

Roswell Park Cancer Institute Corporation

Section 203 Budget Filing

Fiscal Year 2014 – 2015

FINAL

Public Authority Relationship with Unit of Government

Roswell Park Cancer Institute

The Institute was founded in 1898 and became a State Institute in 1911. In 1971, it was one of the first three institutions certified as a comprehensive cancer center by the National Cancer Institute. As such, it is committed to combat cancer through basic research, clinical research and treatment, and professional and public education. Presently, there are 41 such centers designated in the United States. The Institute is a 133 licensed bed facility and an ambulatory care center containing 15 multidisciplinary care centers with a staff of over 3,200 members, including clinical staff physicians, residents, fellows, and research staff. The primary physical plant covers several city blocks in downtown Buffalo.

The operation of the Institute transferred from the New York State Department of Health to the RPCI Corporation on January 1, 1999. In order to meet the demands of the changing health care marketplace and to promote the strengths and capabilities of the Institute, Chapter 5 of the Laws of 1997 added a new Title 4 to Article 10-c of the Public Authorities Law authorizing the RPCI Corporation. This legislative authorization was intended to change the Institute's governance structure to afford it market and managerial flexibility. Among the special powers granted by the legislation to the Corporation were the powers to contract with the State to operate, manage, superintend and control the Institute, and to establish, collect, and adjust fees, rental and other charges in connection with the operation of the Institute.

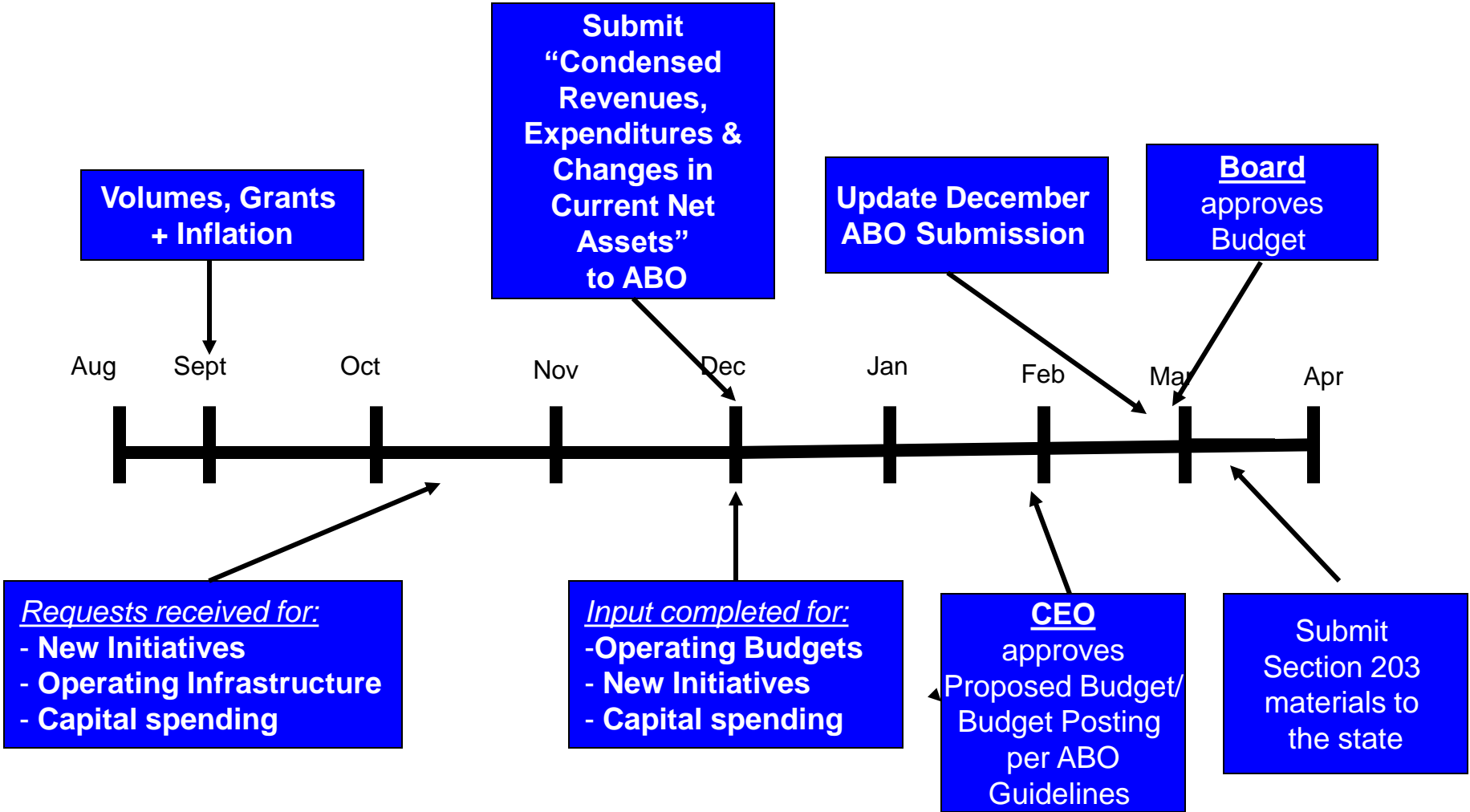
Pursuant to subdivision 2 of Section 403 of the Public Health Law, added by such chapter, the Department, acting on behalf of the State, entered into an Operating Agreement with RPCI Corporation pursuant to which operating responsibility for the Institute was transferred to RPCI Corporation effective January 1, 1999, and giving RPCI Corporation substantial independence in operating the Institute, including the power to establish operating budgets, to establish and implement strategic business plans, to create subsidiary and affiliated entities, to enter into affiliations and alliances with other health care providers and to establish, collect and adjust fees, rentals and other charges in connection with the operation of the Institute.

