Dear Maricopa County Special Health Care District Board of Directors,

Fiscal year 2025 (FY 2025) begins a new era for Valleywise Health. After more than 20 years of promise and nearly 10 years since the passage of Proposition 480 approving the funding for Care Reimagined, the new acute hospital opened on June 13th, 2024. The FY 2025 Operating Budget reflects the forecasted volumes and changes in costs related to operations in the new hospital. Behavioral Health is also expanding with the opening of additional inpatient Behavioral Health beds and growth in outpatient Behavioral Health. The year will include continued investment in workforce, which is needed to support the new hospital and expanding Behavioral Health services. FY 2025 will bring new financial stability to Valleywise Health from the Safety Net Services Initiative.

The document which follows provides essential details on the proposed FY 2025 Operating and Capital Budget for Valleywise, with some highlights below.

New Acute Care Hospital

FY 2025 is the first full year of the new acute care hospital. Because of the significance of the change, it affects multiple areas of the Operating Budget.

The Roosevelt Main Emergency Department (ED) and Burn ED volumes are projected to increase with the new hospital opening by 5% and 4% respectively related to 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, so volumes for Labor and Delivery ED were not budgeted. With Maryvale ED having only a minor increase, the overall ED visits are relatively flat.

Inpatient Surgeries are growing by 4%, Acute Admissions by 2%, and Observation Days by 4%, all related to the increase in Roosevelt Main ED volumes from the new hospital opening.

Purchased Services includes $4,000,000 towards the demolition of the legacy buildings. This is a portion of this two-year project and cannot be capitalized as it is not considered site preparation. Other notable items in Purchased Services includes the new contracts for the outsourced services of Food & Nutrition, EVS and Laundry.

Repair & Maintenance includes an 19% savings in Building, Heat/Light/Cooling, Mechanical and Medical Equipment related repair and maintenance expenses due to the move to a new facility. Repair & Maintenance for the year is flat as the savings are offset by an increase in Communications and Data Processing related to new systems for the new hospital.

Utilities includes savings of 14% considering the need to only minimally support the legacy hospital and other administrative buildings. Rent is also increasing mainly due to additional Pyxis machines for the new hospital. The increase in Other Expense is mostly due to software subscription increased costs from EPIC, PACS, Healthfuse, and from Security Info Management System.

Depreciation is higher due to placing the new hospital into service.

Behavioral Health

The FY 2025 Operating Budget includes the opening of additional Behavioral Health units in Maryvale, allowing for 24 additional available beds. Due to this, Behavioral Health admissions and patient days increase by 9% and 8%, respectively.

On the outpatient side, Integrated Behavioral Health has experienced significant growth over the past few years, throughout most of the Federally Qualified Health Centers. This growth is projected to continue by nearly 5% in FY 2025, with the addition of Integrated Behavioral Health at the Phoenix Comprehensive Health Center. Overall, Outpatient Behavioral Health is growing by nearly 28%, from the First Episode Center in Mesa that opened during FY 2024, and the planned opening of the new FACT clinic at Maryvale. These new locations were made possible from capital grants awarded by the Maricopa County Board of Supervisors.

Workforce

The Sign-On and Retention (SOAR) program funded through the grants awarded by the Maricopa County Board of Supervisors and the Arizona Governor's office continues in FY 2025. This program provides 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, salary investments and other employee satisfaction efforts, have resulted in decreased Contract Labor, increased staff hires, and reduced turnover. These efforts are projected to continue in FY 2025, leading to an increase in Salaries of 12% and a decrease in Contract Labor of 17%.

Revenue

Total Net Patient Service Revenue is expected to have an improvement of 4% over the FY 2024 projection, primarily due to the increased volumes resulting from the new hospital opening and the additional active Behavioral Health beds.

Other Operating Revenue is increasing significantly next year due to the new Safety Net Services Initiative (SNSI). This is a new state directed payment program approved by the Centers for Medicare & Medicaid Services (CMS) and created by AHCCCS to support Valleywise Health as a public hospital critical to supporting access to Medicaid and uninsured patients with low incomes. The program will provide a sustainable source of funding for Valleywise to ensure Valleywise can maintain critically needed services and expand services, such as inpatient Behavioral Health. The program makes possible the ability for Valleywise to invest in its workforce and its capacity to ensure our patients have access to equitable integrated care.

Other changes in Other Revenue include reductions in post-pandemic grants. Cafeteria Sales, Catering Revenue and Gift Shop Sales will be included as an offset against the Purchased Services cost of these outsourced services. Disproportionate Share Revenue is forecasted at zero with the forecasted cessation of certified public expenditures resulting from the new SNSI directed payment program.

In sum, Total Operating Revenues are projected to increase by 42% due to the new SNSI program and the forecasted volume growth.

Non-Operating Revenue (Expense)

The Non-Operating Revenue (Expense) includes Grants/Research, the Match program, Interest Income/Expense, and Tax levies. For FY 2025, this budget includes $101M in operating tax support and $53M in bond levy support. Grant revenues are budgeted to decrease with the term of various grants, especially those awarded during the pandemic, but includes the SOAR program grant offset. As Valleywise Health Foundation donations restricted to Care Reimagined capital projects are applied towards the project in FY 2025 those funds will be recognized as revenue in Non-Operating. Interest expense is budgeted according to the bond schedules. Investment Income is estimated to be $7.6M based upon average operating cash on hand and projected interest rate experience. Most of the change in Other Non-Operating Revenues (Expenses) is related to projected increases in Intergovernmental Transfers to support the SNSI directed payment program state portion and a new agreement to support the Arizona General Fund.

