

LEE MEMORIAL HEALTH SYSTEM BOARD OF DIRECTORS POLICY MANUAL

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Supersedes no. 20.17J

Category: Financial Operations
Title: Financial Goal Policy

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04/30/09

PURPOSE:

Establish financial goals and guidelines to be used for strategic planning, allocation of cash resources, cash accumulation, capital expenditures, debt financing and expense budgeting for the System.

POLICY:

The System will maintain the current rating of A3/A as received by the rating agencies of Standard & Poor's and Moody's and will establish goals that will allow the System to maintain or improve those ratings.

METHODOLOGY:

The Moody's medians for the desired rating for single state systems for the identified ratios, and System standards adopted with these medians in mind, will be used to establish goals for planning, budgeting, capital spending and debt financing. In general, the System will maintain ratios consistent with the Moody's medians, and, where not consistent, will endeavor to move to the median by projecting goals over three fiscal years. The identified ratios are listed below. The most recent medians and goals will be adopted by the Board of Directors and will be incorporated herein from time to time as *Attachment A* and for which the formulas are defined in *Attachment A-1*.

PROFITABILITY RATIOS

Operating Margin
System Excess Margin
Operating Cashflow Margin

LIQUIDITY RATIOS

Days Cash on Hand (Net of Variable Rate Debt)
Cushion Ratio
Cash to Debt

CAPITAL RATIOS

Debt to Capitalization (Net of Variable Rate Debt)
Annual Debt Service Coverage
Debt to Cashflow (Net of Variable Rate Debt)

Standards and goals for financial ratios will be reviewed at least annually when the rating agency ratio median updates are received, generally in the first half of the fiscal year. If appropriate, ratio goals listed on *Attachment A* will be adjusted by the Board of Directors to ensure the maintenance or improvement of bond ratings while taking into account other factors affecting the System and its resources. These annual revisions to *Attachment A* will be adopted by the Board, generally no later than May of each year, for use in the budget process for the following fiscal year.

Each year a summary of assumptions for financial projections will be prepared for the following three-year period (*Attachment B*). These assumptions will be used to develop a three year projected income statement (*Attachment C*). These projected income statements will be used to forecast the System's ability to meet the goals for the established financial ratios (*Attachment D*), Cash Available for Capital and the System's capacity to take on additional debt (*Attachment E*).

The System's status against these ratios will be provided to the Board on a quarterly basis and will be monitored monthly by Administration

ATTACHMENT A
LEE MEMORIAL HEALTH SYSTEM BOARD OF DIRECTORS
GOALS FOR FINANCIAL RATIOS

MOODY'S MEDIANS - 2008

Aa A Baa

Objective

2010

2011

2012

financial

Profitability Ratios

Operating Margin (%) - Total	2.70%	2.60%	0.40%	Total Operating Margin no lower than 2.00%. Preferred range 2.00 - 4.00%.	2.80%	2.80%	2.90%
Excess Margin (%)	6.30%	4.90%	2.10%	Excess Margin no lower than 6.00%. Preferred range > 7.00%	4.80%	4.80%	4.80%
Operating Cashflow Margin (%)	9.70%	9.30%	7.50%	Cashflow Margin no lower than 10.00%. Preferred range >11.50%	10.00%	10.00%	10.00%

Liquidity Ratios

Days Cash on Hand (net of VRDB)	221.6	160.1	105.9	Days cash on hand no lower than 225 days net of VRDB. Preferred range > 175	68	75	90
Cushion Ratio (x)	27.2	16.3	8.7	Cushion Ratio no lower than 12.00x. Preferred range >12.00x.	9.4	9.9	11.2
Cash-to-Debt (%)	183.2%	122.3%	64.3%	Cash-to-Debt position no lower than 100% - 113.5%. Preferred range > 125%	63.0%	70.0%	80.0%

Capital Ratios

Debt-to-Capitalization (%) net of VRDB	30.8%	34.8%	50.5%	Debt-to-Capitalization to no greater than 50%. Preferred range < 40%	43.0%	40.0%	37.0%
Annual Debt Service Coverage (x)	6.1	4.6	2.8	Debt Service Coverage to not less than 3.00x. Preferred range > 3.80x	2.9	2.9	2.9
Debt-to-Cash Flow net of VRDB	2.7	3.3	6.2	Debt-to-Cash Flow net of VRDB no greater than 3.50x. Preferred range < 3.00x	4.7	4.6	4.5