Revenues generated by the Corporation as a result of operating the Institute are considered to be revenues of the State for the purpose of its bond payment, and are required to be deposited into the Roswell Park Cancer Institute Debt Service Account of the Health Income Fund for payment of debt service on the Bonds. The Department retains responsibility for paying debt service on the Bonds. After allowing for accumulation of a debt service reserve for the Institute, the remaining revenues are transferred to the Roswell Park Cancer Institute Income Account of the Health Income Fund. After allowing for a balance for refunds these revenues are, in turn, transferred to RPCI Corporation.

RPCI Corporation's responsibility is to ensure the fiscal and programmatic integrity of the facility. To achieve this objective, the Corporation has updated the strategic plan for the Institute which includes major programmatic and scientific, as well as, fiscal goals. Some of the key goals include the recruitment of top-tier clinical and scientific talent; developing a methodology to monitor the effectiveness of programs and faculty; enhancing financial viability through revenue and expense controls; building a strong and profitable biotechnology transfer program in collaboration with peer facilities; emphasis on clinical and translation research, as well as developing and implementing new clinical trials and establishing a cancer disease management and clinical outcomes program.

The Institute is a formally designated unit of the Graduate School of the University of New York at Buffalo and has numerous affiliation agreements with other educational institutions and hospitals. Training provided by the Institute under these agreements includes medical, nursing and medical research.

The RPCIC Budget Process Timeline



Capital Allocations will be completed using the Following Team structure

Facilities Committee	IT Committee	Clinical Committee	Scientific Committee	Administrative
<i>Chief Institute Operations Officer General Counsel</i>	<i>Deputy Director</i>	<i>Chief Clinical Operations Officer</i>	<i>Deputy Director</i>	<i>V.P. of Finance and C.F.O.</i>
<i>VP for Facilities Management</i>	<i>Vice President Information Technology</i>			

Budget Assumptions - FY15

Revenue Assumptions:

Base Volumes

Admits +10.2%

IP Days +5.5%

OP Visits +1.5%

Rate Assumptions

Payor increases per contracts

Governmental payor increases per regulations

Sources of Revenues:

Include Private and Governmental Contracts, Grants and Donations, and Funding from New York State

Staffing:

At current levels, plus:

new staff for increase in visits and admissions

new initiatives and strategic research initiatives

Future Collective Bargaining Costs:

