Dear Maricopa County Special Health Care District Board of Directors,

After years of planning, preparation and construction, fiscal year 2024 (FY 2024) will be historical for Valleywise Health with the opening of the new acute hospital and the Virginia G. Piper Pavilion (Piper Pavilion). The opening is the summit of Care Reimagined, made possible by the Proposition 480 approval in 2014. The FY 2024 Operating Budget reflects the forecasted volumes and costs related to the opening and operation of the new buildings. It also includes the opening of additional inpatient Behavioral Health beds opened and staffing improvements.

The notebook which follows provides essential details on the proposed FY 2024 Operating Budget for Valleywise, with some highlights below.

Care Reimagined – New Tower Opening

While an opening date is not yet available as of the budget preparation, it has been assumed in the budget to be opening in late January 2024. The Operating Budget includes nearly $6.3M in start-up costs for the new acute hospital. This amount includes funds for the staff training prior to opening referred to as Day in the Life, patient move practice exercises, and additional staffing for the move date. The Budget also includes the new operating costs related to the new building, due to new technologies and larger square footage. Depreciation is also higher due to placing the new hospital and the Piper Pavilion into service and the impairment of the existing hospital and support buildings planned for closure.

Based on available state data reviews of another similar opening, the budget also includes an increase in Roosevelt campus Emergency Department (ED) volumes forecasted for after the opening. As the majority of the Valleywise Health acute admissions result from the Roosevelt ED, the ED volume increase also results in additional acute admissions and patient days, and inpatient surgeries on the Roosevelt campus. The Roosevelt ED volumes are projected to increase by 4%, acute admissions by 7%, acute patient days by 2.5% and inpatient surgeries by 3.6%. Roosevelt outpatient surgeries are projected to decrease by 2% as more outpatient surgeries are performed at the Peoria campus. This transfer and growth in Eye, Pain, and Dental surgeries at Peoria will result in 635 more outpatient surgeries on that campus, a 119% growth over FY 2023.

While the Roosevelt Main ED volumes are projected to increase with the new hospital opening, the Labor and Delivery department in the new hospital will convert to a Triage department, so will no longer be an ED. The Maryvale ED volumes are expected to remain relatively flat. There was an unusual growth in the Maryvale Pediatric ED visits last winter that is not forecasted to repeat, offset by conservative growth throughout the year.

SOAR

There were many programs implemented in FY 2023 to improve employee satisfaction and reduce turnover, including a significant investment in increases to employee salaries. A new program included in the FY 2024 Operating Budget is the Sign-On and Retention (SOAR) program funded through grants awarded by the Maricopa County Board of Supervisors and the Arizona Governor's office. This program began in April 2023 to provide a sign-on or retention incentive for critical positions to recruit additional staff or retain existing staff to open additional inpatient Behavioral Health beds and reduce the reliance on contract labor. The SOAR program adds an additional $5M in Salaries and $1M in Benefits to the budget, offset by the same amount in grant revenue within the Non-Operating Revenues. Contract Labor usage is forecasted to decrease based on the implementation of this new program.

Total Compensation, including Salaries and Wages, Employee Benefits and the new SOAR program, is budgeted to increase by 10%, with employed FTEs increasing by 7%. Contract Labor is budgeted to decrease by 17% in costs and 10% in FTEs, additionally supported by decreased market rates for Contract Labor positions.

Behavioral Health

The FY 2024 Operating Budget includes the opening of 12 additional Behavioral Health beds in Maryvale starting in Jan 2024. These additional beds result from the additional staffing from the SOAR program funded through a grant from the Maricopa County Board of Supervisors and from the investments in compensation made in FY 2023. Due to these additional beds, Behavioral Health admissions and patient days increase by 17% and 11%, respectively. The Behavioral Health ALOS is forecasted at 23.5, a decrease from the FY 2023 ALOS of 1.3 days, but nearly the same ALOS as in FY 2022.

Patient Activity and Revenue

Total Net Patient Service Revenue is expected to have an improvement of 5.7% over the FY 2023 projection. This increase is primarily due to the increased volumes resulting from the new hospital opening and the additional active Behavioral Health beds. Uncompensated Care, comprised of Charity and Bad Debt, is projected at 9% of Gross Revenue, the same as the FY 2023 projection.

Total Ambulatory visits are projected to increase by 3.6% due to addition of the Mobile Health Unit, Eye Clinic at Peoria, and Pain Clinic at Peoria as well as the growth in the number of providers in Behavioral Health, Primary Care, and Dental. The new contract between Valleywise Health and District Medical Group better supports the medical group in its recruitment efforts for their service to Valleywise Health facilities.

