

ROSWELL PARK CANCER INSTITUTE CORPORATION

Section 203 Budget Filing

Fiscal Year 2018 – 2019

PROPOSED

Roswell Park Comprehensive Cancer Center

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 49 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.

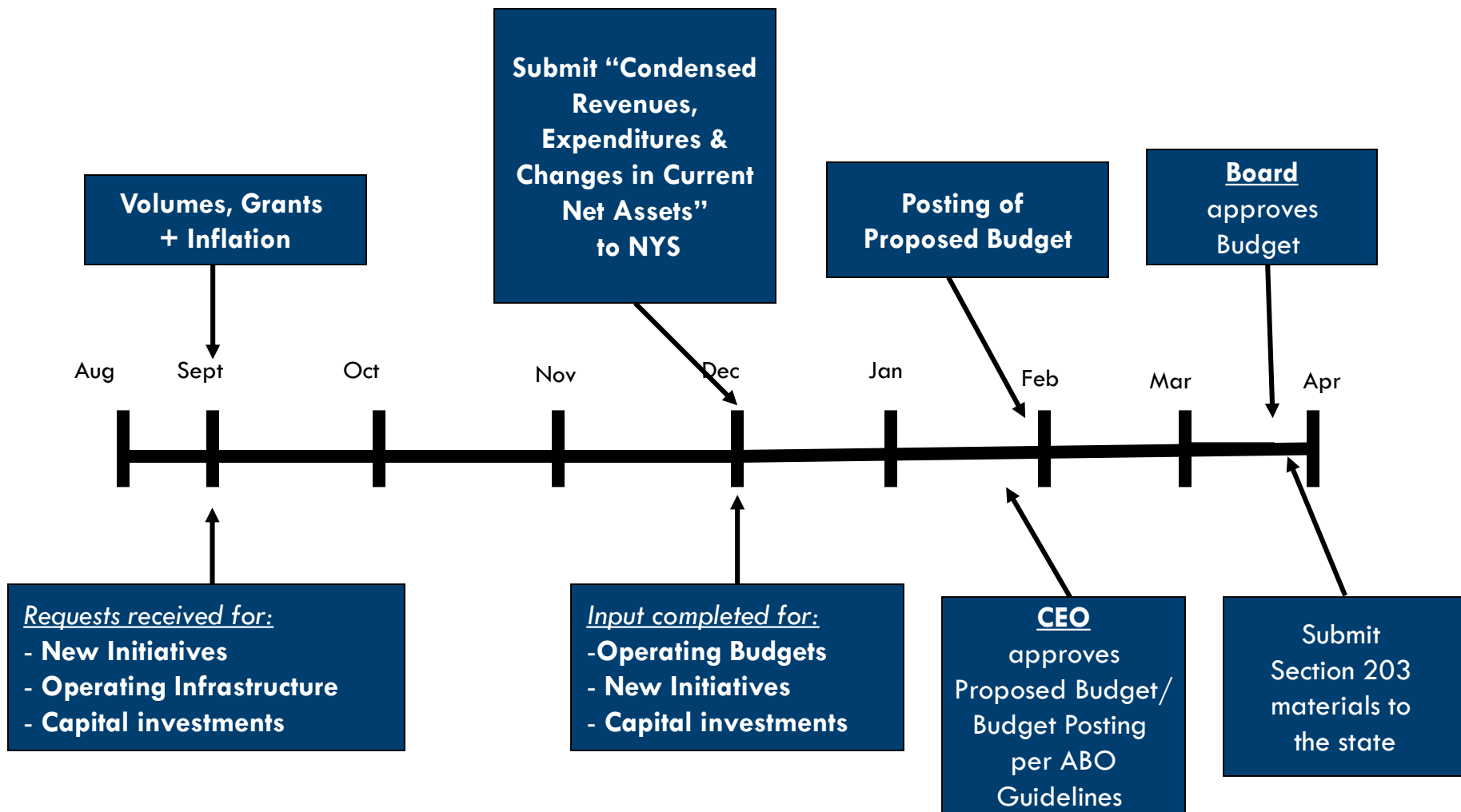
The operation of the Institute transferred from the New York Department of Health to the RPCI Corporation on January 1, 1999. In order to meet the demands of the changing health care marketplace and to promote the strengths and capabilities of the Institute, Chapter 5 of the Laws of 1997 added a new 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 of Health, 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 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 of Health 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 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 translational 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 arrangements includes medical, nursing and medical research.