Bargaining Unit increases for FY2015 included Step at an average of 1.4% and COLA at 2.0%

Inflation:

> Salaries - Steps and COLA factored in per CBA above

> Fringe Benefits - increase consistent with salaries

> Pharmacy (inflation & new drugs) +3.3%

> Medical Supplies, Blood Products, Office Supplies, Purchased Services +2.8%

Programmatic Goals:

> Continue Implementation of Strategic Research Initiatives

> Continue Strategic Recruiting Efforts

> Evaluate Collaborative Opportunities

> Establish a Leading Edge Center for Personalized Medicine

> Complete Strategic Transformation Plan

> ICD10 Implementation

Challenges and Obstacles – External Forces

External forces that challenge our ability to successfully implement Roswell's vision for the future:

- **Current Economic Climate**
- **Outcome of final 2015 NYS Budget**
- **NYS support requested and timing of when funds are received**
- **Recruitment** - Increasing costs and competition
- **NIH Funding**
 - Decreases in overall funding while competition for funds increases
 - Conclusion of American Recovery and Reinvestment Act (ARRA) funding
 - Ongoing Impact of Sequestration
- **Managed Care**
 - Increasing role of National players for commercial and Medicare Advantage plans
 - Increasing premium trends are moderating, causing payors to negotiate more aggressively to keep medical expenses at current or moderately higher costs
 - Implementation of Insurance Exchanges are leading payors to seek minimal increases on small group and Insurance Exchange product offerings
- **Federal Deficit impairs Medicare program spending**
 - Ongoing Impact of Sequestration
- **Physical capacity to meet demand for clinical services**
- **Ability to invest in accordance with RPCI Strategic Plan**
- **Unknown Impacts of Healthcare Reform**

CONDENSED BUDGETED REVENUES, EXPENDITURES AND CHANGES IN CURRENT NET ASSETS

	in Thousands						
	Last Year (Actual) FY 2013	Current Year (Budget) FY2014	Current Year (Estimated) FY2014	Proposed Budget FY2015	Proposed FY2016	Proposed FY2017	Proposed FY2018
REVENUE & FUNDING SOURCES							
<i>Operating Revenues</i>							
Charges for Services	\$ 422,478	\$ 439,290	\$ 439,977	\$ 462,042	\$ 480,269	\$ 507,374	\$ 529,003
Rental & Financing income							
Other Operating revenues	\$ 9,447	\$ 8,885	\$ 9,957	\$ 9,816	\$ 9,929	\$ 10,044	\$ 10,163
<i>Non-operating Revenues</i>							
Investment earnings	\$ 1,448	\$ 1,013	\$ 649	\$ 1,657	\$ 2,251	\$ 2,897	\$ 3,480
State subsidies/grants	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600	\$ 102,600
Federal subsidies/grants							
Municipal subsidies/grants							
Public authority subsidies							
Other Non-Operating Revenue							
<i>Proceeds from the issuance of debt</i>							
Total Revenues and Funding Sources	\$ 535,973	\$ 551,789	\$ 553,182	\$ 576,114	\$ 595,049	\$ 622,914	\$ 645,245
EXPENDITURES							
<i>Operating expenditures</i>							
Salaries and Wages	\$ 188,336	\$ 201,214	\$ 194,997	\$ 209,495	\$ 217,905	\$ 227,297	\$ 237,080
Other Employee Benefits	\$ 65,863	\$ 73,673	\$ 71,990	\$ 80,049	\$ 83,568	\$ 88,578	\$ 94,265
Professional Services and Contracts	\$ 67,762	\$ 68,447	\$ 66,459	\$ 80,407	\$ 76,375	\$ 78,503	\$ 80,763
Supplies and Materials	\$ 120,731	\$ 130,652	\$ 120,106	\$ 123,783	\$ 129,923	\$ 137,379	\$ 145,949
Other operating expenditures	\$ 12,245	\$ 13,348	\$ 18,332	\$ 14,193	\$ 14,101	\$ 14,202	\$ 14,234
<i>Non-operating expenditures</i>							
Payment of principal on bonds and financing arrangement:	\$ 11,701	\$ 12,248	\$ 12,249	\$ 12,858	\$ 13,279	\$ 13,055	\$ 13,726
Interest and other fiscal charges on debt	\$ 9,128	\$ 8,697	\$ 8,778	\$ 8,196	\$ 7,688	\$ 7,140	\$ 6,558
Subsidies to other public authorities							
Capital asset outlay (including CSC)	\$ 34,237	\$ 52,319	\$ 43,982	\$ 62,193	\$ 44,259	\$ 36,484	\$ 37,375
Miscellaneous							
Total Expenditures	\$ 510,003	\$ 560,599	\$ 536,894	\$ 591,174	\$ 587,097	\$ 602,639	\$ 629,951
CAPITAL CONTRIBUTIONS	\$ 2,114	\$ 12,710	\$ 12,268	\$ 19,060	\$ 7,649	\$ -	\$ -
"Excess (deficiency) of revenues and capital contributions over expenditures"	\$ 28,084	\$ 3,900	\$ 28,557	\$ 4,000	\$ 15,601	\$ 20,275	\$ 15,294

