

ROSWELL PARK CANCER INSTITUTE CORPORATION

Section 203 Budget Filing

Fiscal Year 2017 – 2018

FINAL



Public Authority Relationship with Unit of Government

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 47 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 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 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 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 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 translational research, as well as developing and implementing new clinical trials and establishing a cancer disease management and clinical outcomes program.

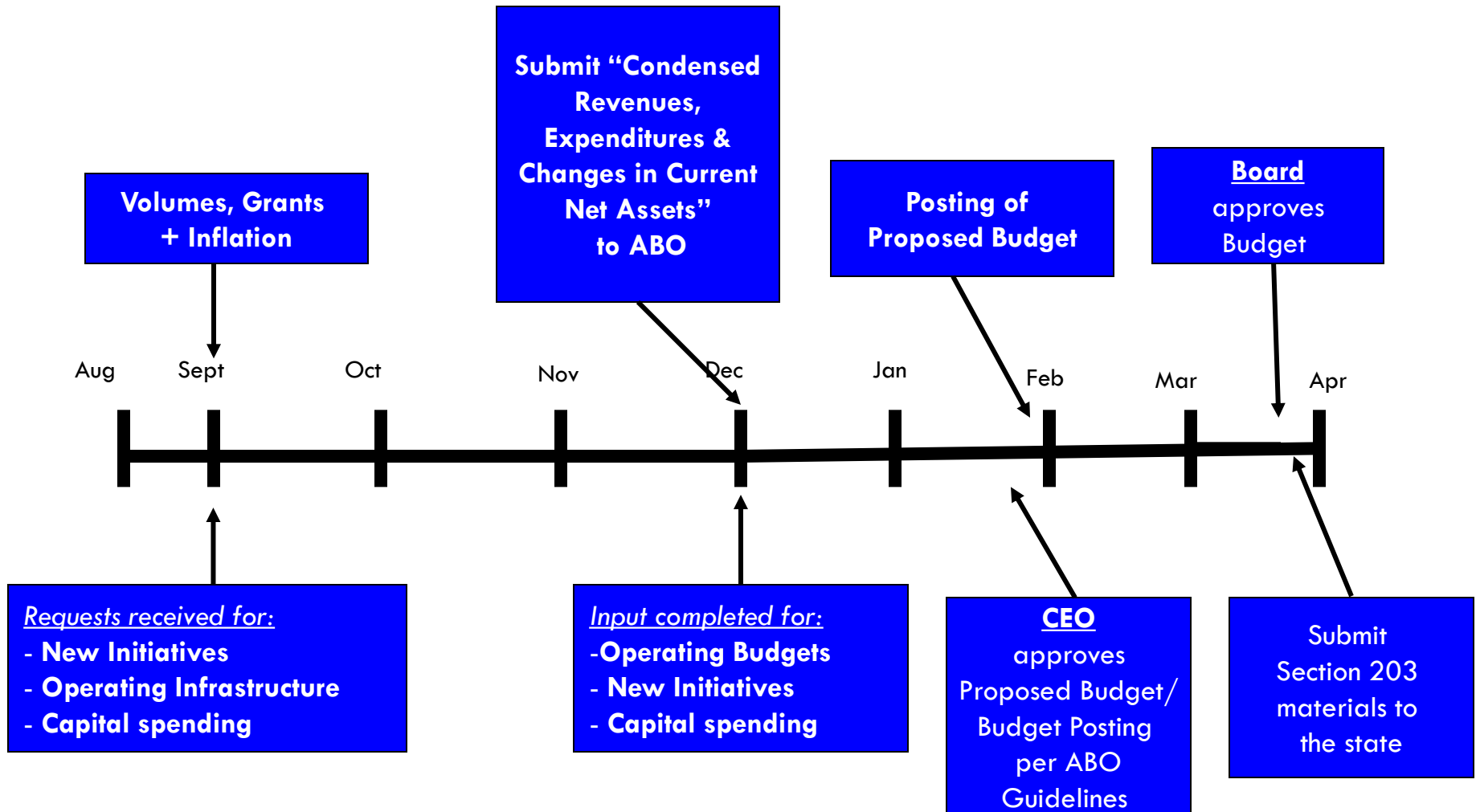
The Institute is a formally designated unit of the Graduate School of the University of New York at Buffalo and has numerous affiliation agreements with other educational institutions and hospitals. Training provided by the Institute under these agreements includes medical, nursing and medical research.