Other Operating Revenue is expected to decrease by 2% next year mostly due to decreases in various grant and incentive programs, some of which had began during the pandemic. GME Revenue is expected to increase due to 15 additional Resident FTEs in FY 2024. Although the AHCCCS HEALTHII program plan is not yet complete, it is projected to have an increased benefit to Valleywise Health of 11%.

In sum, Total Operating Revenues are projected to increase by 3.9% due to the forecasted volume growth related to the new hospital opening and increase in Behavioral Health beds.

Expenses

Overall operating expenses are projected to increase by 5.3% over the current year projection.

Total Labor costs are projected to increase by 4.7% and total FTEs increasing by 4.8%. Labor costs include the new SOAR program costs and the decrease in Contract Labor described above. Benefit costs are projected at 29.5% of Salaries, a savings over the current rate of 29.6% due to updated contracts providing benefit savings. The year-to-year growth in total FTEs appears higher in Support areas, but is closely aligned with the FY 2023 Budget. Vacancies in Support departments are not generally covered through Contract Labor, and some previously grant funded positions are now to be funded from operations. An overall Vacancy Factor has been budgeted at approximately 5%, consistent with the prior year budget.

Medical Service Fees are expected to increase 4.8% due to increases in providers to support the volume growth.

Supply Expense will increase by 2.3% due to the higher inflationary costs for supplies and the volume growth.

Purchased Services are estimated to increase by 2.4% next year, mainly due to increases projected in Environmental Services due to the higher square footage in the new hospital and the conversion costs for the Payroll and Human Resources systems to ADP.

Utilities are increasing by 1% with a full year of the new contracted savings in gas expenses. Rent is decreasing 5% due to fewer patient bed rentals as we move into the new hospital.

Other Expenses are increasing by 14%, due mainly to Web-based Subscription Software and other start-up expenses related to the opening of the new hospital and the Piper Pavilion. Depreciation is budgeted to increase by 39%, due to the Depreciation for the new hospital and the Piper Pavilion, and the impairment of the remaining asset balances for the old tower and other buildings planned for demolition.

Non-Operating Revenue (Expense)

The Non-Operating Revenue (Expense) includes Grants/Research, Interest Income/Expense, and Tax levies. For FY 2024, this budget includes $96M in operating tax support and $53M in bond levy support. Grant revenues are budgeted to decrease with the termination of various grants, especially those awarded during the pandemic, offset by the SOAR program grant. As Valleywise Health Foundation donations previously transferred to Valleywise Health restricted to Care Reimagined capital projects are applied towards the project in FY 2024, those funds will also be recognized as revenue in Non-Operating. Interest expense is budgeted according to the bond schedules, and is aligned with the pay-off of the Series C and D bonds. Investment Income is estimated to be $7M based upon average operating and bond cash on hand and projected interest rates.

FQHCs

Visits are forecasted to increase by 3% with additional providers in Primary Care, Behavioral Health and Dental. FY 2024 will also include the launch of the new Mobile Health Unit which was funded by the American Rescue Plan Act grant.

The AHCCCS qualified visit rate is expected to increase by only 1.0%. Other Operating Revenue is decreasing due decreased funding in the American Rescue Plan grants to the FQHC. Expenses are budgeted to increase 10%, driven by compensation increases for staff and increase in the number of providers. The Operating Margin results in a -$9.2M contribution before overhead.

Capital Plan & Cash Position

The capital budget plan of $10.0M includes $2.0M in contingency to provide for potential equipment replacements, as needed. The Capital Plan excludes “Care Reimagined” bond-supported capital which is accounted for separately.

The budget projects a decrease in the Valleywise Health cash position for FY 2024 due to the operating loss and the portion of Care Reimagined capital to be covered from Care Reimagined donations previously received from the Valleywise Health Foundation and included in cash. Operating days cash on hand at June 30, 2024, year-end is projected to be approximately 89.7 days**.**

Margin

The FY 2024 budgeted total margin is -$44.8M, calculated as the Earnings before Interest, Depreciation and Amortization (EBIDA) offset by the Management & Operations subsidy. This negative margin is not taken lightly but is required as we open the new hospital and continue to reduce our reliance on Contract Labor. The FY 2024 Operating and Capital budget is a responsible and conservative financial plan, reflecting the organization's priorities, supporting the operational requirements and linked to its strategic objectives.