FQHCs

Visits are forecasted to increase by 3.7% with additional providers in Primary Care, Behavioral Health and Dental. FY 2025 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 to 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 an additional loss of -$8.8M contribution before overhead over projection.

Capital Plan & Cash Position

The capital budget plan of $20.0M includes $2.3M in contingency to provide for potential equipment replacements, as needed.

This budget projects an increase in the Valleywise Health cash position for FY 2025 due to the net operating income. Operating days cash on hand on June 30, 2025, year-end is projected to be approximately 147 days**.**

Margin

The FY 2025 budgeted Increase in Net Assets (normalized) is budgeted at $18.7M, and Earnings before Interest, Depreciation and Amortization (EBIDA) is budgeted at 6.5%. This positive EBIDA supports the continued financial stability of Valleywise Health. The FY 2025 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 2025
Income Statement

		FY 2023 Total Actual		FY 2024 Total Budget		FY 2024 Projected Full Year		FY 2025 Total Budget		Variance Fav / (Unfav) Budg 25-Proj 24	% Variance Fav / (Unfav) Budg 25-Proj 24
OPERATING REVENUE											
Net Patient Service Revenue	$	509,398,504	$	531,913,668	$	502,270,872	$	521,149,324	$	18,878,453	3.8 %
Other Revenue		177,362,827		155,898,949		179,842,656		446,673,417		266,830,761	148.4 %
Total Operating Revenue		**686,761,331**		**687,812,617**		**682,113,528**		**967,822,742**		**285,709,214**	**41.9 %**
OPERATING EXPENSES											
Salaries and Wages		296,737,796		324,329,689		330,512,533		369,634,671		(39,122,139)	(11.8 %)
Contract Labor		86,876,657		72,922,254		72,311,306		60,203,696		12,107,610	16.7 %
Employee Benefits		99,974,978		95,550,424		103,922,523		114,466,847		(10,544,324)	(10.1 %)
Medical Service Fees		114,140,799		115,572,767		117,453,997		122,457,036		(5,003,039)	(4.3 %)
Supplies		98,744,775		100,289,874		117,897,907		120,566,004		(2,668,097)	(2.3 %)
Purchased Services		57,540,814		56,724,385		60,832,539		64,883,628		(4,051,089)	(6.7 %)
Repair and Maintenance		22,315,571		21,963,791		22,104,580		21,814,784		289,796	1.3 %
Utilities		8,409,267		8,320,934		9,476,150		8,173,259		1,302,891	13.7 %
Rent		6,241,890		5,859,393		7,476,515		7,644,653		(168,138)	(2.2 %)
Other Expenses		25,670,719		27,388,901		29,180,962		29,855,148		(674,186)	(2.3 %)
Provider Assessment		5,891,876		0		0		0		0	0.0 %
Depreciation		55,921,558		62,151,387		43,368,192		51,276,585		(7,908,394)	(18.2 %)
Total Operating Expense		**878,466,701**		**891,073,799**		**914,537,203**		**970,976,312**		**(56,439,109)**	**(6.2 %)**
Operating Income (Loss)		**(191,705,370)**		**(203,261,182)**		**(232,423,675)**		**(3,153,571)**		**229,270,105**	**98.6 %**
NONOPERATING REVENUES (EXPENSES)											
NonCapital Grants		9,217,257		10,151,837		12,628,070		12,192,884		(435,187)	(3.4 %)
NonCapital Transfers from County/State		3,547,896		3,547,896		3,547,896		3,547,896		0	0.0 %
Investment Income		7,601,696		6,932,908		8,118,759		7,570,867		(547,892)	(6.7 %)
Other NonOperating Revenues (Expenses)		(4,200,147)		5,599,662		(3,029,519)		(101,729,864)		(98,700,346)	(3258.0 %)
Interest Expense		(18,424,046)		(17,047,328)		(17,800,000)		(17,518,648)		281,352	1.6 %
Tax Levy		138,392,867		149,428,205		149,428,205		153,380,068		3,951,863	2.6 %
Total NonOperating Revenues (Expenses)		**136,135,524**		**158,613,180**		**152,893,412**		**57,443,202**		**(95,450,210)**	**(62.4 %)**
Excess of Revenues over Expenses	**$**	**(55,569,847)**	**$**	**(44,648,002)**	**$**	**(79,530,264)**	**$**	**54,289,631**	**$**	**133,819,895**	**168.3 %**
Bond-Related Revenues and Expenses		(23,655,426)		(40,234,732)		(38,948,249)		(35,608,928)		3,339,321	8.6 %
Increase in Net Assets (normalized)	**$**	**(79,225,273)**	**$**	**(84,882,734)**	**$**	**(118,478,512)**	**$**	**18,680,703**	**$**	**137,159,216**	**115.8 %**