= FY 07 STATUS PER AUDIT IN RELATION TO MEDIANS

= FY 08 STATUS PER AUDIT IN RELATION TO MEDIANS

MOODY'S MEDIANS BASED ON 2007 INFORMATION AS PUBLISHED IN 2008

**ATTACHMENT B
ASSUMPTIONS**

Utilization

Total System Admits

ACTUAL	ACTUAL	PROJECTED			
2007	2008	2009	2010	2011	2012
67,876	66,838	68,028	68,109	68,790	70,166

Acute Care Market Share

System Inpatient Days

System Average Length of Stay

Average Daily Census

Occupancy %

Total Beds

Adjusted Admissions

Adjusted Patient Days

95%	95%	95%	95%	95%	95%
351,605	350,553	357,146	357,574	361,150	358,373
5.18	5.24	5.25	5.25	5.25	5.25
963	960	978	980	989	1,009
60.21%	60.03%	61.16%	68.56%	69.24%	70.63%
1,600	1,600	1,600	1,429	1,429	1,429
102,886	104,642	105,870	107,843	110,511	113,556
532,962	548,827	555,816	566,178	580,184	596,168

Key Statistics

Operating Revenue per Adjusted Discharge

Cost Per Adjusted Admit

Reimbursement per Adjusted Admit % Change

Cost per Adjusted Admit % Change

Supply % of Net Operating Revenue

Purchased Services % of Net Operating Revenue

Other Services % of Net Revenue

Bad Debt & Charity Write-Offs % of Gross Revenue

8,977	9,131	9,387	9,537	9,724	9,937
8,718	9,102	9,116	9,267	9,451	9,644
3.17%	1.72%	2.80%	1.59%	1.97%	2.19%
3.40%	4.41%	0.15%	1.65%	1.99%	2.04%
21.70%	21.85%	21.48%	21.78%	22.00%	22.18%
8.81%	9.59%	9.12%	9.25%	9.30%	9.30%
6.59%	6.25%	5.98%	5.92%	5.81%	5.67%
7.57%	6.91%	6.95%	6.98%	7.02%	7.02%

FTE Analysis

Total FTE's

FTE'S / Adj. Occupied Bed

Salaries & Benefits % of Net Operating Revenue

Benefit % of Salary

Average Hourly Rate

Average Hourly Rate % Increase

FTE/AOB Productivity Change (- = improvement)

7,167	7,317	7,281	7,305	7,411	7,577
4.91	4.87	4.78	4.71	4.66	4.64
50.96%	52.94%	51.25%	51.43%	51.68%	52.08%
14.51%	17.10%	17.62%	17.62%	17.62%	17.62%
27.49	28.30	28.51	29.51	30.54	31.61
5.98%	2.94%	0.75%	3.50%	3.50%	3.50%
-1.6%	-0.9%	-1.8%	-1.5%	-1.0%	-0.5%

ATTACHMENT C
LEE MEMORIAL HEALTH SYSTEM
STATEMENT OF OPERATIONS
(IN THOUSANDS)

	ACTUAL	ACTUAL	BUDGET	PROJECTED			
	2007	2008	2009	2009	2010	2011	2012
Patient Revenue							
Inpatient Services	\$1,851,946	\$1,955,533	\$2,112,185	\$2,131,770	\$2,283,732	\$2,468,029	\$2,693,607
Outpatient Services	<u>\$955,230</u>	<u>\$1,106,054</u>	<u>\$1,222,480</u>	<u>\$1,185,845</u>	<u>\$1,332,297</u>	<u>\$1,496,835</u>	<u>\$1,665,678</u>
Gross Patient Revenue	2,807,176	3,061,587	3,334,665	3,317,615	3,616,029	3,964,864	4,359,285
Deductions from Patient Revenue							
Contractual Discounts	1,687,188	1,912,573	2,143,511	2,112,382	2,355,252	2,632,960	2,946,983
Provision for Charity	117,488	112,205	110,819	122,349	134,516	149,079	163,909
Bad Debt	<u>94,904</u>	<u>99,487</u>	<u>122,830</u>	<u>108,154</u>	<u>117,883</u>	<u>129,255</u>	<u>142,113</u>
Total Deductions from Revenue	<u>1,899,580</u>	<u>2,124,265</u>	<u>2,377,160</u>	<u>2,342,885</u>	<u>2,607,651</u>	<u>2,911,294</u>	<u>3,253,005</u>
Net Patient Revenue	907,596	937,322	957,505	974,730	1,008,378	1,053,570	1,106,280
Other Operating Revenue	<u>16,011</u>	<u>18,208</u>	<u>16,645</u>	<u>19,118</u>	<u>20,074</u>	<u>21,078</u>	<u>22,132</u>
Total Operating Revenue	923,607	955,530	974,151	993,848	1,028,452	1,074,648	1,128,412
Operating Expenses							
Salaries and Wages	411,060	431,962	430,744	433,031	449,694	472,178	499,657
Employee Benefits	59,641	73,875	71,357	76,288	79,224	83,185	88,026
Supplies	200,450	208,746	212,909	213,518	224,024	236,453	250,256
Purchased Services	81,410	91,651	90,095	90,617	95,148	99,905	104,901
Depreciation & Amortization	50,221	56,783	57,758	61,769	53,229	52,142	50,116
Interest	22,479	18,270	17,246	18,399	24,721	25,211	24,581
Other Services	71,678	71,185	72,125	71,501	73,335	75,420	77,605
Total Operating Expenses	<u>896,939</u>	<u>952,472</u>	<u>952,235</u>	<u>965,123</u>	<u>999,375</u>	<u>1,044,494</u>	<u>1,095,142</u>
Gain from Operations	26,668	3,058	21,916	28,725	29,077	30,154	33,270
Nonoperating Revenue							
Investment Income	53,731	(37,183)	22,266	(67,868)	20,831	19,803	21,685
Excess of Revenue over Expenses	<u>80,399</u>	<u>(34,125)</u>	<u>44,182</u>	<u>(39,143)</u>	<u>49,908</u>	<u>49,957</u>	<u>54,955</u>