RPCIC Budget Process Timeline

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Capital Allocations

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



Budget Assumptions

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□ Revenue Assumptions:

■ Base Volumes

- NTI's +4.7%
- Admits +3.7%
- Days +3.0%
- Visits +7.6%

■ 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 FY18 include assumed Step and COLA pending completion of Union negotiations



Budget Assumptions (cont.)

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□ Inflation:

- Salaries – Steps and COLA factored in as previously noted
- Fringe Benefits – increased consistent with Salaries
- Pharmaceuticals (inflation, utilization, new drugs) +13.9%
- Medical Supplies, Blood Products, Office Supplies, Purchased Services +1.7%

□ Programmatic Goals:

- Implementation of Strategic Research Initiatives
- Strategic Recruiting Efforts
- Pursue Collaborative Opportunities
- OmniSeq (Personalized Medicine) Project
- GBCT (Global Biotech and Cancer Therapeutics) Project
- Comprehensive update of RPCIC's Strategic Plan
- Pediatric Oncology Legal and Business Structure Implementation
- Upgrade Information Technology Capabilities
- Integrate Medicare Access and Chip Authorization Principles into Clinical Processes



Challenges and Obstacles – External Forces

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- Current Economic Climate
- Outcome of Final NYS Budget
- Strategic Recruitment
 - Increasing costs and competition
 - Delays or changes to strategic recruitment plan may impact budget projections
- NIH Funding
 - Continued competition for funding remains a challenge to growing research
 - Federal Budget uncertainty remains a challenge



Challenges and Obstacles – External Forces (cont.)

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- 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
- Potential phase out of PPS exemption
- Physical capacity to meet demand for clinical services
- Ability to invest in accordance with RPCI Strategic Plan
- Potential changes to Healthcare Reform under New Administration



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

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REVENUE & FUNDING SOURCES

Operating Revenues

	Current Year (Budget) FY17	Current Year (Estimated) FY17	Proposed Budget FY18	Proposed FY19	Proposed FY20	Proposed FY21
Charges for Services	\$ 581,045	\$ 585,377	\$ 649,062	\$ 681,381	\$ 714,806	\$ 738,996
Rental & Financing income						
Other Operating revenues	11,898	12,249	13,030	16,101	17,560	18,095

Non-operating Revenues

Investment earnings	1,778	935	2,785	3,710	4,190	4,335
State subsidies/grants	102,600	102,608	102,608	102,608	102,608	102,608
Federal subsidies/grants						
Municipal subsidies/grants						
Public authority subsidies						
Other Non-Operating Revenue						

Proceeds from the issuance of debt

Total Revenues and Funding Sources

\$ 697,321	\$ 701,169	\$ 767,485	\$ 803,799	\$ 839,164	\$ 864,034
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EXPENDITURES

Operating expenditures

Salaries and Wages	\$ 240,709	\$ 241,380	\$ 264,887	\$ 271,864	\$ 283,750	\$ 296,795
Other Employee Benefits	75,343	74,894	81,603	87,379	93,014	99,280
Professional Services and Contracts	102,042	86,444	102,469	99,624	95,451	92,894
Supplies and Materials	193,402	208,107	233,535	249,850	268,787	284,748
Other operating expenditures	12,488	7,335	10,162	10,325	10,559	10,828

Non-operating expenditures

Payment of principal on bonds and financing arrangements	13,055	15,459	17,623	18,281	18,560	18,851
Interest and other fiscal charges on debt	7,531	5,775	3,226	2,954	2,654	2,264
Subsidies to other public authorities						
Capital asset outlay (including CSC)	54,221	33,238	53,959	61,600	47,746	37,002
Miscellaneous	-	-	(0)	-	-	-

Total Expenditures

\$ 698,792	\$ 672,633	\$ 767,463	\$ 801,878	\$ 820,521	\$ 842,662
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CAPITAL CONTRIBUTIONS

\$ 7,554	\$ 4,432	\$ 3,858	\$ -	\$ -	\$ -
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"Excess (deficiency) of revenues and capital contributions over expenditures"

\$ 6,083	\$ 32,969	\$ 3,880	\$ 1,922	\$ 18,642	\$ 21,372
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Cash Flow Projections

(in millions)

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	Budget FY17	Projected FY17	Budgeted FY18	Budgeted FY19	Budgeted FY20	Budgeted FY21
Excess (Deficiency) of revenues and capital contributions over expenditures	\$ 6.1	\$ 33.0	\$ 3.9	\$ 1.9	\$ 18.6	\$ 21.4
Other Changes in Unrestricted Cash	(6.7)	(9.7)	(18.6)	(9.2)	(13.5)	(18.9)
Cash Impact from Operations	\$ (0.6)	\$ 23.2	\$ (14.7)	\$ (7.2)	\$ 5.2	\$ 2.4



