

**WASHINGTON HOSPITAL
BUDGET ESTIMATE**

FY 2020/2021

DIRECTORS AND OFFICERS

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

2000 Mowry Avenue
Fremont, California 94538
(510) 797-1111

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**BUDGET
FY 2020/21**

MISSION STATEMENT

MISSION STATEMENT

As the local Health Care District, our mission is to meet the health care needs of the District residents through medical services, education and research.

Within this scope, Washington Township Health Care District is committed to assuming the leadership role in improving and maintaining the health status of the residents by:

- Identifying and assessing community health care needs.*
- Developing mechanisms to respond to the identified needs with the financial capabilities of the District.*
- Committing to a culture of patient safety and accountability.*
- Adopting identified best practices.*
- Providing access to high quality, cost-effective health services through an integrated delivery system.*
- Partnering with a diverse medical staff, academic medical centers and other providers to meet the health care needs of district residents.*
- Providing appropriate employee, professional and community educational resources to enhance patient care and health promotion throughout the District.*

VISION STATEMENT

To support the fulfillment of the mission, the District's strategic vision is to be the regional medical center of Southern Alameda County offering services that span the full range of care within the available financial resources.

Washington Township Health Care District
Resolved by the Board of Directors
Washington Township Health Care District
April 22, 2020

**BUDGET
FY 2020/21**

ESTIMATE

**WASHINGTON HOSPITAL
BUDGET ESTIMATE**

(In thousands)

I.	<u>REVENUE</u>	\$484,547
A.	<u>Net Operating Revenue</u>	\$460,646
	Patient Service Revenue	\$2,028,817
	Less: Contractual Allowances and Provisions	1,574,059
	Net Patient Service Revenue	454,758
	Other Operating Revenue	5,888
B.	<u>Net Non-Operating Revenue</u>	\$23,901
	Investment Income	\$3,796
	Rental Income, Net of Amortization	2,788
	General Obligation Bond Property Tax Revenue	17,317
II.	<u>EXPENDITURES</u>	\$484,547
A.	<u>Operating Expenditures</u>	\$489,789
	Salaries, Wages & Benefits	\$284,004
	Supplies & Services	131,385
	Insurance	2,576
	Utilities	5,568
	Reserves - Depreciation	48,762
	Revenue Bond Debt Service	17,494
B.	<u>Non-Operating Expenditures</u>	(\$5,242)
	Plant & Equipment	\$14,112
	General Obligation Bond Debt Service	18,046
	Reserves - Capital & Operations	(37,400)

INCOME STATEMENT

<i>(In thousands)</i>	Budget Estimate FY 2020/21	Projected FY 2019/20*	Change	Percent Change
Patient Service Revenue				
Inpatient - Routine	\$369,863	\$371,315	(\$1,452)	-0.4%
Inpatient - Ancillary	917,391	961,238	(43,847)	-4.6%
Outpatient	741,563	650,371	91,192	14.0%
Total Patient Service Revenue	\$2,028,817	\$1,982,924	\$45,893	2.3%
Contractual Allowances	(\$1,532,501)	(\$1,496,100)	(\$36,401)	-2.4%
Provisions for Charity and Doubtful Accounts	(\$41,558)	(\$40,452)	(\$1,106)	-2.7%
Total Contractual Allowances and Provisions	(\$1,574,059)	(\$1,536,552)	(\$37,507)	-2.4%
Contractual Allowances as a % of Revenue	75.5%	75.4%		
Provision for Charity and Doubtful Accounts as a % of Revenue	2.0%	2.0%		
Net Patient Service Revenue	\$454,758	\$446,372	\$8,386	1.9%
Other Operating Revenue	\$5,888	\$6,955	(\$1,067)	-15.3%
Net Operating Revenue	\$460,646	\$453,327	\$7,319	1.6%
Operating Expenses				
Salaries	\$205,493	\$213,081	\$7,588	3.6%
Benefits	78,511	77,312	(1,199)	-1.6%
Professional Fees	31,237	28,671	(2,566)	-8.9%
Supplies	61,867	57,683	(4,184)	-7.3%
Purchased Services	26,135	22,473	(3,662)	-16.3%
Utilities	5,568	5,401	(167)	-3.1%
Insurance	2,576	1,895	(681)	-35.9%
Marketing & Advertising	1,380	1,537	157	10.2%
Software Licenses & Maintenance	6,818	6,244	(574)	-9.2%
Other Expenses	3,948	3,935	(13)	-0.3%
Depreciation	48,762	48,511	(251)	-0.5%
Total Operating Expenses	\$472,295	\$466,743	(\$5,552)	-1.2%
Loss from Operations	(\$11,649)	(\$13,416)	\$1,767	13.2%
Operating Margin	-2.5%	-3.0%		
Net Non-Operating Income & Expense				
Investment Income	\$3,796	\$3,882	(\$86)	-2.2%
General Obligation Bond Property Tax Revenue	17,317	17,026	291	1.7%
Interest Expense	(25,712)	(22,269)	(3,443)	-15.5%
Rental Income, Net	2,788	2,539	249	9.8%
Realized Gain/(Loss) on Investments	-	1,165	(1,165)	-100.0%
Unrealized Gain/(Loss) on Investments	-	2,953	(2,953)	-100.0%
Total Net Non-Operating Income & Expense	(\$1,811)	\$5,296	(\$7,107)	-134.2%
Net Loss	(\$13,460)	(\$8,120)	(\$5,340)	-65.8%
Net Margin	-2.9%	-1.8%		

