

EXECUTIVE SUMMARY

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*The Regional Medical Center at Memphis
Five Year Funding Request
2010 - 2014*

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Abstract

The Regional Medical Center at Memphis (The MED) is a regional healthcare resource providing access to the only Level I trauma center and other safety net services in a multi-state region. The MED is facing a clear and present danger to its ability to remain a regional resource. To help ensure that The MED continues to operate at the current level of services, \$32 million in additional subsidies plus consideration to upgrade the physical plant, is required.

Introduction

The MED is the only Level I trauma and safety net hospital serving the citizens of western Tennessee, northern Mississippi, eastern Arkansas, as well as portions of Missouri and Kentucky. The Centers of Excellence are the Elvis Presley Memorial Trauma Center, the Firefighters Regional Burn Center, high-risk obstetrics and the Sheldon B. Korones Newborn Center — high-risk neonatology. The MED is also a major teaching site for The University of Tennessee College of Medicine. In fiscal year 2009 there were: 15,804 discharges, 11,390 trauma visits, 3,681 normal newborn discharges, 1,039 high-risk newborn discharges, 175,450 outpatient visits and 44,201 emergency room visits. The organization's annual expense budget exceeded \$325 million.

Overview

For more than 15 years, The MED has been under-funded and under-capitalized. The subsidies from Shelby County and the State of Tennessee have not kept pace with inflation. In addition, financial support from Mississippi and Arkansas has been nominal. The organization has, and continues to face, a myriad of challenges. These challenges include a growing uninsured population, an aged physical plant, a payor mix that pays significantly less than costs, a flat county subsidy and unpredictable financial support from the states of Tennessee, Mississippi and Arkansas. These challenges are compounding and have created

a fiscal crisis that poses an immediate threat to The MED's ability to provide critical specialty services, as well as serve as the regional safety-net facility and as a major medical teaching site.

The under-funding and under-capitalization of The MED, as well as the external challenges faced, have resulted in years of shortfalls in operational funding and few capital investments. The MED has been unable to sufficiently reinvest in its facilities, information technology and medical equipment. With this in mind and with the possibility of facing even greater operational losses, the Board of Directors requested that management complete a financial and operational assessment of the organization.

During the past year, many improvements have been implemented that have reduced costs and improved processes. These improvements, however, are not sufficient to address the long-term viability of The MED. The MED's losses are continuing, and have the potential to be staggering. In fiscal year 2009, The MED's operating subsidies were reduced by \$6 million. These dollars have not been replaced nor has The MED been able to secure adequate funding from the neighboring states of Mississippi and Arkansas for uncompensated care costs incurred by their residents. These factors continue to be a drain on The MED's finances and contribute to the projected losses going forward. As a means of addressing the ongoing efforts to increase funding from the states of Mississippi and Arkansas, Shelby County Mayor A C Wharton advanced the idea of regionalization of The MED. However, the proposal never gained momentum from Mississippi, Arkansas and Washington D.C.

The fiscal state of The MED is a daunting challenge and one that must be addressed with operational improvements, sustainable and predictable sources of funding and a new physical plant. The current state of The MED requires immediate attention.

To meet the needs of The MED and to ensure continued services at today's level, The MED needs an additional \$32 million dollars per year in operating subsidies. The current average annual operating subsidy is approximately \$63 million. A total operating subsidy of \$95 million is quite specific. It allows The MED to meet cash flow needs by increasing cash from an average of one to five days cash-on-hand to 30 days. In addition, with the increased subsidy, The MED will be able to reinvest \$10-15 million annually in short-term capital improvements needed to stay current with medical equipment and technology, as well as improve its information systems.

To address its current facility issues, including the physical plant, and to become more efficient through staffing and appropriate space utilization, The MED needs a new facility at a cost of \$318 million. To service the debt on a replacement facility, an additional \$20 million dollars per year over 30 years is necessary, bringing the total commitment needed to \$115 million per year by 2014.

Return on Investment

The Board of Directors and management team are committed to sustaining the level and quality of medical services historically provided. However, the ability to maintain the current level of services and to provide services in a quality and efficient manner requires additional financial support for operations, as well as capital financing for a building replacement project. The immediate increase in subsidy will address operating and short-term capital needs.

Adequate and sustainable financial support is essential to The MED's ability to become a financially viable healthcare delivery system.

An investment in The MED's future will help to ensure that the residents of the Mid-South have continued access to specialized quality healthcare when the need arises. With the additional financial support and a capital improvement project, The MED can continue to improve its operations, maintain critical

specialty services, survive an earthquake, improve its market share and pursue new revenue opportunities.

Specifically, The MED can meet its current obligations, maintain and grow its patient population as the nation moves to expand coverage for the uninsured and under-insured and develop programs to help improve the health status of the communities served. Replacement of the physical plant will help to ensure that The MED can continue to create and maintain operational efficiencies, as well as implement an electronic health record (EHR), protect its current Medicare and Medicaid reimbursements, improve the quality of care delivered and meet government required performance and quality metrics.

Without additional financial support, The MED will lag behind other providers in providing access to quality care, face reductions in its Medicare and Medicaid reimbursements and remain a high cost healthcare delivery system. More importantly, access to quality healthcare for all citizens in the Mid-South will be compromised.

