



**SONOMA VALLEY HEALTH CARE DISTRICT
JOINT BOARD OF DIRECTORS AND FINANCE
COMMITTEE
SPECIAL BUDGET STUDY SESSION AGENDA
MAY 24, 2022**

SPECIAL SESSION 4:00 P.M.

HELD VIA ZOOM VIDEOCONFERENCE ONLY

**To participate via Zoom videoconferencing
use the link below:**

[https://sonomavalleyhospital-
org.zoom.us/j/93836439841?pwd=WFN6OUZidkpxS0VJOU5rUk
NEUDlyUT09&from=addon](https://sonomavalleyhospital-org.zoom.us/j/93836439841?pwd=WFN6OUZidkpxS0VJOU5rUkNEUDlyUT09&from=addon)

and enter the Meeting ID: 938 3643 9841, Passcode: 065368

**To participate via telephone only,
dial: 1 669 900 9128**

and enter the Meeting ID: 938 3643 9841, Passcode: 065368

<p>In compliance with the Americans Disabilities Act, if you require special accommodations to participate in a District meeting, please contact District Clerk Jenny Fontes at jfontes@sonomavalleyhospital.org or (707) 935.5005 at least 48 hours prior to the meeting.</p>	RECOMMENDATION	
AGENDA ITEM		
<p>MISSION STATEMENT <i>The mission of SVHCD is to maintain, improve, and restore the health of everyone in our community.</i></p>		
<p>1. CALL TO ORDER</p>	Rymer	
<p>2. PUBLIC COMMENT <i>At this time, members of the public may comment on any item not appearing on the agenda. It is recommended that you keep your comments to three minutes or less. Under State Law, matters presented under this item cannot be discussed or acted upon by the Board at this time. For items appearing on the agenda, the public will be invited to make comments at the time the item comes up for Board consideration. At all times, please use the microphone.</i></p>	Rymer	
<p>3. FISCAL YEAR 2023 BUDGET</p>	Armfield	Inform
<p>4. ADJOURN</p>	Rymer	

Note: To view this meeting you may visit <http://sonomatv.org/> or YouTube.com.



To: SVH Board & Finance Committee
From: Benjamin Armfield, CFO
Date: May 24, 2022
Subject: DRAFT Fiscal Year 2023 Budget for July 1, 2022 through June 30, 2023

OVERVIEW:

Fiscal Year 2022 has seen continued growth in patient volumes, particularly in the outpatient setting. While our inpatient volumes are basically flat year over year, they continue to be lower than what the hospital had been running pre-pandemic. However, we have seen significant volume growth in our outpatient volumes over this past fiscal year to the point where they now exceed pre-pandemic levels. Year to date through April, our outpatient surgical volumes and total outpatient visits are 4% and 17% above prior year, respectively.

We anticipate this trend continuing into FY 2023 and our budget methodology reflects that approach. Similar to the prior year, we used current year volume and expense trends from July through January as our baseline, and then adjusted based on anticipated impact of key strategic initiatives and known external factors. Overall, we are expecting further volume growth in our outpatient business lines while maintaining current volume levels on the inpatient side.

FY 2023 will certainly be a significant year for Sonoma Valley Hospital. While we continue to work on numerous strategic priority initiatives that focus on program growth and further alignment with our patients and physician partners in the community, we are about to kick-off one of the biggest initiatives to date which is the implementation of our new electronic medical record platform, Epic. This is a critical, foundational item that is needed to support our vision of growth and enhanced coordination of care for patients in our community. The conversion to Epic is reflected in the upcoming fiscal year's budget in respect to cost. However, no budgetary considerations were made if the hospital experiences any disruption, operationally and/or financially, caused by the conversion itself. While the hospital will make every effort to minimize any potential disruption, it is a variable that could impact financial results during this next fiscal year.

Another key operational initiative that will have an impact on next year's results is our compensation market analysis we are in the process of completing with a consultative third-party. This will help us understand where we are positioned in the market as well as provide direction on where we need to make strategic adjustments – specifically in addressing ongoing recruitment and retention challenges of certain hard to fill positions. Preliminary work on this analysis is being completed but the overall project is still ongoing, so any funding put into the FY 2023 budget for this initiative is an estimate. Currently, we have placed an additional \$240,000 in next year's budget to provide funding for these potential market adjustments.