ROSWELL PARK CANCER INSTITUTE CORPORATION

Cash Flow Projections

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	Budget 2014	Projected 2014	Budgeted 2015	Budgeted 2016	Budgeted 2017	Budgeted 2018
Excess (Deficiency) of revenues and capital contributions over expenditures	\$ 3.9	\$ 28.6	\$ 4.0	\$ 15.6	\$ 20.3	\$ 15.3
Funds due from NYS for Clev Biolabs	\$ -	\$ 1.5	\$ -	\$ -	\$ -	\$ -
Funds due from NYS for BLSC project	\$ -	\$ 1.8	\$ -	\$ -	\$ -	\$ -
Draw on RPA CSC Loan/Bank Bridge Loan	\$ -	\$ -	\$ -	\$ (1.1)	\$ 1.1	\$ -
Funding of Academic Development	\$ (1.8)	\$ 0.2	\$ (3.1)	\$ (1.8)	\$ (2.4)	\$ (3.4)
Working Capital/Other Changes of AWUIL	\$ 6.4	\$ (46.9)	\$ 7.1	\$ (9.3)	\$ (12.3)	\$ (4.4)
Annual Unrestricted Cash Impact	8.5	(14.8)	8.0	3.4	6.6	7.5

Roswell Park Cancer Institute Corporation (PBC)
Projected Operating Revenues - Net Patient service Revenues
(\$ In Thousands)

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	FY14 Projected	FY15 Budget	FY16 Budget	FY17 Budget	FY18 Budget
<u>Volume Statistics</u>					
Admits	4,767	5,251	5,364	5,474	5,588
Days	37,971	40,056	40,796	41,526	42,280
ALOS	7.97	7.63	7.61	7.59	7.57
Visits	205,896	209,002	216,370	221,517	232,110
<u>Direct Patient Service Revenue</u>					
RPCI IP Revenue	175,388	183,545	191,131	201,864	210,419
RPCI OP Revenue	204,779	216,539	229,397	243,482	255,198
Other	7	985	3,549	4,179	4,305
RPCI Total	380,174	401,068	424,078	449,526	469,922
CPP IP Revenue	15,983	16,787	17,455	18,308	18,995
CPP OP Revenue	35,366	36,513	38,651	40,771	42,647
Other	-	-	-	-	-
CPP Total	51,349	53,300	56,106	59,079	61,642
Total Direct Patient Service Revenue	431,522	454,369	480,184	508,605	531,564
Other RPCI Patient Service Revenue	12,197	11,652	5,122	4,535	3,587
Other CPP Patient Service Revenue	2,105	1,155	1,155	1,155	1,155
Total Other Patient Service Revenue	14,302	12,807	6,277	5,690	4,742
Total Net Patient Service Revenue	445,824	467,176	486,461	514,296	536,306
RPCI Provision for Bad Debts	6,577	5,601	6,518	7,126	7,450
CPP Provision for Bad Debts	609	1,066	1,206	1,329	1,387
Total Provision for Bad Debts	7,186	6,667	7,724	8,455	8,837
Total Net Patient Service Revenue Net of Provision for Bad Debt	438,638	460,509	478,736	505,841	527,470
Grants and Contracts	1,339	1,533	1,533	1,533	1,533
Total Charges for Services	439,977	462,042	480,269	507,374	529,003