□ Revenue Assumptions:

- Base Volumes
 - NTI's +4.5%
 - Admits +4.4%
 - Days +2.1%
 - Outpatient Visits +6.1%
- Rate Assumptions
 - Payer rates as negotiated
 - Governmental payer rates per regulations

□ Sources of Revenues:

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

□ Staffing:

- At current levels, adjusted for Productivity Standards, New Initiatives, Strategic Research Initiatives and Infrastructure

□ Future Collective Bargaining Costs:

- Bargaining Unit increases for FY19 include assumed Step and COLA per negotiated contracts.

□ Inflation:

- Salaries – Steps and COLA factored in as previously noted
- Fringe Benefits – increased consistent with Salaries
- Pharmaceuticals (inflation, utilization, new drugs) +9.0%
- Medical Supplies, Blood Products, Office Supplies, Purchased Services +1.7%

□ Programmatic Goals:

- Continuation of NCI designation
- Implementation of Roswell Park's Strategic Plan, including
 - Receive site approval and begin providing CAR-T cell therapy as a treatment option for patients
 - Expand access to Roswell Park through WNY and Statewide Collaborative Opportunities
 - Structure an Innovative Cancer Program to deliver transformational science
 - Develop Disease Site Strategy Groups (DSSG's) to increase empowerment and clarity of accountability
- Implementation of Strategic Research Initiatives
- Continued commercialization of personalized medicine capabilities (OmniSeq)
- Expand capabilities for commercializing Roswell Park innovations (via Global Biotech and Cancer Therapies)
- Complete new Pediatric Oncology collaboration
- Upgrade Information Technology Capabilities

- Outcome of Final NYS Budget
- Strategic Research Initiatives
 - Increasing costs and competition
 - Delays or changes to strategic research initiatives may impact budget projections
- Continued uncertainty of Federal Budget
 - NCI Funding
 - Medicare & Medicaid reimbursement
 - DSH Funding
- Managed Care
 - Increasing role of national insurance companies for Commercial and Medicare Advantage plans
 - Increasing use of limited and tiered networks and ACO's
 - Benefit designs continue to require higher cost share (copays/coinsurance/deductible) for patients for certain services
- Increasing benefit cost and liability driven by post retirement health (OPEB)

- Required labor rate increases outpacing healthcare reimbursement increases
- Physical capacity to meet demand for clinical services
- Ability to invest in accordance with RPCI Strategic Plan
- Potential changes to Affordable Care Act
- Potential migration from Hospital-based care to Outpatient facilities

Budgeted Revenues, Expenditures and Changes in Current Net Assets (in 000's)

	Last Year (Actual) FY17	Current Year (Budget) FY18	Current Year (Estimated) FY18	Proposed Budget FY19	Proposed FY20	Proposed FY21	Proposed FY22
REVENUE & FUNDING SOURCES							
<i>Operating Revenues</i>							
Charges for Services	\$ 585,423	\$ 649,062	\$ 650,637	\$ 691,764	\$ 696,751	\$ 704,880	\$ 727,428
Rental & Financing income	-	-	-	-	-	-	-
Other Operating revenues	11,928	13,030	14,267	17,752	20,036	24,568	25,530
<i>Non-operating Revenues</i>							
Investment earnings	1,794	2,785	4,709	6,415	7,320	8,661	9,265
State subsidies/grants	102,607	102,608	102,608	102,608	102,608	102,608	102,608
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	\$ 701,752	\$ 767,485	\$ 772,222	\$ 818,540	\$ 826,715	\$ 840,717	\$ 864,831
EXPENDITURES							
<i>Operating expenditures</i>							
Salaries and Wages	\$ 242,680	\$ 264,887	\$ 267,659	\$ 278,891	\$ 287,068	\$ 296,545	\$ 309,688
Other Employee Benefits	74,949	81,603	80,956	86,242	91,323	97,224	103,635
Professional Services and Contracts	90,685	102,469	101,166	104,017	107,148	109,611	116,550
Supplies and Materials	210,315	233,535	242,308	264,328	253,570	254,261	271,274
Other operating expenditures	5,547	10,162	8,165	7,943	8,103	8,246	8,164
<i>Non-operating expenditures</i>							
Payment of principal on bonds and financing arrangement:	15,459	17,623	17,568	18,209	18,484	18,771	19,084
Interest and other fiscal charges on debt	5,648	3,226	3,007	2,735	2,434	2,043	1,542
Subsidies to other public authorities	-	-	-	-	-	-	-
Capital asset outlay	29,657	53,959	42,961	60,743	46,312	45,496	45,442
Miscellaneous	-	-	-	-	-	-	-
Total Expenditures	\$ 674,941	\$ 767,463	\$ 763,790	\$ 823,107	\$ 814,442	\$ 832,198	\$ 875,379
CAPITAL CONTRIBUTIONS	\$ 2,647	\$ 3,858	\$ 5,002	\$ 250	\$ -	\$ -	\$ -
"Excess (deficiency) of revenues and capital contributions over expenditures"	\$ 29,458	\$ 3,880	\$ 13,434	\$ (4,318)	\$ 12,273	\$ 8,519	\$ (10,548)

