

# Strategic Planning FY2020- 2022

Capital Equipment – Investing for the Future

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# Agenda

1. Impact 2020 Updates
  - a. Definitions
  - b. CCH trends Net Capital Assets, additions and depreciation expenses
  - c. Cook County Real Estate Asset Strategic Alignment Plan (REASRP)
  - d. Capital Assets purchases FY2016 – 2018
  - e. Sources of financing - Capital Assets purchases FY2016 – 2018
  - f. FY2019 Capital planning priorities
  - g. FY 2019 Planned capital expenses
2. FY2020-2022 Environmental scan
  - a. Top issues confronting hospitals
  - b. Top financial challenges facing hospitals
  - c. 2019 Credit agencies outlook and common themes
  - d. FY2020 capital budget planning process
  - e. FY2020-2022 potential funding sources

# Impact 2020 Update

## Capital Assets and Investments



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# Definitions

## What is a Capital Asset on CCH Books?

- **Capital assets** include land improvements, buildings, building improvements, Equipment , furniture and intangible assets , recorded at cost at the time of receipt and, in case of construction in progress, are transferred from the County at time of completion.
- Capital assets are defined by CCH as assets with initial, individual costs of \$5,000 or more and with estimated time benefit beyond one year.
- **Depreciation** is the allocation of the cost of a capital asset over the estimated useful life of each class of assets. Estimated useful life is as follows;
  - Land Improvements 5-25 years
  - Buildings 20-40-years
  - Building Improvements 5-40 years
  - Equipment & Furniture 3-20 years
- Except for pre-2008 assets at Stroger Hospital, CCH depreciation is calculated using the straight line method



# Definitions

## What is a Capital Budgeting?

- As part of annual budgeting process, the County reviews and assess its capital programming needs regarding
  - Capital Improvement to facilities
  - Transportation and Highways
  - Capital Equipment purchases
- Capital programming entails the review of short, medium and long-term capital investments required to promote the efficient and effective provision of services to Cook County residents and a determination of the County's willingness and ability to issue new-taxpayer funded debt for capital expenditures and/or fund capital projects through operating budgets.
- Capital budgeting aims to achieve a prudent balancing of legacy debt obligations, operating budget priorities, and debt service costs.
- In FY2019, the County proposed;
  - \$274.9M for Capital Improvement Program (CIP) - CCH debt funded portion \$104.3M
  - \$84.9M for Transportation & Highways
  - \$99.2M for Capital Equipment Program (CEP) - CCH funded portion \$4.8M, CCDPH Special funds \$200K



# CCH Audited Financial Statements Extract

## Net Capital Assets, Additions and Depreciation Expenses (\$'s in millions )

	2013	2014	2015	2016	2017
Net Capital Assets	\$426.4	\$400.4	\$395	\$397.4	\$401.5
Additions to Capital Assets	\$21.9	\$6.5	\$22.4	\$29.1	\$2.3
Depreciation Expense	\$34.3	\$32.5	\$27.8	\$27.1	\$25.4
Average Age of Plant (Years)	14.1	15.9	19.6	21.1	23.4

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# Cook County Real Estate Asset Strategic Realignment Plan

## Estimated 20-year total Capital and Operating expenditure needed

- A 2015 County wide focused study of operating expenses, to develop long-range capital plan to better allocate the County's finite resources and develop recommendations to reduce real estate portfolio and costs.
- Study estimated the 20-year cost of operating and maintaining some CCH facilities as follows;

Stroger Hospital Campus	\$240M
Provident Hospital and Related Facilities	\$194M
Oak Forest Health Center	\$353M
<b>Total Cost</b>	<b>\$787M</b>

- Annualized Cost **\$39.5M**

# FY 2016 through 2018

## Capital Assets Purchases

Asset Class	2016	2017	2018
Fixed Plant	15,390	1,027,088	7,259,385
Medical Equipment	11,367,814	294,802	262,196
Telecom Equipment	923,182	35,311	
IT Equipment	2,121,832	13,703	
Furniture & Equipment	320,199		
Vehicle Purchases	5,688		
Building / Building Improvements	14,387,258	928,994	112,752,565
<b>Total</b>	<b>29,141,362</b>	<b>2,299,899</b>	<b>120,274,146</b>



# FY 2016 through 2018

## Sources of Financing - Capital Assets Purchases

Sources	2016	2017	2018
Cook County Bonds	14,387,258	928,994	112,752,566
CCH Operational Funds	14,754,104	1,370,905	7,521,581
Donations / Foundation			59,085
<b>Total</b>	<b>29,141,362</b>	<b>2,299,899</b>	<b>120,333,231</b>



# FY 2019 Capital Planning Priorities

## Guiding Principles

- Align to Impact 2020 strategic plan initiatives
- Priority to investments that drive growth/improve quality and meet safety/regulatory priorities
- Allocation decision informed by an assessment of equipment end-of-life and obsolescence determination
- Meet or exceed annual depreciation expenses (\$30M)
- Subject to capital funding availability either through the County bonds process or CCH operational funding sources
- Exploring extramural funding opportunities like donations