ASSUMPTIONS:

The Draft FY 2023 Budget is presented with the following assumptions included:

- Volumes are annualized based on the seven-month period of July 2021 through January 2022
- Inpatient volumes projected to remain flat with our current run-rate
- Outpatient volumes projected to increase (*Outpatient Surgery +5%, Emergency Room Visits +3%*)



- Gross revenue includes a 6% price increase with a projected 2% increase in net revenue
- Contractual discounts and bad debt are based upon current experiences and are also adjusted for the price increase
- Government supplemental payments (IGT) are budgeted per current information from the Department of Health Care Services and the District Hospital Leadership Forum (DHLF)
- 2% global salary increase beginning January 2023
- Additional \$240,000 for anticipated salary market adjustments
- Successful conversion of electronic medical record conversion to Epic

What is NOT currently included in the Draft FY 2023 Budget that present operational risks moving into next fiscal year:

- Any operational and/or financial impact due to anticipated disruption caused by Epic EMR conversion
- Any additional operational and/or financial impact due to potential adverse changes caused by ongoing pandemic
- Additional compensation market adjustments that are deemed necessary based on benchmark data analysis

BOTTOM LINE:

The budgeted operating loss for FY 2023 is currently (\$6,368,291). This is an improvement of \$1,036,450 when compared to the projected fiscal year 2022 operating loss of (\$7,404,741). The FY 2023 budget also reflects a net income after non-operating revenue and expenses of \$5,141,954 and an EBDA of 0.0%. This is compared to the projected fiscal year-end 2022 income of \$1,077,275 and EBDA of 0.5%.

So overall, despite FY23 presenting quite a few challenges for us - the implementation of a new electronic medical record, needed incremental investments in human capital, and continued navigation of disruptions caused by the ongoing pandemic, we are still budgeting a financial improvement in operations. We are confident that we will achieve these improvements and along with a successful implementation of Epic, be better positioned for continued improvement and success into FY24 and beyond.

ATTACHMENTS:

- Initial FY 2023 Budget Assumptions
- Attachment A - DRAFT FY 2023 Budget
- Attachment B – FY 2022 Projected Actual as Compared to DRAFT FY 2023 Budget with Variance
- Attachment C – Schedule of Variance Analysis of FY 2022 Projected to FY 2023 Draft Budget
- Attachment D – Draft FY 2023 Budget – Schedule of Payer Mix
- Attachment E – Draft FY 2023 Budget – Cash Forecast

**Sonoma Valley Healthcare District
Statement of Revenue and Expenses
FY 2023 DRAFT Budget
July 1, 2022 through June 30, 2023**

Schedule A

DRAFT

FY 2023 Budget

Volume Information

Acute Discharges	758
Patient Days	3,153
Emergency Room Visits	9,180
Surgeries - Inpatient	155
Surgeries - Outpatient	1,270
Special Procedures	724
Gross O/P Revenue (000's)	\$ 237,348

Financial Results

Projected Gross Patient Revenue

Inpatient	\$ 72,509,527
Outpatient	146,896,344
Emergency	90,451,256
Total Projected Gross Patient Revenue	\$ 309,857,127

Projected Deductions from Revenue

Contractual Discounts	\$ (260,391,979)
Bad Debt	(2,400,000)
Charity Care Provision	(94,534)
Prior Period Adj/Government Program Revenue	6,737,099
Total Projected Deductions from Revenue	\$ (256,149,414)

Projected Net Patient Service Revenue

\$ 53,707,713

Other Op Revenue

\$ 1,256,685

Projected Total Operating Revenue

\$ 54,964,398

Projected Operating Expenses

Salary and Wages and Agency Fees	\$ 23,688,405
Employee Benefits	8,512,010
Total People Cost	\$ 32,200,415
Med and Prof Fees (excl Agency)	7,063,851
Supplies	7,506,701
Purchased Services	5,433,710
Depreciation	2,749,025
Utilities	1,517,121