* HHS Stimulus Funds of \$28.7 million are not included in this projection.

BUDGET
FY 2020/21

NARRATIVE



Washington Hospital Healthcare System

2000 Mowry Avenue, Fremont, California 94538-1716 | 510.797.1111
www.whhs.com

DATE: July 16, 2020

TO: BOARD OF DIRECTORS

FROM: Kimberly Hartz, Chief Executive Officer

SUBJECT: Proposed FY 2020/2021 Budget Estimate for the Washington Township Health Care District

The Budget Estimate for Fiscal Year 2020/2021 will be presented to the Board of Directors at the July 20, 2020 meeting. Upon approval by the Board of Directors, the Budget will constitute authority for the Chief Executive Officer to meet the financial obligations of the Healthcare System within available funds, in accordance with the District's Mission Statement, applicable laws, regulations, procedures and precedents pertaining to the District.

The FY 2020/2021 Budget for Washington Township Health Care District provides for net operating revenue in the amount of \$460,646,000 and total operating expenses of \$472,295,000. This year, total depreciation is budgeted at \$48,762,000. We are projecting an operating loss of \$11,649,000. Our Capital spending requests are budgeted at \$14,112,000.

These projections are based on having to budget during a period of great uncertainty given the COVID-19 pandemic along with our current understanding of the extremely unstable state of the healthcare industry: locally, statewide and nationally. We all realize that in mid-March 2020, the world changed for California hospitals, including Washington Hospital Healthcare System. As COVID-19 infections began spreading across California, Governor Gavin Newsom declared a State of Emergency due to the pandemic. On March 17, 2020 Alameda County issued a "shelter in place" order. Washington Hospital, along with the other hospitals in the County, cancelled all elective and non-urgent services. These actions had significant and immediate impacts on hospital patient volumes and revenue. Additionally, operating expenses increased substantially due to COVID-19 surge preparations including implementation of new care protocols, procurement of suddenly expensive and hard-to-find personal protective equipment (PPE), acquisition of testing equipment and other medical equipment, additional staffing, and facility improvements to accommodate additional patients. These actions were necessary to address the unprecedented public health emergency, and the impacts on Washington Hospital have been extensive and costly.

Experts warn that the recovery pace for hospitals will be slow and that "normal" hospital volume will not come back quickly. It may be some time before we establish what a new "normal" will look like. We will continue to experience surges in COVID-19 cases until a vaccine can be developed, and patients will delay care due to anxiety about accessing health care services. Therefore, the overall volume assumptions underlying this budget are based on returning to no more than 90% of normal by the end of the year. There are some services, such as Obstetrics, where the impact of COVID-19, we feel, will be less.