Cash Flow Projections

(in millions)

	Budget FY18	Projected FY18	Budgeted FY19	Budgeted FY20	Budgeted FY21	Budgeted FY22
Excess (Deficiency) of revenues and capital contributions over expenditures	\$ 3.9	\$ 13.4	\$ (4.3)	\$ 12.3	\$ 8.5	\$ (10.5)
Other Changes in Unrestricted Cash	(18.6)	(9.7)	(1.6)	(2.1)	(9.3)	(12.0)
Cash Impact from Operations	\$ (14.7)	\$ 3.7	\$ (5.9)	\$ 10.2	\$ (0.8)	\$ (22.5)

Projected Operating Revenues – Net Patient Service Revenue (Charges for Services) (in 000's)

	FY18 Projected	FY19 Budget	FY20 Budget	FY21 Budget	FY22 Budget
<u>Volume Statistics</u>					
New to Institute	11,042	11,539	11,737	11,967	12,194
Admits	5,220	5,448	5,597	5,710	5,817
Days	38,770	39,586	40,613	41,216	41,821
ALOS	7.43	7.27	7.26	7.22	7.19
Visits	247,539	262,701	254,647	252,483	254,998
<u>Direct Patient Service Revenue</u>					
RPCI IP Revenue	212,193	214,750	222,961	232,788	243,398
RPCI OP Revenue	339,424	372,556	364,243	360,968	370,511
Other	43,133	50,516	51,782	52,580	53,362
RPCI Total	594,750	637,822	638,986	646,336	667,271
CPP IP Revenue	19,610	20,322	21,075	21,973	22,923
CPP OP Revenue	38,919	41,570	41,786	42,480	44,084
CPP Total	58,530	61,892	62,861	64,453	67,007
Total Direct Patient Service Revenue	653,280	699,714	701,847	710,788	734,278
Other RPCI Patient Service Revenue	2,711	(2,116)	713	44	(518)
Other CPP Patient Service Revenue	758	758	758	758	758
Total Other Patient Service Revenue	3,469	(1,358)	1,471	802	240
Total Net Patient Service Revenue	656,749	698,356	703,319	711,591	734,519
RPCI Provision for Bad Debts	6,688	7,243	7,214	7,339	7,687
CPP Provision for Bad Debts	732	770	775	793	825
Total Provision for Bad Debts	7,420	8,013	7,989	8,132	8,512
Total Net Patient Service Revenue Net of Provision for Bad Debt	649,330	690,343	695,329	703,458	726,006
Grants and Contracts	1,308	1,422	1,422	1,422	1,422
Total Charges for Services	650,637	691,764	696,751	704,880	727,428

Projected Operating Revenues – Other Operating Revenue (in 000's)

(in thousands)

Other Operating Revenues:

	FY18 Projected	FY19 Budget	FY20 Budget	FY21 Budget	FY22 Budget
Collaborative Initiatives	\$ 719	\$ 2,806	\$ 4,920	\$ 7,927	\$ 10,048
CPP Physician Salary Support	2,592	2,644	2,697	2,751	2,806
Parking	2,553	2,599	2,625	2,651	2,678
New Programs funded through Alliance	402	2,398	2,414	3,785	2,459
Rebates (VHA/Utilities)	2,012	2,051	2,072	2,093	2,113
Cafeteria	1,908	1,982	2,002	2,022	2,042
Network Affiliations & Service Agreements	1,685	1,254	1,266	1,279	1,292
LSB - UB Reimbursement	1,275	1,275	1,288	1,301	1,314
All Other	1,121	743	753	761	780
Other Operating Revenues (Consolidated)	\$ 14,267	\$ 17,752	\$ 20,036	\$ 24,568	\$ 25,530

Salary & Fringe and Non Personnel Service Operating Expense (in 000's)

	FY18 Projected	FY19 Budget	FY20 Budget	FY21 Budget	FY22 Budget
Salaries					
Salaries and Wage Costs	248,251	261,702	269,363	278,309	290,905
Overtime Payments	5,793	2,180	2,245	2,313	2,382
Premium Payments	13,615	15,009	15,459	15,923	16,401
TOTAL Personnel Service Expense	267,659	278,891	287,068	296,545	309,688
Fringe					
NYS Pension Expense & TIAA CREF	25,929	26,836	27,809	29,021	30,297
Health Insurance: Active	22,774	25,166	27,180	29,354	31,702
Health Insurance: OPEB Payments	9,204	10,494	11,567	12,942	14,411
Other Fringe	23,049	23,746	24,767	25,907	27,224
TOTAL Fringe Expense	80,956	86,242	91,323	97,224	103,635

