



FY 21 Forecast & Budget Presentation

*ECH Board of Directors
August 12, 2020*



Objectives

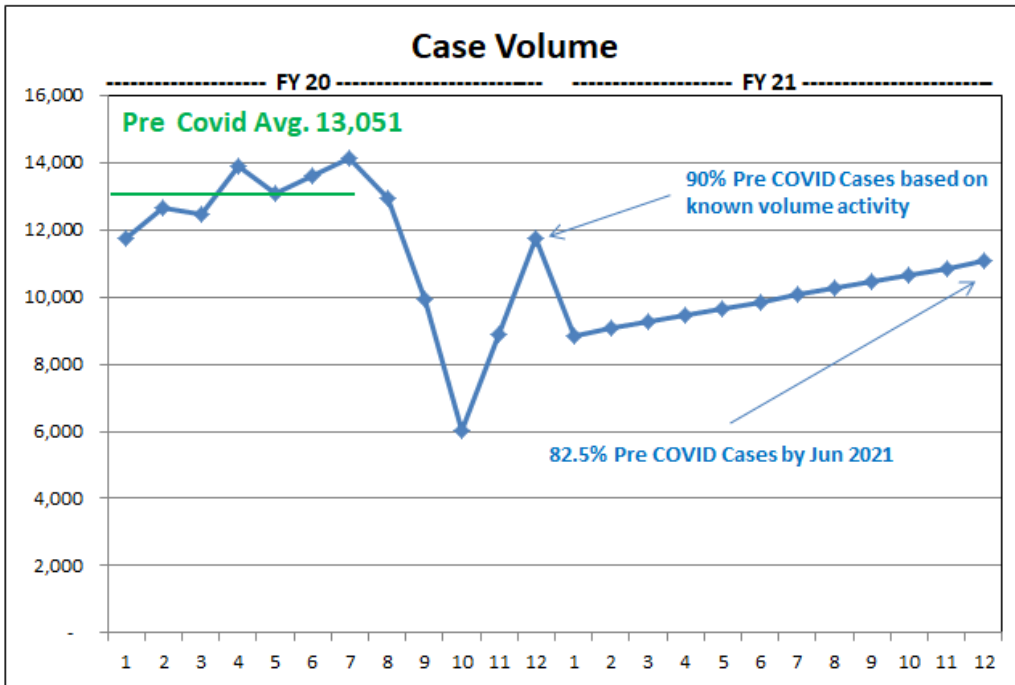
- Present baseline budget for FY21
 - Based on the FY21 forecast version 1
- Discuss the drivers and key assumptions being presented and the inherent risks
- Have an interactive discussion during this presentation



