Mills	1.0000 Mills	0.9879 Mill	0.3546 Mill	Rolled Back Rate
Operating revenues:								
Net patient service revenue	\$566,093	\$566,093	\$566,093	\$566,093	\$566,093	\$566,093	\$566,093	\$566,093
Ad valorem tax revenue	39,797	34,822	29,848	24,873	19,899	19,658	7,056	6,589
Other revenue	31,095	31,095	31,095	31,095	31,095	31,095	31,095	31,095
Total operating revenues	\$636,985	\$632,010	\$627,035	\$622,061	\$617,086	\$616,845	\$604,244	\$603,776
Operating expenses:								
Salaries and Benefits	296,593	296,593	296,593	296,593	296,593	296,593	296,593	296,593
Purchased Services	99,274	99,274	99,274	99,274	99,274	99,274	99,274	99,274
Supplies	114,162	114,162	114,162	114,162	114,162	114,162	114,162	114,162
Depreciation and Amortization	29,284	29,284	29,284	29,284	29,284	29,284	29,284	29,284
Interest Expense	18,715	18,715	18,715	18,715	18,715	18,715	18,715	18,715
Ad valorem tax related expenses	12,892	11,898	10,903	9,908	8,913	8,865	6,344	6,251
Lease/Rentals	11,280	11,280	11,280	11,280	11,280	11,280	11,280	11,280
Other	29,371	29,371	29,371	29,371	29,371	29,371	29,371	29,371
Total operating expenses	611,571	610,576	609,581	608,586	607,591	607,543	605,022	604,929
Income from operations	\$25,414	\$21,434	\$17,455	\$13,475	\$9,495	\$9,302	(\$779)	(\$1,153)
Nonoperating revenues, expenses, and gains/(losses)								
Investment income	7,632	7,632	7,632	7,632	7,632	7,632	7,632	7,632
Donation revenue	2,107	2,107	2,107	2,107	2,107	2,107	2,107	2,107
Nonoperating gains (losses), net	1,211	1,211	1,211	1,211	1,211	1,211	1,211	1,211
Total Nonoperating revenues, expenses, and gains/(losses)	10,950	10,950	10,950	10,950	10,950	10,950	10,950	10,950
Increase in net position	\$36,364	\$32,385	\$28,405	\$24,425	\$20,445	\$20,253	\$10,171	\$9,798
Operating Margin	4.0%	3.4%	2.8%	2.2%	1.5%	1.5%	-0.1%	-0.2%
Total Margin	5.6%	5.0%	4.5%	3.9%	3.3%	3.2%	1.7%	1.6%

Halifax Health Medical Center
Preliminary Tax Base, Millage Rate and Estimated Tax Levies
FY 2021 Budget *
(\$ in thousands)

	Tax Base	Millage Rate, per 1,000						Current Rate 0.3546	Rolled back Rate 0.3368
		2.0000	1.7500	1.5000	1.2500	1.0000	0.9879		
FY 2021	\$19,898,559,864	\$39,797,120	\$34,822,480	\$29,847,840	\$24,873,200	\$19,898,560	\$19,657,787	\$7,056,029	\$6,702,171

* Based on Preliminary assessed total taxable value.

**Halifax Health Medical Center
Impact of Millage Rate
Homesteaded Homeowner
FY 2021 Preliminary Budget ¹**

	Prior Year	Millage Scenarios							
		2.000 Mills	1.75 Mills	1.500 Mills	1.2500 Mills	1.0000 Mill	0.9879 Mill	0.3546 Mill	Rolled Back Rate
Millage rate, per 1,000	0.3546	2.0000	1.7500	1.5000	1.2500	1.0000	0.9879	0.3546	0.3368
Homestead Property value ²	\$175,000	\$178,325	\$178,325	\$178,325	\$178,325	\$178,325	\$178,325	\$178,325	\$178,325
Exemptions	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)	(\$50,000)
Property taxes	\$44.33	\$256.65	\$224.57	\$192.49	\$160.41	\$128.33	\$126.77	\$45.50	\$43.22
Tax Levy impact to homeowner		\$212.32	\$180.24	\$148.16	\$116.08	\$84.00	\$82.44	\$1.17	(\$1.11)

¹ FY 2021 Millage rate is estimated based on the information provided from the Preliminary tax value.

² FY 2021 Property Value (Assessed value) increase is estimated at 1.9%.

**Halifax Health Medical Center
Impact of Millage Rate
Non-Homesteaded Homeowner or Commercial/Investment Property
FY 2021 Preliminary Budget ¹**

	Prior Year	Millage Scenarios							
		2.000 Mills	1.75 Mills	1.500 Mills	1.2500 Mills	1.0000 Mill	.9879 Mill	0.3546 Mill	Rolled Back Rate
Millage rate, per 1,000	0.3546	2.0000	1.7500	1.5000	1.2500	1.0000	0.9879	0.3546	0.3368
Homestead Property value ²	\$175,000	\$187,408	\$187,408	\$187,408	\$187,408	\$187,408	\$187,408	\$187,408	\$187,408
Exemptions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Property taxes	\$62.06	\$374.82	\$327.96	\$281.11	\$234.26	\$187.41	\$185.14	\$66.45	\$63.12
Tax Levy impact to homeowner		\$312.76	\$265.90	\$219.05	\$172.20	\$125.35	\$123.08	\$4.39	\$1.06

¹ FY 2021 Millage rate is estimated based on the information provided from the Preliminary tax value.

² FY 2021 Property Value increased 7.1% based on the average increase within the Halifax Taxing District excluding new construction.