Kimberly Hartz, Chief Executive Officer

Washington Township Health Care District • Washington Hospital • Institute for Joint Restoration and Research • Sandy Amos RN Infusion Center
Taylor McAdam Bell Neuroscience Institute • UCSF - Washington Cancer Center • Washington Center for Wound Healing & Hyperbaric Medicine
Washington Maternal Child Education • Washington on Wheels • Washington Outpatient Diabetes Program • Washington Outpatient Imaging Center
Washington Outpatient Rehabilitation Center • Washington Outpatient Surgery Center • Washington Prenatal Diagnostic Center
Washington Radiation Oncology Center • Washington Special Care Nursery • Washington Sports Medicine • Washington Township Medical Foundation
Washington Urgent Care • Washington Wellness Center • Washington Women's Center



The budget is also built on the following priorities: managing the COVID-19 situation along with maintaining day to day operations, managing our financial resources and health, and the continued implementation of our Strategic Map initiatives necessary for building the future of the Health Care District. Additionally, the assumptions underlying this budget provide the necessary resources to sustain, and to continue to improve, our clinical excellence, and supports our important institutional commitment to the Patient First Ethic.

Our budget assumptions directly depend on how the COVID-19 situation progresses throughout the year and on many other external economic conditions. The effect of the pandemic on the economy in the long term is impossible to determine at this point. Unemployment levels could continue to increase if an effective vaccine is not developed and if they do, we are likely to see an increase in the uninsured and underinsured. It should also be noted that Congress did recognize the financial strain hospitals were facing and passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Paycheck Protection Program and Health Care Enhancement Act, which together provided \$175 billion in emergency funding for hospitals and other health care organizations. On April 10, the Department of Health and Human Services began disbursing this funding. Washington Hospital Healthcare System did receive funding through the CARES Act Provider Relief Fund program which will help to offset the shortfall in net patient revenue that was experienced. This funding has also helped to ensure that our balance sheet is in a position of financial strength in such areas as Days Cash on Hand as we go into FY2020-21. It is uncertain if additional funding will be available in subsequent legislation.

Washington Hospital Healthcare System has experienced some of the most unprecedented medical and economic challenges in its history. Despite this, we have worked diligently to develop a spending plan for our Health Care District during a time of great chaos, economic and regulatory uncertainty. We recognize that we must continue to move forward with our strategic initiatives and at the same time work on a plan to address the long-term financial health of Washington Hospital Healthcare System. We also acknowledge that the situation that we are facing continues to evolve, and as we gain a better understanding of the future, we may be required to amend our budget estimate during the course of this fiscal year.

KIMBERLY HARTZ
Chief Executive Officer

please see attachments

PLANS AND PRIORITIES

The Strategic Map for FY 2020/2021 is a starting point for developing our Budget. The major activities of the Strategic Map are:

- Develop and Implement Growth Strategies and Marketing Strategies for Targeted Services Lines
 - Cardiac Services
 - Oncology
 - Maternal Child Health
 - Neurosciences
 - Orthopedics
- Expand and Strengthen Physician Alignment
- Continue to Develop Behavioral Health Services for the Community
- Begin Implementation of the Third Phase of the Facilities Master Plan
- Continue to Enhance the Patient Experience
- Strengthen and Expand Strategic Alliances and Partnerships

These priorities have been included in the FY 2020/2021 budget.

SERVICE VOLUMES

Admissions for FY 2020/2021 are budgeted with a 1.3% decrease as compared to FY 2019/2020, primarily driven by the uncertainty created by the COVID-19 pandemic and the continued shift in Joint Replacement cases from inpatient to outpatient. A decrease in patient days of 3.1% is projected in the budget for FY 2020/2021. The decrease in patient days is directly related to the decrease in admissions.

Outpatient visits are expected to increase 4% compared to FY 2019/2020 due to continued growth in the Infusion center and our OB product line.

These changes are reflected in revenues, reimbursement and expenses in this Budget.