Roswell Park Cancer Institute Corporation (PBC)

Projected Operating Revenues - Other Revenue

In Thousands

	FY14 Projected	FY15 Budget	FY16 Budget	FY17 Budget	FY18 Budget
Other Operating Revenues:					
Cafeteria	1,892	1,612	1,628	1,644	1,661
Parking Ramp/Surface	2,261	2,328	2,351	2,375	2,399
Aids/Prison Hotline Revenue	270	270	273	275	278
Rebates	1,158	1,162	1,174	1,185	1,197
Shared Services Reimbursements	1,200	1,200	1,212	1,224	1,236
Rental Income	130	120	121	122	124
CPP Physician Salary Support	1,590	1,623	1,656	1,689	1,723
Other	1,455	1,499	1,514	1,529	1,545
Total Other Operating Revenues	9,957	9,816	9,929	10,044	10,163

Roswell Park Cancer Institute Corporation (PBC)
Detail of Salaries and Fringe and Non Personnel Service Operating Expense
In Thousands

	FY14 Projected	FY15 Budget	FY16 Budget	FY17 Budget	FY18 Budget
<u>Salaries</u>					
Salaries and Wage Costs	190,538	205,141	212,004	222,089	232,394
Furlough Expense/Payments	356	266	1,650	744	-
Overtime Payments	2,032	1,934	2,011	2,112	2,217
Premium Payments	2,072	2,153	2,239	2,351	2,469
TOTAL Personnel Service Expense	194,997	209,495	217,905	227,297	237,080
<u>Fringe</u>					
NYS Pension Expense & TIAA CREF	30,378	30,766	31,765	33,339	34,948
Health Insurance: Active	19,135	21,734	22,958	24,692	26,508
Health Insurance: GASB Payments	5,671	6,498	7,368	8,371	9,535
Other Fringe	16,806	21,052	21,477	22,176	23,274
TOTAL Fringe Expense	71,990	80,049	83,568	88,578	94,265

Note: The fringe expense includes the cash payment for the retiree's health insurance, but does not include the GASB 45 accrual

Non Personnel Service Operating Expense

Pharmaceuticals	78,363	80,980	84,593	89,615	95,841
Medical, Blood, Other Supplies	41,743	42,803	45,329	47,764	50,109
Contracted Services / All Other	84,791	94,600	90,476	92,705	94,997
TOTAL Non Personnel Service Expense	204,897	218,383	220,398	230,085	240,947

**Roswell Park Cancer Institute Corporation (PBC)
Reconciliation FY14 Budget to FY14 Projected
Modified Accrual Basis**

	<u>in Millions</u>
1 Excess (Deficiency) Revenues over Expenses (FY14 Budget)	\$ 3.9
2 Mix of Clinical Services / Clinical Margin	\$ 13.4
3 Transformation Savings	\$ 1.3
4 Other Operating Revenue	\$ 1.1
5 Timing of Investment in Clinical Science Center (CSC)	\$ 8.1
6 Non Operating Revenue	\$ 1.0
7 All Other	\$ (0.2)
8 Excess (Deficiency) Revenues over Expenses (FY14 Projected)	<u>\$ 28.6</u>

**Roswell Park Cancer Institute Corporation (PBC)
FY 2015 Budgeted # of FTE's and # of Employees**

<u>Functional Classification</u>	<u>Total # Employees</u>	<u>Total # Full Time</u>	<u>Total # FTE's</u>
Clinical / Clinical Research / Academic	1,779.0	1,525.0	1,624.3
Scientific / Academic	162.0	153.0	155.2
Administrative and Other	484.0	449.0	457.2
Total All Functional Areas	2,425.0	2,127.0	2,236.8

Sources of Funding:

The Source of funding for the projected workforce is:

Patient service Revenues - Government and Private Payors

Grants and Contracts

Donations

New York State Funding

Roswell Park Cancer Institute (PBC)

FY 2015 New Revenue-Enhancement and Cost-Reduction Initiatives

As part of the Institute's long range strategic plan, investments are being made in clinical operations. These investments are critical to meeting the projected demand for oncology services and increasing revenue in RPCI's clinical operations, which are used to support research and academic missions at the Institute.