In addition, because The MED has, and continues to lack the resources to invest in the facility and adequately meet its current obligation, it is not sufficiently prepared to respond to the anticipated changes that may result from national healthcare reform. If not prepared, The MED will risk losing its patient population and existing patient revenue streams.

Financial Overview

The five-year forecast assumes capital expenditures of \$15 million per year. This is significant because over the past nine years, The MED has under-invested in capital expenditures by at least \$40 million. A \$15 million per year capital investment forecast is the minimum required to keep The MED from falling further behind in its equipment and facilities needs.

The chart below assumes that an increase in the annual subsidy is not provided. The chart represents the loss from operations, and shows the cash affects under this scenario. The MED's Five-Year Forecast Assumptions provide a complete overview of the assumptions, income statements and cash flows. The chart reflects an annual combined subsidy of \$63 million dollars. A component of this subsidy is approximately \$27 million dollars of support from Shelby County. This subsidy has been flat for the past 15 years increasing by only \$3 million over the period. This has affected The MED negatively since the increase has been far below the healthcare consumer price index (CPI). Utilizing healthcare CPI rolled forward, the subsidy should be \$45.6 million, a difference of \$18.6 million.

Dollars in Millions

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenue over (under) Expenses	(\$4,812)	(\$6,786)	(\$14,857)	(\$23,487)	(\$31,707)
Cash net of restricted cash	(\$5,351)	(\$14,503)	(\$31,681)	(\$57,326)	(\$89,349)

Another potential financial scenario which exists and must be addressed is the possible decrease in TennCare reimbursements and other subsidies from the State of Tennessee. The federal stimulus dollars are projected to cease in FY 2011. If essential access and other supplemental payments from Tennessee are reduced by 50 percent in FY 2011 and 100 percent in FY 2012, the following are the losses and cash position each year in the five-year forecast. In the event this scenario becomes a reality, The MED becomes unsustainable.

Dollars in '000

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenue over (under) Expenses	(\$4,812)	(\$18,811)	(\$38,907)	(\$47,537)	(\$55,757)
Cash net of restricted cash	(\$5,351)	(\$26,528)	(\$67,756)	(\$117,451)	(\$173,524)

The Risk

Without additional subsidies, and with the looming potential of state funding cuts, including a seven percent reduction in TennCare reimbursement, The MED will be forced to make dramatic changes to its service levels. The immediate impact will be closure of 19 emergency medical beds and 70 medical/surgical beds no later than February 1, 2010

In fiscal year 2009, there were approximately 25,000 medicine emergency visits and 28,000 patient days. The reduced capacity caused by the aforementioned closures could have a ripple effect throughout the entire service area. However, these actions would be necessary to help ensure that The MED has enough operating cash to meet its operating needs for the remainder of FY 2010.

A continued deterioration in The MED's operating position and a seven percent reduction in TennCare payments would further exacerbate The MED's fiscal crisis and result in additional services closures including:

- **MedPlex**
- **All Ambulatory Services**

These additional closures must occur no later than June 30, 2010. and would significantly alter the role of The MED. These service reductions will adversely

impact the University of Tennessee College of Medicine's medical educational programs and access to quality healthcare for all citizens.

Finally, without significant capital investment and with potential FY 2011 cuts from the State of Tennessee, The MED's ability to continue to provide Level I trauma services will be severely compromised and closing of the entire facility almost inevitable. Sustainability would be impossible. Closure of The MED would leave western Tennessee without a Level I trauma center, burn center, high-risk obstetrical services and reduced high-risk neonatology capacity. Further, the loss of The MED will have an adverse impact on the area's citizens, and potentially the other area healthcare providers as well as the regional economy:

- **Closing the only Level I trauma center in western Tennessee**
- **Overwhelming the local emergency room capacity**
- **Losing 2,400 jobs**
- **Displacing 141 medical residents and 128 medical students**
- **Adversely impacting Downtown redevelopment and the economy**
- **Jeopardizing accreditation of The University of Tennessee College of Medicine**

Conclusion

For many years, The MED and Shelby County Government have collaborated and shared a commitment to help ensure that our most vulnerable citizens have access to quality healthcare. Since 2005, Shelby County Government's annual appropriation has averaged approximately \$27 million. With the support of the County, The MED has been able to help ensure that all Shelby County citizens have access to quality healthcare when the need arises, whether it's Level I trauma services or welcoming a healthy new baby into a young family.

The federal government has also to some extent recognized the plight of The MED and other safety-net hospitals by providing supplemental funding passed through state governments. Most state supplemental funding for The MED is federal dollars, not state dollars. The challenge is that states are allowed to determine their respective distribution of the dollars and The MED's allocation has not been sufficient to offset its uncompensated care costs.

In conclusion, The MED's Board of Directors and management team seek, on behalf of the patients we serve, a commitment for a stable annual subsidy and funding to support a building project. Without a commitment to increase The MED's operating subsidy and financial support for a major capital project, The MED will not be able to continue to provide the current scope and level of services nor invest in its facilities, technology or equipment.

The Board of Directors and management team recognize that additional financial support is impossible without leadership, guidance and a commitment from all levels of government and the community. We ask for your support and commitment to secure the financial resources and solutions needed to become a sustainable healthcare delivery system.