

Approved by the Regents  
June 21, 2012

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Proposed FY 2013 University of Michigan Hospitals and Health Centers (UMHHC) Operating Budget

Action

Requested: Approval

Background:

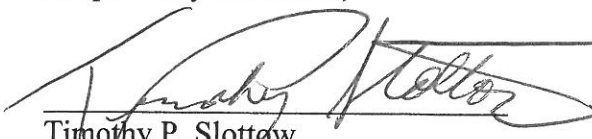
UMHHC has completed its annual operating budget process for FY 2013. The activity, revenue and expense projections result in a 0.5% operating margin of \$10.8M.

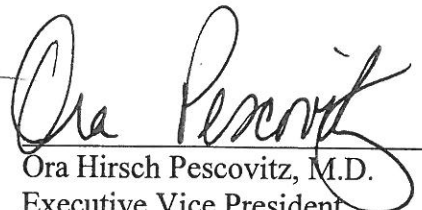
The FY13 Plan is predicated on several key assumptions: (a) significant patient discharge growth associated with capacity activation; (b) improvements to labor efficiency / staff productivity and supply expense per case; (c) Medicare / Medicaid revenue reductions due to sequestration and decreased pool reimbursements; (d) inflationary rate increases; (e) \$27M incremental fixed depreciation expense burden associated with strategic investments for the Mott Children's and Von Voigtlander Women's Hospitals as well as MiChart.

Consistent with the prior year, UMHHC leadership is developing a broader (36 month) Operating Plan for the FY13-FY15 period. The Operating Plan goal is to return UMHHC to sustained profitability levels necessary to support plans for future strategic and routine capital investments. Leadership has presented expectations to the Operating Units, with goals to positively impact the projected FY13 performance.

We recommend the Regents approve the proposed FY 2013 University of Michigan Hospitals and Health Centers' Operating Budget.

Respectfully submitted,

  
Timothy P. Slottow  
Executive Vice President and  
Chief Financial Officer

  
Ora Hirsch Pescovitz, M.D.  
Executive Vice President  
for Medical Affairs

June 21, 2012

**University of Michigan Hospitals and Health Centers**  
**Operating Budget Assumptions**  
**FY 2012 Forecast to FY 2013 Budget**

**Activity**

- 3.5% growth in discharges
- 13.5% growth in observation cases
- 87.7% occupancy rate, up from 87.4% in FY2012
- 4.0% growth in clinic visits
- 5.3% adjusted case growth

**Revenue**

- Small decrease in Medicare payment per adjusted case, inflation is offset by federal budgetary reductions
- No change in Medicaid rates expected, other than annualizing FY2012 mid-year changes
- Blue Cross and commercial increase per contracts
- Continued but moderate shift towards government payers
- Risk of additional payment reductions from government payers as state and federal FY2013 budgets unfold
- Revenue Cycle initiatives to improve overall revenue per claim

**Expenses**

- Maintain competitive salaries
- -2.5% FTE Efficiency / Productivity improvement
- Supply cost per case increase of 2% (commodity inflation and utilization), with gross \$33M increase in Supply Costs (volume + inflation)

**Margin Target**

- 0.5% Operating Margin target

**University of Michigan Hospitals and Health Centers  
Revenue and Expense Changes  
FY 2012 Forecast to FY 2013 Budget**

**Operating Revenue**

**Forecast FY 2012**

**\$2,240 M**

- Increase in patient activity 116 M
- Changes in payer mix (7) M
- Change in reimbursement rates 41 M

**Operating Revenue Budget FY 2013**

**\$2,390 M**

**6.7%**

**Total Expense**

**Forecast FY 2012**

**\$2,252 M**

- Payroll 72 M
- Supplies 33 M
- Depreciation 15 M
- Other Expenses 7 M

**Total Expense Budget FY 2013**

**\$2,379 M**

**5.7%**

**UNIVERSITY OF MICHIGAN HOSPITALS AND HEALTH CENTERS**  
**FY 2013 OPERATING BUDGET**  
(Dollars in Millions)

|                           | <b>FY13<br/>Forecast</b> | <b>FY12<br/>Forecast</b> | <b>Y2Y %</b> | <b>FY11<br/>Actual</b> | <b>Y2Y %</b> |
|---------------------------|--------------------------|--------------------------|--------------|------------------------|--------------|
| <b>Operating Revenue</b>  | <b>\$2,390.0</b>         | <b>\$2,240.4</b>         | <b>6.7%</b>  | <b>\$2,099.5</b>       | <b>6.7%</b>  |
| <b>Operating Expenses</b> |                          |                          |              |                        |              |
| Payroll                   | \$1,197.8                | \$1,125.6                | 6.4%         | \$1,041.0              | 8.1%         |
| Supplies                  | \$473.4                  | \$440.8                  | 7.4%         | \$395.3                | 11.5%        |
| Depreciation              | \$198.6                  | \$183.9                  | 8.0%         | \$144.2                | 27.5%        |
| Facility Bad Debt         | \$76.1                   | \$78.6                   | -3.2%        | \$68.9                 | 14.1%        |
| Shared Services           | \$67.0                   | \$67.0                   | 0.0%         | \$60.4                 | 10.9%        |
| Other Non-Salary          | \$366.3                  | \$355.8                  | 2.9%         | \$332.7                | 6.9%         |
| <b>Total Expenses</b>     | <b>\$2,379.2</b>         | <b>\$2,251.7</b>         | <b>5.7%</b>  | <b>\$2,042.5</b>       | <b>10.2%</b> |
| <b>Operating Margin</b>   | <b>\$10.8</b>            | <b>(\$11.3)</b>          |              | <b>\$57.0</b>          |              |
| Margin %                  | <b>0.5%</b>              | <b>-0.5%</b>             |              | <b>2.7%</b>            |              |