PATIENT SERVICE REVENUES

The slight contractual write-off percentage increase is related to a market based adjustment offset by improvements in some of our commercial payor contracts. .

OTHER OPERATING REVENUES

The decrease reflects a reduction in the funding we will receive from the 2020 Medi-Cal waiver PRIME program which was extended to December 2020.

OPERATING EXPENDITURES

Significant factors influencing the overall 1.2% increase in operating expenditures for the budget year 2020/2021 are as follows:

- Increases in labor costs of 3.6% largely due to contractual obligations offset by a reduction in volume.
- Professional fees are expected to increase 8.9% due to anticipated growth in our Oncology program and Prenatal Diagnostic Clinic. Additionally, we are expecting higher costs in our Hospitalist backstops which relate to the reduction in anticipated volume.
- Supplies are expected to increase 7.3% due to increased volume in our infusion center, joint replacement volume and the impact of inflation.
- Purchased Services are expected to increase 16.3% as several pieces of equipment purchased for the Morris Hyman Critical Care Pavilion are coming off of warranty. Additionally this is a District election year.
- Utilities are expected to increase 3.1% due to inflation.
- Marketing & Advertising is expected to decrease 10.2% as the relationship with KGO Bay Area Healthier Together has ended.
- Depreciation is increasing .5% relating to anticipated capital spending during the year.

NON-OPERATING INCOME

- Investment income is projected to decrease slightly compared to FY 2019/2020.
- Rental income is estimated to increase 9.8% in anticipation of contracted rent increases and a higher occupancy rate.
- As part of the District's continuing budget policy, realized and unrealized gains or losses on the investment portfolio are not budgeted due to the unpredictability of market performance.
- General Obligation Bond Property Tax Revenue of \$17.3 million provides for the net debt service requirements on our General Obligation Bonds for the budget year.

BUDGET
FY 2020/21

STATISTICS

VOLUMES

	Budget Estimate FY 2020/21	Projected FY 2019/20	Change	Percent Change
Admissions	10,475	10,615	(140)	-1.3%
Patient Days	51,569	53,231	(1,662)	-3.1%
Average Daily Census (ADC)	141	145	(4)	-2.8%
Outpatient Observation Days	2,062	2,082	(20)	-1.0%
Overall Average Length of Stay	4.92	4.95	(0.03)	-0.6%
Deliveries	1,624	1,530	94	6.1%
Surgical Cases	4,471	4,183	288	6.9%
Joint Replacement Cases (a)	1,922	1,672	250	15.0%
Cardiac Surgical Cases (a)	129	114	15	13.2%
Neuro-Surgical Cases (a)	250	258	(8)	-3.1%
General Surgical Cases (a)	2,170	2,139	31	1.4%
Cath Lab Procedures	4,316	4,528	(212)	-4.7%
Cardiac Procedures (b)	1,470	1,433	37	2.6%
Peripheral Vascular Procedures (b)	1,902	2,078	(176)	-8.5%
Neuro-Radiology Procedures (b)	67	65	2	3.1%
Non-Vascular Procedures (b)	877	952	(75)	-7.9%
Emergency Room Visits	48,454	47,773	681	1.4%
Rapid Screening and Treatment Unit	24,985	4,313	20,672	479.3%
Outpatient Visits	86,321	82,963	3,358	4.0%

(a) Included in Surgical Cases

(b) Included in Cath Lab Procedures

PERFORMANCE INDICATORS

	Budget Estimate FY 2020/21	Projected FY 2019/20	Percent Change
<u>Productivity</u>			
Total Productive FTEs	1,248.8	1,291.0	-3.3%
Non-Productive FTEs	176.5	184.9	-4.5%
Total Paid FTEs	1,425.3	1,475.9	-3.4%
Total Productive Hours/Adj. Patient Days	32.1	34.0	-5.6%
Paid FTEs/Adjusted Occupied Bed	6.4	6.8	-5.9%
Productive FTEs/Adjusted Occupied Bed	5.6	6.0	-6.7%
<u>Financial Indicators</u>			
Contractual Allowances as a % of Revenue	75.5%	75.4%	
Provision for Charity & Doubtful Accounts as a % of Revenue	2.0%	2.0%	
Supplies/Net Patient Revenue %	13.6%	12.9%	
Operating Margin	-2.5%	-3.0%	