ATTACHMENT D

**LEE MEMORIAL HEALTH SYSTEM
RATIO'S BASED ON FINANCIAL PROJECTIONS**

ACTUAL	BUDGET	PROJECTED			
2008	2009	2009	2010	2011	2012

PROFITABILITY RATIOS:

OPERATING MARGIN	0.3%	2.2%	2.9%	2.8%	2.8%	2.9%
EXCESS MARGIN	-3.7%	4.4%	-4.2%	4.8%	4.6%	4.8%
OPERATING CASH FLOW MARGIN	8.2%	9.9%	11.0%	10.4%	10.0%	9.6%

LIQUIDITY RATIOS:

DAYS CASH ON HAND (NET OF VRDB)	102.9	87.2	56.8	67.8	74.9	90.4
CUSHION RATIO	10.0	9.0	8.6	9.4	9.9	11.2
CASH TO DEBT	65.4%	61.0%	57.3%	63.4%	68.7%	79.3%

CAPITAL RATIOS:

DEBT TO CAPITALIZATION EXCLUDING TEMPORARY CAPITAL	47.4%	43.8%	45.7%	42.9%	40.1%	37.1%
ANNUAL DEBT SERVICE COVERAGE	4.4	3.5	2.8	2.9	2.5	2.9
DEBT TO CASHFLOW NET OF VRDB	4.4	5.3	6.4	4.7	4.7	4.5

ATTACHMENT E

**LEE MEMORIAL HEALTH SYSTEM
CASH AVAILABLE FOR CAPITAL BASED ON PROJECTIONS
(IN THOUSANDS)**

	Actual	Projected			
	2008	2009	2010	2011	2012
Sources of Funds:					
Excess Revenues over Expenses	(34,125)	(39,143)	49,908	49,957	54,955
Depreciation/Amortization Expense (includes phys)	56,783	61,769	53,229	52,142	50,116
Total Sources	22,658	22,626	103,137	102,099	105,071
Uses of Funds:					
(Increase)/Decrease in Accounts Receivable	(6,998)	501	(6,025)	(7,859)	(8,882)
Principal Payments	(10,118)	(13,163)	(11,674)	(13,461)	(18,054)
Other increases/decreases in assets/liabilities	11,677	5,189	4,159	3,995	3,967
Total Uses of Funds prior to capital expenditures	(5,439)	(7,473)	(13,540)	(17,325)	(22,969)
Total Cashflow	17,219	15,153	89,597	84,774	82,102
50% of Cashflow	8,610	7,577	44,799	42,387	41,051
Projected Capital Spending	95,624	75,840	57,500	60,500	29,999
CASH & INVESTMENTS BEGINNING OF PERIOD	511,120	432,715	372,028	404,125	428,399
Excess Cash after Capital Expenditures	(78,405)	(60,687)	32,097	24,274	52,103
CASH & INVESTMENTS ENDING OF PERIOD	432,715	372,028	404,125	428,399	480,502
TOTAL CASH AND INVESTMENTS	432,715	372,028	404,125	428,399	480,502
TOTAL OUTSTANDING DEBT	662,054	648,891	637,217	623,756	605,702
Cash to Debt Ratio	65.4%	57.3%	63.4%	68.7%	79.3%