Projected Operating Revenues – Net Patient Service Revenue (Charges for Services)

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Volume Statistics

	FY17 Projected	FY18 Budget	FY19 Budget	FY20 Budget	FY21 Budget
Admits	5,091	5,277	5,323	5,408	5,471
Days	38,623	39,794	39,524	39,469	39,509
ALOS	7.59	7.54	7.43	7.30	7.22
Visits	230,508	248,006	255,559	259,726	262,248

Direct Patient Service Revenue

RPCI IP Revenue	196,498	206,963	210,275	219,681	225,427
RPCI OP Revenue	301,745	338,539	366,479	383,158	401,376
Other	32,590	42,559	40,980	42,664	43,766
RPCI Total	530,833	588,061	617,734	645,503	670,569

CPP IP Revenue	19,225	19,761	20,448	21,437	22,260
CPP OP Revenue	39,900	43,274	46,599	48,853	50,810
CPP Total	59,126	63,035	67,047	70,291	73,071

Total Direct Patient Service Revenue	589,959	651,096	684,781	715,794	743,639
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Other RPCI Patient Service Revenue	2,836	3,827	2,995	5,690	2,361
Other CPP Patient Service Revenue	1,055	758	758	758	758

Total Other Patient Service Revenue	3,891	4,585	3,753	6,448	3,119
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Total Net Patient Service Revenue	593,850	655,681	688,534	722,242	746,759
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RPCI Provision for Bad Debts	8,683	7,553	8,012	8,258	8,554
CPP Provision for Bad Debts	1,514	662	738	773	804

Total Provision for Bad Debts	10,197	8,215	8,749	9,031	9,358
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Total Net Patient Service Revenue Net of Provision for Bad Debt

	583,653	647,466	679,785	713,210	737,401
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Grants and Contracts	1,724	1,595	1,595	1,595	1,595
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Total Charges for Services	585,377	649,062	681,381	714,806	738,996
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Projected Operating Revenues – Other Operating Revenue

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Other Operating Revenues:

	FY17 Projected	FY18 Budget	FY19 Budget	FY20 Budget	FY21 Budget
Cafeteria	1,771	1,788	1,806	1,824	1,842
Parking	2,416	2,416	2,440	2,465	2,489
Rebates (VHA/Utilities)	1,997	2,062	2,083	2,104	2,125
Network Affiliations & Service Agreements	1,324	1,254	1,267	1,280	1,292
LSB - UB Reimbursement	1,275	1,275	1,288	1,301	1,314
Rental Income	120	120	121	122	124
Aids Hotline	113	113	115	116	117
New Programs funded through Alliance	480	689	639	650	627
Pediatrics Joint Venture	-	824	3,316	3,401	3,482
Southtowns Joint Venture	-	(383)	48	1,211	1,542
CPP Physician Salary Support	2,368	2,415	2,464	2,513	2,563
All Other	385	456	515	575	578
Total Other Operating Revenues	12,249	13,030	16,101	17,560	18,095



Salary & Fringe and Non Personnel Service Operating Expense

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	FY17 Projected	FY18 Budget	FY19 Budget	FY20 Budget	FY21 Budget
<u>Salaries</u>					
Salaries and Wage Costs	225,567	248,614	254,810	265,880	278,069
Furlough/Severance Payments	297	-	-	-	-
Overtime Payments	5,771	2,481	2,600	2,724	2,855
Premium Payments	9,745	13,793	14,454	15,146	15,871
TOTAL Personnel Service Expense	241,380	264,887	271,864	283,750	296,795
<u>Fringe</u>					
NYS Pension Expense & TIAA CREF	25,044	25,868	28,740	30,790	33,039
Health Insurance: Active	20,825	23,171	24,562	26,035	27,597
Health Insurance: OPEB Payments	7,987	9,137	10,344	11,373	12,736
Other Fringe	21,037	23,427	23,734	24,817	25,907
TOTAL Fringe Expense	74,894	81,603	87,379	93,014	99,280

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 and Contracts	86,444	102,469	99,624	95,451	92,894
Pharmaceuticals	153,657	177,931	193,206	210,415	224,999
Medical, Blood, Other Supplies	54,450	55,604	56,645	58,372	59,749
Supplies and Materials	208,107	233,535	249,850	268,787	284,748
Other Operating Expenditures	7,335	10,162	10,325	10,559	10,828
TOTAL Non Personnel Service Expense	301,887	346,165	359,799	374,797	388,471



