

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents

June 19, 2008

ACTION REQUEST

Subject: University of Michigan Hospitals and Health Centers (UMHHC)
FY 2009 Operating Budget

Action

Requested: Approval

Background:

UMHHC has completed its annual operating budget cycle for the FY 2009 Operating Budget. The enclosed Budget is predicated upon a combination of continued inpatient and outpatient growth, inflationary rate increases, and expense management. The activity, revenue and expense projections result in a 3% operating margin, aligned with the long-term UMHHC capital investment plan.

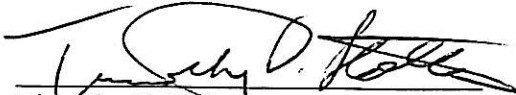
The reimbursement climate for health care is expected to continue as a significant challenge in FY 2009.

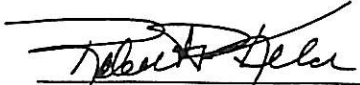
Demand for both inpatient and outpatient services remains high. Additional inpatient beds are planned for the new fiscal year, providing increased access to meet growing patient demands. This budget includes an ongoing commitment to length of stay and productivity improvements coupled with cost effectiveness strategies across inpatient and outpatient areas.

The FY 2009 UMHHC Operating Budget reflects a competitive compensation package and incremental increases in expenditures necessary to achieve the activity projections.

We recommend the Regents approve the proposed FY 2009 University of Michigan Hospitals and Health Centers' Operating Budget.

Respectfully submitted,


Timothy P. Slottow
Executive Vice President and
Chief Financial Officer


Robert P. Kelch
Executive Vice President
for Medical Affairs

June, 2008

**University of Michigan Hospitals and Health Centers
Operating Budget Assumptions
FY 2008 Forecast to FY 2009 Budget**

Activity

- 2.9% increase in bed capacity
- 88.4% occupancy rate, up slightly from 88.3% in FY08
- 2.9% growth in patient days
- 7.0% growth in outpatient activity

Revenue

- Medicare reimbursement rate increase of 1.7%
- No Medicaid reimbursement rate increase
- Positive impact of moving from M-Care rates to Blue Cross rates, offset by continued shift from commercial insurance to governmental payers
- Risk of payment reductions from governmental payers as state and federal FY 2009 budgets unfold

Expenses

- Competitive salary program
- Labor Market Funding of \$1.5M
- Activity growth and inflation on commodities of \$28M
- Increased clinical faculty payments of \$7M
- Contingency reserve of \$10M
- Added depreciation costs of \$4M

Margin Target

- 3% operating margin target, consistent with long-term financial plan

**University of Michigan Hospitals and Health Centers
Revenue and Expense Changes
FY 2008 Forecast to FY 2009 Budget**

Operating Revenue Forecast FY 2008	\$1,721 M	
• Increase in patient activity	121 M	
• Changes in payer mix	4 M	
• Reserve for governmental cuts	(4)M	
• Change in reimbursement rates	43 M	
 Operating Revenue Budget FY 2009	 \$1,885 M	 9.5%
 Total Expense Forecast FY 2008	 \$1,695 M	
• Payroll	77 M	
• Supplies	37 M	
• Contingency	10 M	
• Depreciation	4 M	
• Clinical faculty support	7 M	
• Other	(2)M	
 Total Expense Budget FY 2009	 \$1,828 M	 7.8%

UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS
FY 2009 OPERATING BUDGET
(Dollars in Millions)

	FY 2008			FY 2009		
	Budget	Forecast	Variance	Budget	Change	% Change
Operating Revenue	\$1,766	\$1,721	(\$45)	\$1,885	\$164	9.5%
Operating Expenses						
Payroll	\$944	\$937	\$7	\$1,014	\$77	8.2%
Supplies	\$518	\$519	(\$1)	\$556	\$37	7.1%
Other Non-salary	\$251	\$239	\$12	\$248	\$9	3.8%
Subtotal	\$1,713	\$1,695	\$18	\$1,818	\$123	
Contingency/reserves				\$10		
Total Expenses	\$1,713	\$1,695	\$18	\$1,828	\$133	7.8%
Operating Margin	\$53	\$26	(\$27)	\$57		
<i>Margin Percentage</i>	3.0%	1.5%		3.0%		