Major Gap Closing Components:	
	\$\$ in millions
Clinical Margin Improvement	7.0
Transformation Savings	5.0

Roswell Park Cancer Institute (PBC)

FY 2014 – FY2018 Material Non-Recurring Resource

- The Institute is projecting non-recurring capital contribution revenues of approximately \$12.3 million, \$19.1 million, \$7.6 million, \$0.0 million and \$0.0 million from philanthropic sources in fiscal years 2014 – 2018 respectively. These contributions are expected to assist in funding the continued growth at Roswell Park.

Roswell Park Cancer Institute (PBC)

FY 2015 – Material Shift in Resources Between Years

- Capital projects can span multiple years. The entire project is approved prior to initiation, and due to the magnitude of certain projects there can be an approved balance to carry forward to the next fiscal year. Carry over balances are determined and approved after the start of the new fiscal year.

ROSWELL PARK CANCER INSTITUTE CORPORATION
Borrowed Debt Outstanding projected

in Millions

PBC revenues are pledged to repayment of the following DASNY indebtedness issued through New York State Department of Health

Borrowed Debt Outstanding

- 1 DASNY Debt issuance 12/4/03
- 2 DASNY Debt issuance 4/7/04
- 3 DASNY Debt issuance 4/7/04
- 4 DASNY Debt issuance 5/24/05
- 5 DASNY Debt issuance 7/13/2011
- 6 Capital lease obligations

	Proposed Budget FY2015	Projection FY2016	Projection FY2017	Projection FY2018
Debt outstanding at March 31st year end	\$ 187.3	\$ 174.0	\$ 161.0	\$ 147.2

in 000's

Scheduled Debt Service Payment

For the Year ending March 31

	Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2014	\$ 12,249	\$ 10,089	\$ (9)	\$ 154
2015	\$ 12,858	\$ 9,458	\$ (5)	\$ 154
2016	\$ 13,279	\$ 8,806	\$ (1)	\$ 154
2017-2021	\$ 76,226	\$ 33,239	\$ 71	\$ 768
2022-2026	\$ 93,252	\$ 11,365	\$ 229	\$ 743
Thereafter	\$ -	\$ -	\$ 4,238	\$ 1,947
	\$ 207,864	\$ 72,957	\$ 4,523	\$ 3,920

*All debt is issued. There is currently no proposed debt.

ROSWELL PARK CANCER INSTITUTE CORPORATION***Purpose of Debt Issuances***

PBC revenues are pledged to repayment of the following DASNY indebtedness issued through New York State Department of Health:

1

On December 4, 2003, DASNY issued debt in the amount of \$41,910,000 (RPCIC allocated 85%). Under the terms of the issuance, interest ranges from 2.0% to 5.25% per annum with interest and principal payments due through 2024. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.

2

On April 7, 2004, DASNY issued debt in the amount of \$77,245,000 (RPCIC allocated 95.15%). Under the terms of issuance interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2024. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.

3

On April 7, 2004, DASNY issued debt in the amount of \$78,870,000 (RPCIC allocated 95.51%). Under the terms of issuance interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2023. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.

4

On May 24, 2005, DASNY issued debt in the amount of \$51,465,000 (RPCI allocated 95.51%). Under the terms of issuance interest ranges from 3.0% to 5.25% per annum with interest and principal payments due through 2026. The bond proceeds were used solely to defease a portion of the outstanding 1996 bond series.