Note: The fringe expense includes the cash payments for NYS Pension & OPEB, but does not include the accrual

Non Personnel Service Operating Expense

Professional Services & Contracts	101,166	104,017	107,148	109,611	116,550
Pharmaceuticals	184,600	205,988	195,825	196,172	211,716
Medical, Blood, Other Supplies	57,708	58,340	57,745	58,089	59,558
Supplies & Materials	242,308	264,328	253,570	254,261	271,274
Other Operating Expenditures	8,165	7,943	8,103	8,246	8,164
TOTAL Non Personnel Service Expense	351,639	376,288	368,821	372,118	395,988

Reconciliation FY18 Budget to FY18 Projected (in millions)

	(in Millions)
1 Excess (Deficiency) Revenues over Expenses (FY18 Budget)	<u>\$ 3.9</u>
2 Global Biotechnology and Cancer Therapeutics expense adjustment	(3.3)
3 Updated Strategic Plan initiatives, BMT and other adjustments	0.6
4 Capital Expenditures timing adjustments	<u>10.3</u>
5 Excess (Deficiency) Revenues over Expenses (FY18 Budget Amendment)	<u>\$ 11.5</u>
6 Increase in Investment Earnings	1.9
7 All Other	<u>0.0</u>
8 Excess (Deficiency) Revenues over Expenses (FY18 Projected)	<u>\$ 13.4</u>

<u>Functional Classification</u>	<u>Total # Employees</u>	<u>Total # Full Time</u>	<u>Total # FTE's</u>
Clinical / Clinical Research / Academic	1,981.0	1,702.0	1,788.5
Scientific / Academic	226.0	208.0	214.8
Administrative and Other	692.0	621.0	642.7
Total All Functional Areas	2,899.0	2,531.0	2,646.0

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

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 expanding access to Roswell Park’s services.

Major Gap Closing Components:	
	(\$\$ in millions)
Clinical Growth / Strategic Plan	\$ 16.3
Transformation Savings Program (incremental)	\$ 1.6

The institute is projecting non-recurring capital contribution revenues of approximately \$5.0 million and \$0.3 million in fiscal years FY2018 and FY2019 respectively. These contributions are expected to assist in funding the continued growth at Roswell Park.

Capital Projects and Strategic Investments can span multiple years. These projects are 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 by executive leadership as part of the planning process for the next fiscal year.

Borrowed Debt Outstanding

(in millions)

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

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Borrowed Debt Outstanding

- 1 DASNY Debt issuance 7/13/2011
 - 2 DASNY Debt issuance 10/21/2016
 - 3 Capital lease obligations
- Debt outstanding at March 31st year end**

in Millions			
Proposed Budget FY19	Projection FY20	Projection FY21	Projection FY22
\$ 117.9	\$ 102.6	\$ 86.6	\$ 69.6

Scheduled Debt Service Payment

For the Year ending March 31

	Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2018	\$ 13,578	\$ 6,559	\$ 9	\$ 154
2019	14,568	5,954	14	154
2020	15,293	5,208	20	153
2021	16,051	4,424	25	152
2022	16,877	3,619	32	151
2023-2027	65,214	6,094	267	734
Thereafter	-	-	4,168	1,804
	\$ 141,580	\$ 31,857	\$ 4,535	\$ 3,304

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

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

1

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.

2

On October 21, 2016, DASNY issued debt in the amount of \$144,810,000 (RPCI allocated 80.76%). Under the terms of issuance interest ranges from 3.0% 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 2003, 2004-1, 2004-2 and 2005 bond series.

3

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.

Debt Service/Pledged Revenues and Debt Limited Levels (in 000's)

Debt Service as a percentage of Pledged Revenues*	Debt Service FY19	Pledged Revenues	Debt Service Percent of Pledged Revenues
1 DASNY Debt issuance 7/13/11	\$ 4,732	\$ 599,306	0.8%
2 DASNY Debt issuance 10/21/16	\$ 15,791	\$ 599,306	2.6%
Total	\$ 20,522		3.4%

*Pledged revenues are defined in accordance with RPCI bond documents

	FY19 Budget
Facilities Capital	\$ 19,861
Clinical, Scientific & Administrative Equipment	19,680
Information Technology	12,917
Subtotal	\$ 52,458
Strategic Investments	\$ 8,285
Total Capital Expenditures & Strategic Investments	\$ 60,743

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 Board of Directors on March 29, 2018
Approved by the Board of Director's on March 29, 2018