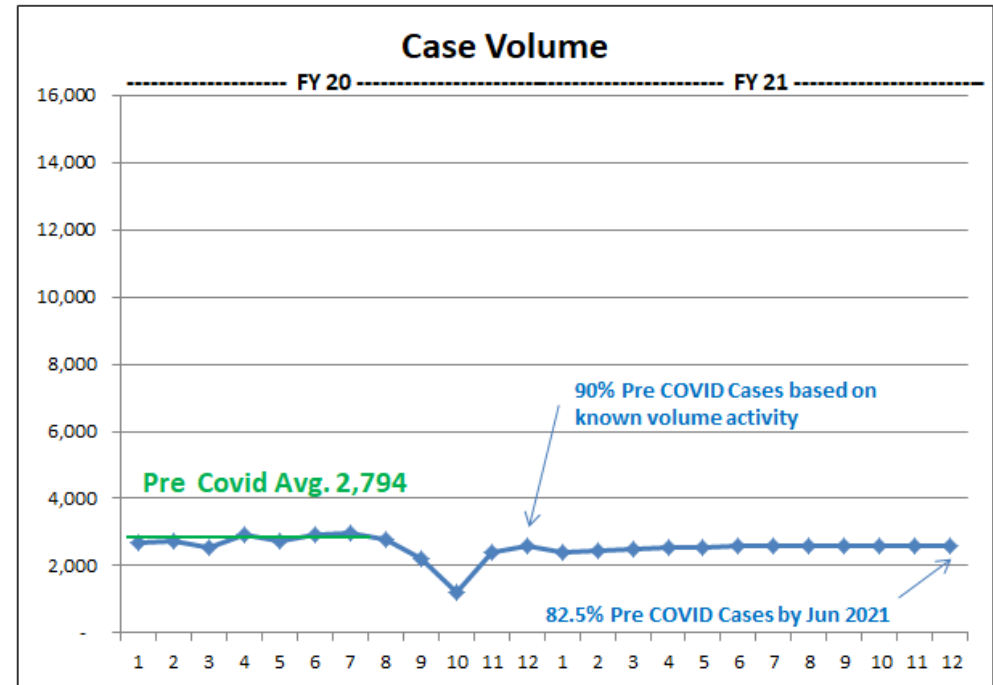
El Camino Hospitals Key Assumptions

Financial Forecast Update – Hospital Overall Volumes

Mountain View



Los Gatos



Key Assumptions-P/L

| Category | Item Description | Assumptions | Comments |
|-------------------------------|--------------------|--|---|
| Revenue – Net Patient Revenue | By Product & Payor | Driven by historical net revenue per case | Includes contract increase assumptions July 1 |
| Revenue - General | Rate increase | 3% annually for HMO/PPO payer, 1% for Gov't. Overall 2.6% (Current Plan) | Affordability - to remain mid-market |
| | Payor Mix | Based on Actual July-May Experience | Held flat through projection period. |

Key Assumptions-PL

| Category | Item Description | Assumptions | Comments |
|------------------|-------------------------------|--|--|
| Labor - Salaries | Variable Departments | FY20 Budget Productivity Targets applied with adjustments made for FY20 approved additions/changes | Productivity metric applied to projected departmental volumes to arrive at productive FTEs. Annual Wage increases included |
| | Fixed Departments | Held flat at current levels | Model will allow for projected flexing Annual wage increases included |
| Labor - Benefits | All Departments | Overall Hospitals Benefits rate established based on July19- April 20 actuals | Benefit rate applied to projected Salaries |
| Inflation/Other | Wages and benefits | Inflation: 3.0% | Per contractual obligation and historical trend |
| | Pharmacy | Inflation: 4.2% | From GPO. Includes inflation and utilization of lower cost alternatives |
| | Supplies | Inflation: 2.0% | From GPO |
| | Purchased Services/Consulting | Overall Reduction: 10% | |



ECHMN

Key Assumptions

Key Assumptions-Volume

| Category | Timeframe | Method |
|---|--|--|
| Visits and Activity from Operating Revenues | <ul style="list-style-type: none"> FY20 Actual FY21 Forecast/ Budget | <ul style="list-style-type: none"> Includes FY 20 actuals through May with estimates for June FY 21 Forecast based on July 2019 – January 2020 Actuals annualized for same store practices plus new providers added. July 2020 – September 2020: Monthly volume growth forecast to achieve 85% of pre Covid volume levels (Jul 2019 – Feb 2020) October 2020 – December 2020: Monthly volume growth forecast to achieve 100% of pre Covid volume levels January 2021 – June 2021: Monthly volume growth forecast to achieve 105% of pre Covid volume levels |

Key Assumptions-PL

| Category | Item Description | Assumptions | Comments |
|-----------------------------------|--|--|--|
| Patient Revenue - Charges | By Specialty and Provider | Driven by historical charge per visit by provider | Adjusted for changes in physicians. |
| Net Patient Revenue | Rate Increase and Revenue Cycle Improvements | Historical PPO reimbursement levels adjusted for FY 21 contract improvements and 1% annual update for Medicare funded programs | Adds \$2.5M in PPO plan reimbursement and \$82K from Medicare |
| | Payor Mix | Based on Actual July-April historical payor mix | Held flat through FY 21 |
| Premium Revenue | Managed Care | Lives and premium revenues at current levels | May be opportunity to add plans and lives during second half of fiscal year. |
| Hospitalist / Intensivist Program | County of Santa Clara contract | Based on proposal submitted to County | Currently awaiting notice from County as to status of proposal. Contract renewal may be at risk. |

Key Assumptions- PL

| Category | Item Description | Assumptions | Comments |
|-------------------|--------------------------|---|--|
| Labor - Salaries | Clinic Departments | Staffing levels at required levels by department and projected volumes | Includes restructure of Willow Glen Urgent Care department |
| | Represented Staff | Adjusted current below market rates to reflect potential impact from negotiations | Adds approximately \$1.7M in salary and benefit costs |
| | Open Positions | Open positions will be frozen | Reduces operating loss by \$1.4M |
| Labor – Benefits | All Departments | Overall benefit rate established based on July 19- April 20 actuals | Benefit rate applied to projected salaries |
| Inflation | Wages and benefits | 3% | Based on organizational estimate |
| Lab Draw Stations | Service to be outsourced | All lab draw stations to be outsourced to third party. | Reduces annual operating loss by \$1M |