BUDGET
FY 2020/21

REVENUE

PATIENT SERVICE REVENUE

<i>(In thousands)</i>	Budget Estimate FY 2020/21	Projected FY 2019/20
Patient Service Revenue:		
Inpatient - Routine	\$369,863	\$371,315
Inpatient - Ancillary	917,391	961,238
Outpatient	741,563	650,371
Total Patient Service Revenue	\$2,028,817	\$1,982,924
Contractual Allowances and Provisions:		
Medicare/Medi-Cal Allowances	(\$904,721)	(\$896,332)
HMO/PPO & Other Allowances	(627,780)	(599,768)
Provision for Charity and Doubtful Accounts	(41,558)	(40,452)
Total Contractual Allowances and Provisions	(\$1,574,059)	(\$1,536,552)
Total Net Patient Service Revenue	\$454,758	\$446,372
Total Net Patient Service Revenue as a Percent of Patient Service Revenue	22.4%	22.5%

OTHER OPERATING REVENUE

<i>(In thousands)</i>	Budget Estimate FY 2020/21	Projected FY 2019/20	Percent Change
Cafeteria	\$722	\$662	9.1%
Health Education	161	131	22.9%
Outside Services	612	547	11.9%
PRIME Project Funding	1,500	2,750	-45.5%
Other Revenue	2,893	2,865	1.0%
Total Other Operating Revenue	\$5,888	\$6,955	-15.3%

**BUDGET
FY 2020/21**

EXPENSE SUMMARY

OPERATING EXPENSES

<i>(In thousands)</i>	Budget Estimate FY 2020/21	Projected FY 2019/20	Percent Change
Salaries	\$205,493	\$213,081	3.6%
Benefits	78,511	77,312	-1.6%
Professional Fees	31,237	28,671	-8.9%
Supplies	61,867	57,683	-7.3%
Purchased Services	26,135	22,473	-16.3%
Utilities	5,568	5,401	-3.1%
Insurance	2,576	1,895	-35.9%
Marketing & Advertising	1,380	1,537	10.2%
Software Licenses & Maintenance	6,818	6,244	-9.2%
Other Expenses	3,948	3,935	-0.3%
Depreciation	48,762	48,511	-0.5%
Total Operating Expenses	\$472,295	\$466,743	-1.2%

**BUDGET
FY 2020/21**

**NON-OPERATING
INCOME**

NET NON-OPERATING INCOME & EXPENSE

<i>(In thousands)</i>	Budget Estimate FY 2020/21	Projected FY 2019/20	Percent Change
Investment Income	\$3,796	\$3,882	-2.2%
GO Bond Property Tax Revenue	17,317	17,026	1.7%
Interest Expense	(25,712)	(22,269)	-15.5%
Rental Income, Net	2,788	2,539	9.8%
Subtotal	(\$1,811)	\$1,178	-253.7%
Realized Gain/(Loss) on Investments *	-	1,165	-100.0%
Unrealized Gain/(Loss) on Investments *	-	2,953	-100.0%
Total Net Non-Operating Income & Expense	(\$1,811)	\$5,296	-134.2%

* Washington Hospital does not budget for gains or losses on investments.

BUDGET
FY 2020/21

CAPITAL BUDGET

CAPITAL BUDGET

<i>(In thousands)</i>	Division	Budget Estimate FY 2020/21
<u>Equipment</u>		
	System Operations & Support	\$1,422
	Information Systems	841
	Ambulatory Care Services	42
	Patient Care Services	83
	Rehab and Education Services	8
	Total Equipment	\$2,396
 <u>Projects</u>		
	CJR Build Out	\$4,004
	Warm Springs	3,650
	Routine Facilities Projects	1,575
	FOC - Cardiology Build Out	1,314
	Information Systems Projects	1,173
	Total Projects	\$11,716
	Total Capital Budget	\$14,112