**Sonoma Valley Healthcare District
Statement of Revenue and Expenses
FY 2023 DRAFT Budget
July 1, 2022 through June 30, 2023**

Schedule A

	DRAFT
	<u>FY 2023 Budget</u>
Insurance	634,002
Interest	197,713
Other	1,510,290
Matching Fees (Government Programs)	2,519,861
Projected Operating expenses	\$ 61,332,689
Projected Operating Margin	\$ (6,368,291)
Projected Non Operating Rev and Expense	
Miscellaneous Revenue/(Expenses)	\$ (157,714)
Donations	
Parcel Tax Assessment Rev	3,800,000
Projected Total Non-Operating Rev/Exp	\$ 3,642,286
Net Income / (Loss) prior to Restricted Contributions	\$ (2,726,005)
Restricted Foundation Contributions	\$ 5,923,121
Net Income / (Loss) w/ Restricted Contributions	\$ 3,197,116
GO Bond Tax Assessment, Net	1,944,838
Projected Net Income/(Loss) w GO Bond Activity	\$ 5,141,954
Projected EBDA - Not including Restricted Contributions	\$ 23,020 0.0%
	Productive FTE'S 218.6
	Non-Productive FTE's 23.0
	Total FTE's 241.6

Sonoma Valley Healthcare District
Statement of Revenue and Expenses
FY 2022 Projected Actual as compared to FY 2023 Draft Budget

Schedule B

	Projected Actual FY 2022	DRAFT Budget FY 2023	Variance	
			\$	%
Volume Information				
Acute Discharges	758	758	0	0.0%
Patient Days	3,152	3,153	1	0.0%
Emergency Room Visits	8,934	9,180	246	2.8%
Surgeries - Inpatient	155	155	0	0.0%
Surgeries - Outpatient	1,214	1,270	56	4.6%
Special Procedures	717	724	7	1.0%
Gross O/P Revenue (000's)	\$ 220,135	\$ 237,348	\$ 17,212	7.8%
Financial Results				
Projected Gross Patient Revenue				
Inpatient	\$ 68,415,065	\$ 72,509,527	\$ 4,094,462	6.0%
Outpatient	133,696,871	146,896,344	13,199,473	9.9%
Emergency	86,438,284	90,451,256	4,012,972	4.6%
Total Projected Gross Patient Revenue	\$ 288,550,220	\$ 309,857,127	\$ 21,306,907	7.4%
Projected Deductions from Revenue				
Contractual Discounts	\$ (241,932,611)	\$ (260,391,979)	\$ (18,459,368)	7.6%
Bad Debt	(2,100,000)	(2,400,000)	(300,000)	14.3%
Charity Care Provision	(134,222)	(94,534)	39,688	-29.6%
Prior Period Adj/Government Program Revenue	5,095,052	6,737,099	1,642,047	32.2%
Total Projected Deductions from Revenue	\$ (239,071,781)	\$ (256,149,414)	\$ (17,077,633)	7.1%
Projected Net Patient Service Revenue	\$ 49,478,439	\$ 53,707,713	\$ 4,229,274	8.5%
Other Op Revenue	\$ 1,109,422	\$ 1,256,685	\$ 147,263	13.3%
Projected Total Operating Revenue	\$ 50,587,861	\$ 54,964,398	\$ 4,376,537	8.7%
Projected Operating Expenses				
Salary and Wages and Agency Fees	\$ 22,098,451	\$ 23,688,405	\$ 1,589,954	7.2%
Employee Benefits	8,329,892	8,512,010	182,118	2.2%
Total People Cost	\$ 30,428,343	\$ 32,200,415	\$ 1,772,072	5.8%
Med and Prof Fees (excl Agency)	6,783,529	7,063,851	280,322	4.1%
Supplies	7,400,054	7,506,701	106,647	1.4%
Purchased Services	5,108,353	5,433,710	325,357	6.4%
Depreciation	2,835,554	2,749,025	(86,529)	-3.1%
Utilities	1,462,049	1,517,121	55,072	3.8%
Insurance	608,523	634,002	25,479	4.2%
Interest	200,238	197,713	(2,525)	-1.3%
Other	1,397,478	1,510,290	112,812	8.1%
Matching Fees (Government Programs)	1,768,481	2,519,861	751,380	42.5%
Projected Operating expenses	\$ 57,992,602	\$ 61,332,689	\$ 3,340,087	5.8%
Projected Operating Margin	\$ (7,404,741)	\$ (6,368,291)	\$ 1,036,450	-14.0%