Reconciliation FY17 Budget to FY17 Projected

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	(in Millions)
1 Excess (Deficiency) Revenues over Expenses (FY17 Budget)	\$ 6.1
2 Clinical Margin and timing of investment in Strategic Research Initiatives	\$ 0.7
3 Investment in Information Technology	\$ 1.0
4 Change in Self-Insured Program Cost	\$ 4.6
5 Utilities	\$ 0.6
6 Reduced Interest Expense from Bond Refinancing	\$ 1.8
7 Capital Spend / timing of upgrades to ERP and ADT systems	\$ 17.9
8 All Other	\$ 0.3
9 Excess (Deficiency) Revenues over Expenses (FY17 Projected)	\$ 33.0



FY 2018 Budgeted # of FTE's and # of Employees

15

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<u>Functional Classification</u>	<u>Total # Employees</u>	<u>Total # Full Time</u>	<u>Total # FTE's</u>
Clinical / Clinical Research / Academic	2,004.0	1,689.0	1,789.2
Scientific / Academic	205.0	189.0	194.5
Administrative and Other	596.0	533.0	549.4
Total All Functional Areas	2,805.0	2,411.0	2,533.1

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



New Revenue Enhancement and Cost Reduction Initiatives

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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 Growth	\$ 11.3
Transformation Savings (incremental)	\$ 3.2
Refinancing of Long-Term Debt	\$ 2.6



FY2017 to FY2021 Material Non-Recurring Resource

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The institute is projecting non-recurring capital contribution revenues of approximately \$4.4 million and \$3.9 million in fiscal years FY2017 and FY2018 respectively. These contributions are expected to assist in funding the continued growth at Roswell Park.



FY18 Material Shift in Resources Between Years

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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 by executive leadership after the start of the new fiscal year.



Borrowed Debt Outstanding

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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 FY18	Projection FY19	Projection FY20	Projection FY21
\$ 132.5	\$ 117.9	\$ 102.6	\$ 86.6

in 000's

Scheduled Debt Service Payment

For the Year ending March 31

	Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2017	\$ 13,055	\$ 7,531	\$ 4	\$ 154
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
2022-2026	\$ 82,091	\$ 9,713	\$ 230	\$ 230
Thereafter	\$ -	\$ -	\$ 4,238	\$ 1,947
	\$ 154,636	\$ 39,388	\$ 4,539	\$ 2,945

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



Purpose of Debt Issuances

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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

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Debt Service as a percentage of Pledged Revenues*	Debt Service	Pledged	Debt Service
	FY18	Revenues	Percent of
1 DASNY Debt issuance 7/13/11	\$ 4,733	\$ 515,837	0.9%
2 DASNY Debt issuance 10/21/16	\$ 15,403	\$ 515,837	3.0%
Total	<u>\$ 20,136</u>		<u>3.9%</u>

*Pledged revenues are defined in accordance with RPCI bond documents



Capital Summary

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	FY18 Budget
<u>Projects funded with Operating Cash:</u>	
Total Facilities Capital	\$ 11,600
Clinical, Scientific & Administrative Equipment	9,093
Information Technology	23,319
Strategic Initiatives	5,800
OmniSeq (Personalized Medicine)	289
Subtotal	\$ 50,101
<u>Projects funded with Support from Outside Sources:</u>	
Pediatric Oncology	895
Wellness Center	2,963
Total Capital Expenditures	\$ 53,959

Note:

IT projects include certain implementation and ongoing maintenance costs which are not material to the overall operating budget.



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 March 23, 2017
Approved by the Board of Director's on March 23, 2017



Changes from Proposed Budget posted on 1/29/17

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<u>Schedule</u>	<u>Change Description</u>
203.6e,g	Current Year FY17 updated to include actual results through January for all line items Decrease in Revenues (Charges for Services) for FY2018 to FY2021 Minor changes to expenditures for FY2018 to FY2021 Change in Capital Expenditures for FY2018 and FY2019
203.5h	Updated Cash Projections based on changes to Net Income and Unrestricted Cash
203.5d	Updated to reflect change in Financials
203.5e,f	Updated to reflect change in Financials
203.6f	Updated to reflect change in Financials
203.6i	Change to Clinical Margin Improvement
203.6m	Change in Total Capital Expenditures