I want to take this opportunity to thank the entire leadership team for their work and support, including the support of our CEO and President, Steve Purves, CCO, Dr. Michael White, and CAO, Lia Christiansen. A special thanks to Matt Meier, the Vice President of Financial Services, Christie Markos, Director of Decision Support, and the entire Decision Support Team for their tireless efforts in building this Operating and Capital budget alongside our clinical and support leaders, and in developing our financial guide for next year.

Sincerely,

Claire Agnew, CPA, MBA
EVP, Chief Financial Officer

Maricopa County Special Health Care District
Budget FY 2024
Income Statement

Valleywise Health

		FY 2022 Total Actual		FY 2023 Total Budget		FY 2023 Projected Full Year		FY 2024 Total Budget		Variance Fav / (Unfav) Budg 24-Proj 23	% Variance Fav / (Unfav) Budg 24-Proj 23
OPERATING REVENUE											
Net Patient Service Revenue	$	494,650,061	$	522,474,936	$	503,266,258	$	531,913,668	$	28,647,410	5.7 %
Other Revenue		121,348,087		128,272,476		159,030,341		155,898,949		(3,131,392)	(2.0 %)
Total Operating Revenue		**615,998,148**		**650,747,412**		**662,296,598**		**687,812,617**		**25,516,018**	**3.9 %**
OPERATING EXPENSES											
Salaries and Wages		287,796,627		303,877,813		295,737,214		324,329,689		(28,592,475)	(9.7 %)
Contract Labor		83,804,731		47,935,783		87,306,667		72,922,254		14,384,413	16.5 %
Employee Benefits		82,744,342		90,149,121		87,680,905		95,550,424		(7,869,519)	(9.0 %)
Medical Service Fees		95,543,659		103,644,932		110,228,323		115,572,767		(5,344,443)	(4.8 %)
Supplies		101,359,687		93,579,490		98,019,439		100,289,874		(2,270,435)	(2.3 %)
Purchased Services		29,924,846		54,023,625		55,381,557		56,724,385		(1,342,829)	(2.4 %)
Repair and Maintenance		22,035,641		23,751,268		22,009,895		22,083,791		(73,896)	(0.3 %)
Utilities		7,319,323		9,248,927		8,231,031		8,320,934		(89,903)	(1.1 %)
Rent		6,043,930		5,877,184		6,177,445		5,859,393		318,052	5.1 %
Other Expenses		22,460,451		24,407,573		24,025,497		27,268,901		(3,243,404)	(13.5 %)
Provider Assessment		23,447,424		5,891,876		7,070,251		0		7,070,251	100.0 %
Depreciation		52,241,569		47,710,480		44,583,649		62,151,387		(17,567,738)	(39.4 %)
Total Operating Expense		**814,722,231**		**810,098,072**		**846,451,873**		**891,073,799**		**(44,621,926)**	**(5.3 %)**
Operating Income (Loss)		**(198,724,083)**		**(159,350,660)**		**(184,155,274)**		**(203,261,182)**		**(19,105,908)**	**(10.4 %)**
NONOPERATING REVENUES (EXPENSES)											
NonCapital Grants		5,930,243		4,913,584		9,553,816		10,151,837		598,021	6.3 %
NonCapital Transfers from County/State		3,547,896		3,547,896		3,547,896		3,547,896		(0)	(0.0 %)
Investment Income		3,731,216		2,686,925		7,050,405		6,932,908		(117,497)	(1.7 %)
Other NonOperating Revenues (Expenses)		27,834,946		(8,699,909)		(5,340,552)		5,599,662		10,940,214	204.9 %
Interest Expense		(20,600,119)		(29,330,857)		(29,409,200)		(17,047,328)		12,361,872	42.0 %
Tax Levy		147,491,236		129,214,055		130,432,753		149,428,205		18,995,452	14.6 %
Total NonOperating Revenues (Expenses)		**167,935,417**		**102,331,693**		**115,835,119**		**158,613,180**		**42,778,061**	**36.9 %**
Excess of Revenues over Expenses	**$**	**(30,788,666)**	**$**	**(57,018,966)**	**$**	**(68,320,155)**	**$**	**(44,648,002)**	**$**	**23,672,153**	**34.6 %**
Bond-Related Revenues and Expenses		(40,623,744)		(9,478,792)		(12,174,759)		(40,234,732)		(28,059,973)	(230.5 %)
Increase in Net Assets (normalized)	**$**	**(71,412,409)**	**$**	**(66,497,759)**	**$**	**(80,494,914)**	**$**	**(84,882,734)**	**$**	**(4,387,820)**	**(5.5 %)**