# FY 2019 Planned Capital Expenses

- Community Clinics – \$15M
  - Arlington Heights., North Riverside, Hanson Park, Blue Island
- Stroger (Including Professional Building) \$1.5M
  - Professional Building moves and equipment needs to support growth
- Provident - \$1.5M
  - Clinical enhancements to support growth including Intensive Care unit, Dialysis unit
- Cermak \$200K
  - Facility equipment
- Corporate Health Information Technology - \$12M
  - Hardware and Software systems upgrades



# FY2020-2022

## The Future

### Environmental Scan of Market, Best Practices and Trends



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# Environmental Scan of Market, Best Practices and Trends

## 2018 Top Issues Confronting Hospitals – ACHE CEO Research Findings

Issue	2018	2017	2016
Financial challenges	2.8	2.0	2.7
Governmental mandates	5.1	4.2	4.2
Patient safety and quality	5.1	4.9	4.6
Personnel shortages	5.2	4.5	4.8
Behavioral health/addiction issues	5.3	—	—
Patient satisfaction	6.1	5.5	5.5
Access to care	6.2	5.9	5.8
Physician-hospital relations	6.6	5.9	5.9
Technology	7.7	7.0	7.2
Population health management	8.1	7.3	6.6
Reorganization (e.g., mergers, acquisitions, restructuring, partnerships)	8.3	7.5	7.8

The average rank given to each issue was used to place the issue in order of how pressing it is to hospital CEOs, with the lowest numbers indicating the highest concerns.

The survey was confined to CEOs of community hospitals (nonfederal, short-term, nonspecialty hospitals).



# Environmental Scan of Market, Best Practices and Trends

## 2018 Financial Challenges – ACHE CEO Research Findings

(n=355) <sup>1</sup>	
Increasing cost for staff, supplies etc.	70%
Medicaid reimbursements	68%
Reducing operating costs	59%
Competition from other providers	56%
Managed care and other commercial insurance payments	50%
Medicare reimbursements	50%
Government funding cuts(other than Medicare /Medicaid)	49%
Transition from volume to value	48%
Revenue cycle management	48%
<b>Inadequate funding for capital improvements</b>	<b>43%</b>
Emergency department overuse	37%
Moving away from fee-for-service	30%
Pricing and price transparency	29%
Other	N=17



# Environmental Scan of Market, Best Practices and Trends

## 2019 Credit Ratings Agencies Outlook and Comments

- Standards & Poor's 01/10/2019: “U.S. Not-For-Profit Health Care 2019 sector outlook: Stable overall, yet key risks remain.”
- Fitch Ratings 03/26/2019: “Fortunes may soon turn for the better for U.S. not-for-profit hospitals ... U.S. not-for-profit hospitals appear to have weathered the worst of their operational challenges with more performance stability not far off.”
- Moody's 12/03/2018: “US not-for-profit's, public healthcare outlook to remain negative on flat to slightly down operating cash flow.”
- Cook County General Obligation Bond Ratings
  - Moody's Investors Service: A2 (Stable Outlook)
  - Fitch Ratings: A+ (Stable Outlook)
  - Standard & Poor's: AA- (Negative Outlook)



# Environmental Scan of Market, Best Practices and Trends

## 2017 Credit Ratings Agencies Common Themes

- Emergence of non-traditional entrants looking to ‘disrupt’ healthcare delivery
- Payor mix shifts from commercial plans to government payors
- Continuing pressure on hospitals and health systems balance sheets with increasing bad debts, constrained profitability, operating margin and operating cash flow
  - Revenue growth will be constrained by low patient volume growth and higher bad debt as co-pays and deductibles rise
  - Expense growth challenges and need for management focus on cost efficiency measures
- 340B risks and other drug price increases
- Political risks including challenges and/or administrative changes to Affordable Care Act
- Continuing mergers, acquisitions and consolidation activities



# FY 2020 Capital Budget Planning Process

CCH capital budget process steps/timeline must align with Cook County budget calendar

- Early April      Cook County capital budget kickoff session
- End April        Capital Improvement requests due to County (if debt funded)
- Early May        CCH capital request out to departments / lines of business
- End May          CCH capital requests received from departments
- Mid June          CCH Capital Equipment Committee meets with department heads, clinical and administrative leadership to finalize FY2020 budget recommendations
  - Pivots from Impact 2020 and aligns with new strategic plan decisions
  - New growth or service needs
  - Funding and budget opportunity
- June - Oct        CCH operational & capital budget submitted as part of Cook County Executive Budget Recommendation

# FY 2020 - 2022 Potential Funding Sources\*

- Internal CCH operational funds - \$30M
- Cook County Bonds/Capital Improvement Plans (FY19–\$104M, FY20 -\$141.5M, FY21-\$107M, FY22-\$32M)
  - Stroger and Central Campus
  - Community based health centers
  - Cook County Dept. of Public Health (CCDPH) Clinics
  - Provident hospital including dialysis center
  - Oak Forest (County feasibility study to identify options beyond CCH)
  - Other CCH
- Donations/ Foundation – Target of 200K in FY2019
- CCH Capital request to State of Illinois for community centers – \$50M

# Thank you.



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