5

On July 13, 2011, DASNY issued debt in the amount of \$48,180,000 (RPCI allocated 74.85%). Under the terms of issuance interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2025. The bond proceeds were used solely to defease a portion of the outstanding 1998 bond series.

6

On June 1, 2012, RPCIC entered into a capital lease obligation to rent 226 parking spaces for a 35 year period. Under terms of the agreement, the cost of capital is estimated at 3.4% per annum with interest and principal payments due through 2047.

ROSWELL PARK CANCER INSTITUTE CORPORATION
Debt Service/Pledged Revenues
and Debt limited levels

Debt Service as a percentage of Pledged Revenues*	Debt Service FY 2015	Pledged Revenues	Debt Service Percent of Pledged Revenues
1 DASNY Debt issuance 12/4/03	\$ 3,193	\$ 420,000	0.8%
2 DASNY Debt issuance 4/7/04	\$ 10,160	\$ 420,000	2.4%
3 DASNY Debt issuance 4/7/04	\$ 3,337	\$ 420,000	0.8%
4 DASNY Debt issuance 5/24/05	\$ 2,497	\$ 420,000	0.6%
5 DASNY Debt issuance 7/13/11	\$ 3,130	\$ 420,000	0.7%
Total	\$ 22,317		5.3%

*Pledged revenues are defined in accordance with RPCI bond documents

RPCI is authorized to incur additional indebtedness beyond its current levels. Should the amount of its requested indebtedness exceed 15% of amounts transferred from the Health Income Fund to RPCI in the previous year, prior written approval of the NYS Division of Budget is required. RPCI has not assumed that additional indebtedness of this magnitude will occur in its FY2015 budget. *NOTE:* RPCI has secured a line of credit with M&T bank to cover operational cash flow needs should NYS be late in paying its quarterly support payments to the Institute. Interest costs related to accessing the line of credit have not been included in the FY 2015 budget as we are assuming NYS support payments will occur in a timely manner.

FY2014 Capital Budget Summary In Thousands (000's)

	Budget 2015
<u>Projects funded with Operating Cash:</u>	
Total Facilities Capital	\$ 13,242
Strategic Initiatives, CPP & Other	\$ 3,100
Clinical, Scientific & Administrative Equipment	\$ 13,318
Information Technology	\$ 9,483
Subtotal	\$ 39,143
 <u>Projects funded with support from outside sources:</u>	
Clinical Science Center	\$ 23,050
Total Capital Expenditures	\$ 62,193

Note:

None of the projects is expected to have a material impact on the operating budget.

IT projects include ongoing maintenance costs which are not material to the operating budget.

Sec 203.9 CERTIFICATION

By checking this box, I certify that the OSC Budget Request (Part 203) submission is complete and to the best of my knowledge and belief after reasonable inquiry, the information provided in this submission is accurate and correct. This information has been presented to and accepted by the authority's Board.

Chief Operating Officer
Roswell Park Cancer Institute Corporation

Presented to The Roswell Park Cancer Institute Corporation's Board of Directors
on February 25, 2014
Approved by the Board of Directors on February 25, 2014

Roswell Park Cancer Institute Corporation (PBC)

Section 203 Filing

Changes from Proposed budget posted on 1/24/2014 to budget submitted for Board approval

Schedule Change Description

- 203.6e,g Decrease in Revenues (Charges for Services) for FY2016 to FY2018
 Increase in estimates of Salaries, Employee Benefits & Professional Services for FY2015 to FY2018
 Adjusted Capital Asset Outlay in FY2015 and FY2016

- 203.5h Updated Cash Projections based on changes to Net Income and Unrestricted Cash

- 203.5d Decrease in RPCI IP/OP Revenue, CPP IP/OP Revenue and Bad Debts for FY2016 to FY2018

- 203.5e,f Increase in estimates of Salaries, Other Fringe & Contracted Services for FY2015 to FY2018
 related to New Initiatives

- 203.6h Increased Total # Employees, Total # Full Time and Total # FTE's by 1

- 203.6i Increased Amount of Clinical Margin Improvement from \$6.2M to \$7.0M

- 203.6m Adjusted Capital in FY2015