Capital Budget

Routine Capital Budget Pool

- Due to the current environment and other priorities management has not performed the typical standard capital budget forecast for Fiscal Year 2021
- Proposal
 - Establish a \$20M ***routine*** capital pool of dollars based on the EBIDA forecast less other cash flow items including principal and interest payments. This pool of funds is meant for the following categories:
 - Medical Equipment
 - Equipment
 - IT
- Additionally there are currently approved fully funded projects & partially funded projects
 - For fully funded projects management estimates \$51.4 million in expenditures for Fiscal Year 2021, these amounts are included in the cash flow estimates (a detailed list is in the appendix)
 - For partially funded projects management estimates \$42.6 million in potential expenditures for Fiscal year 2021, these amounts are NOT included in the cash flow estimates (a detailed list is in the appendix)
 - *The outstanding projects will be assessed and evaluated during Fiscal year 2021 by management*



Consolidated Results

Consolidated P&L FY20 Budget & FY20 Proj. Compared to FY21

| Enterprise (Excl District) \$ in Millions | FY20 Budget | FY20 Actual (Annualized) | FY21 Budget | Delta | Delta % |
|--|----------------|-----------------------------|---------------|---------------|----------------|
| Net Patient Revenue | 1,003.7 | 964.1 | 893.1 | (71.0) | -7.4% |
| Other Operating Revenue | 54.5 | 51.9 | 54.1 | 2.2 | 4.2% |
| Total Net Revenue | 1,058.2 | 1,016.0 | 947.2 | (68.8) | -6.8% |
| Salaries, Wages & Benefits | 557.7 | 554.0 | 534.2 | (19.8) | -3.6% |
| Supplies & Drugs | 146.8 | 154.0 | 135.7 | (18.3) | -11.9% |
| Physician Fees | 64.5 | 56.8 | 65.1 | 8.3 | 14.5% |
| Purchased Services & Consulting | 93.1 | 114.1 | 106.2 | (7.9) | -6.9% |
| All Other (Leases, G&A Other) | 46.0 | 44.6 | 50.1 | 5.5 | 12.3% |
| Depreciation & Interest | 71.4 | 63.0 | 79.6 | 16.6 | 26.3% |
| Total Operating Expense | 979.4 | 986.5 | 970.9 | (15.6) | -1.6% |
| Operating Margin | 78.8 | 29.5 | (23.7) | (53.2) | -180.6% |
| Non Operating Income/Expense | 38.2 | 36.3 | 35.5 | (0.8) | -2.1% |
| Net Margin | 117.0 | 65.7 | 11.8 | (54.0) | -82.1% |
| EBIDA | 150.2 | 92.4 | 55.8 | (36.6) | -39.6% |
| EBIDA Margin | 14.2% | 9.1% | 5.9% | | |
| Operating Margin | 7.4% | 2.9% | -2.5% | | |
| Total Margin | 11.1% | 6.5% | 1.2% | | |

Summary Cash Flow Statement

(000's)

Forecasted EBIDA

FY 21 Budget

\$ 55,800

Less:

Principal Payments (1)

(9,020)

Interest Payments (1)

(20,312)

Pension Contribution in excess of Pension Expense

(6,500)

Total Deductions

(35,832)

Cash Available for Routine Capital Expenditures

19,968

Cash Payments for previously approved projects

(51,358)

Operating Cash Flow

(31,390)

Non-Operating Income

35,500

FY 2021 Forecasted Cash Flow

\$ 4,110

(1) Amounts are for 2015 and 2017 non-District bonds

Key Consolidated High Level Metrics

| | Fiscal Year 2020 | Fiscal Year 2021 | S&P AA Median Metrics |
|-------------------------------------|---------------------|---------------------|--------------------------|
| Financial Operating Metrics: | | | |
| Operating Margin | 2.9% | (2.5%) | 4.4% |
| Operating EBIDA Margin | 9.1% | 5.9% | 11.1% |
| Financial Position Metrics: | | | |
| Days Cash On Hand | 488 | 506 | 363 |
| Debt to Equity | 23% | 22% | 19% |

S&P Medians are based on FY 2018, latest available



Summary

Summary

- The continued financial recovery from the COVID 19 pandemic is a long road
- Management has prepared a budget that reflects the current short-term tactics as well as a plan to thoughtfully "right size" the cost structure going forward
 - We have called out risk factors along the way and with COVID 19 as an industry we are back to the basics of volumes, payer mix and cost containment
- ADDITIONAL QUESTIONS & COMMENTS
- THANK YOU

Proposed Motion

- To approve and adopt the Fiscal Year 2021 Budget as recommended by the Finance Committee on July 27, 2020.