**Sonoma Valley Healthcare District
Statement of Revenue and Expenses
FY 2022 Projected Actual as compared to FY 2023 Draft Budget**

Schedule B

	Projected Actual FY 2022	DRAFT Budget FY 2023	Variance	
			\$	%
Projected Non Operating Rev and Expense				
Miscellaneous Revenue/(Expenses)	\$ 1,004,652	\$ (157,714)	\$ (1,162,366)	-115.7%
Donations				
Parcel Tax Assessment Rev	3,800,000	3,800,000	0	0.0%
Projected Total Non-Operating Rev/Exp	\$ 4,804,652	\$ 3,642,286	\$ (1,162,366)	-24.2%
Net Income / (Loss) prior to Restricted Contributions	\$ (2,600,089)	\$ (2,726,005)	\$ (125,916)	4.8%
Restricted Foundation Contributions	\$ 1,697,707	\$ 5,923,121	\$ 4,225,414	248.9%
Net Income / (Loss) w/ Restricted Contributions	\$ (902,382)	\$ 3,197,116	\$ 4,099,498	-454.3%
GO Bond Tax Assessment, Net	1,979,657	1,944,838	(34,819)	-1.8%
Projected Net Income/(Loss) w GO Bond Activity	\$ 1,077,275	\$ 5,141,954	\$ 4,064,679	377.3%
Projected EBDA - Not including Restricted Contributions	\$ 235,465 0.5%	\$ 23,020 0.0%	\$ (212,445) -0.4%	-90.2%
Productive FTE'S	205.9	218.6	12.7	6.2%
Non-Productive FTE's	21.2	23.0	1.8	8.3%
Total FTE's	227.1	241.6	14.5	6.4%

Sonoma Valley Healthcare District
 Schedule of Variance Analysis of FY 2022 Projected to FY 2023 Draft Budget
 FY 2023 Budget - DRAFT
 July 1, 2022 through June 30, 2023

Schedule C

DRAFT

Variance Analysis

Significant Variances of FY 2022 Projected Actual to FY 2023 Budget:

Projected Revenue Variance:

Increase in GI procedures beginning in January 2023	Projected Gross Revenue	433,552	
	Projected Revenue Deductions	(366,885)	66,667
Increase in outpatient CT volume beginning in October 2022	Projected Gross Revenue	313,126	
	Projected Revenue Deductions	(267,589)	45,537
6% Price increase with a projected 2.0% increase in Net Revenue	Projected Gross Revenue	18,282,115	
	Projected Revenue Deductions	(17,164,940)	1,117,175
OP net revenue increase over projected FY 2022			1,357,848
Adjustment to gross Intergovernmental Transfer Program (IGT) based on current information.			1,642,047
Projected Net Patient Service Revenue - Variance			4,229,274
Increase to shared services revenue - Valley of the Moon Post Acute		60,941	
Increase to Café sales per Forefront management contract		52,272	
Other operating revenue adjustments		34,050	147,263
Projected Total Operating Revenue - Variance			4,376,537
Projected Expense Variance:			
Salary and Wages and Agency Fees - Variance:			
2% Salary increase - January 2023		215,800	
Salary and Wages labor funds to reflect increase in wage rates per analysis		240,000	
Increase of 14.5 FTE's to reflect current open positions and positions currently filled that reflect current staffing needs as well as an additional 0.7 FTE's (\$70,000) for Epic training time.		868,588	
Dietary contracted labor (Forefront) for director and executive chef		275,000	
Other net reductions in agency and contracted labor costs		(9,434)	1,589,954
Employee Benefits Variance:			
Employee Benefits - Reduction in PTO due from FTE's moved to contracted labor and agency		(303,480)	
Employee Benefits - 10% Increase in cost of health benefits at January 2023		485,598	182,118
Total People Cost - Variance			1,772,072
Medical and Professional Fees Variance:			
UCSF Management Costs (CEO, CFO, CMO, & IT Directory) - reflects full year of full time CFO and IT director		216,649	
Quality Department - Professional fees for data abstraction services		78,312	
Other department adjustments to professional fees, net		(14,639)	280,322
Supplies, Net Variance			106,647
Purchased Services Variance:			
Plant Operations - Expected increase in R&M costs and Biomedical equipment contract		105,853	
IT - increase reflects 7 months of Epic costs with an overlap of Paragon contracted costs and offset by contracts being replaced by Epic		283,135	
Other department adjustments to purchased services, net		(63,631)	325,357
Depreciation - Net Variance			(86,529)
Utilities - Expected increases with PG&E			55,072
Insurance - Net Variance			25,479
Interest - Net Variance			(2,525)
Other Costs Variance:			
Public Relations increase in Advertising related to the ODC and strategic planning		24,448	
Dietary - Other costs related to Forefront dietary management		19,646	
Other department adjustments, net (rent increases, rental equipment, taxes & licenses, etc..)		68,718	112,812
Matching Fees (Government Programs)-Variance			751,380
Projected Operating expenses - Variance			3,340,087
Projected Operating Margin - Variance			1,036,450

**Sonoma Valley Health Care District
Schedule of Payer Mix
DRAFT FY 2023 Budget
July 1, 2022 through June 30, 2023**

Schedule D

	DRAFT	ACTUAL
	FY 2023 Budget	FY 2022
	<u>July 1, 2022 - June 30, 2023</u>	<u>July 1, 2022 - April 30, 2022</u>
Medicare	37.2%	36.8%
Medicare Managed Care	16.7%	17.7%
Medi-Cal	16.7%	16.6%
Self Pay	1.8%	1.6%
Commercial & Other Government	24.7%	24.3%
Worker's Comp.	2.9%	3.0%
	<hr/>	<hr/>
	100.0%	100.0%

**Sonoma Valley Health Care District
Cash Forecast - DRAFT FY 2023 Budget**

Schedule E

**DRAFT
FY 2023 Budget
July 1, 2022 - June 30, 2023**

Hospital Operating Sources	
1 Patient Payments Collected	46,840,575
2 Other Operating Revenue	1,256,685
3 Other Non-Operating Revenue	136,529
4 Unrestricted Contributions	
5 Line of Credit	-
Sub-Total Hospital Sources	48,233,789
Hospital Uses of Cash	
6 Operating Expenses	56,221,606
7 Add Capital Lease Payments	
8 Additional Liabilities	
9 Capital Expenditures	9,581,121
10 Line of Credit	
Total Hospital Uses	65,802,727
Net Hospital Sources/Uses of Cash	(17,568,938)
Non-Hospital Sources	
11 Restricted Cash/Capital Donations	5,923,121
12 Parcel Tax Revenue	3,800,000
13 Other:	
14 IGT /AB 915 IGT	6,737,099
Sub-Total Non-Hospital Sources	16,460,220
Non-Hospital Uses of Cash	
15 Matching Fees	2,519,861
Sub-Total Non-Hospital Uses of Cash	2,519,861
Net Non-Hospital Sources/Uses of Cash	13,940,359
Net Sources/Uses	(3,628,579)
Cash at beginning of period (Includes MM)	9,523,589
Cash at end of period	5,895,010
Projected Days of Cash on Hand at Beginning of period	63.92
Budgeted Days of Cash on Hand at end of period	38.27

Line 9 - Capital expenditures include \$5.9M in ODC costs funded by capital donations from the SVHF, \$2.5 for Epic implementation costs, and \$1.2M MRI costs over the ODC budget

*Cash forecast does not include any additional funding sources for Epic and/or MRI project that may occur during FY 2023