

ROSWELL PARK CANCER INSTITUTE CORPORATION

Section 203 Budget Filing

Fiscal Year 2018 – 2019

FINAL

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.

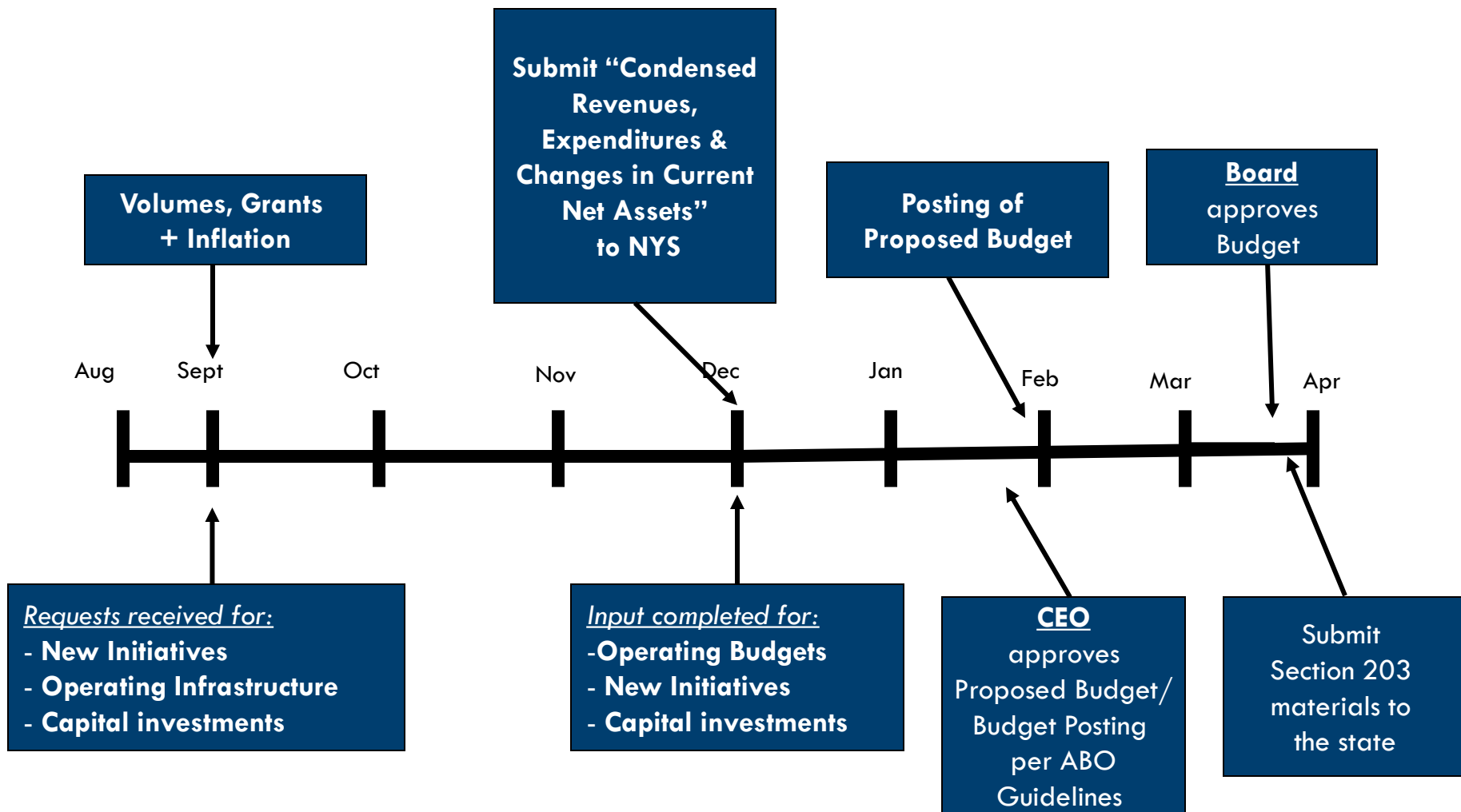
The operation of the Institute transferred from the New York Department of Health to the RPCI Corporation on January 1, 1999. In order to meet the demands of the changing health care marketplace and to promote the strengths and capabilities of the Institute, Chapter 5 of the Laws of 1997 added a new 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) +9.2%
- 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)

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203.6(e)/203.6(g)

	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	\$ 643,654	\$ 692,734	\$ 696,720	\$ 704,848	\$ 720,893
Rental & Financing income	-	-	-	-	-	-	-
Other Operating revenues	11,928	13,030	13,713	17,899	20,780	25,199	25,702
<i>Non-operating Revenues</i>							
Investment earnings	1,794	2,785	4,059	6,150	6,995	8,313	8,669
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	\$ 764,033	\$ 819,392	\$ 827,103	\$ 840,968	\$ 857,871
EXPENDITURES							
<i>Operating expenditures</i>							
Salaries and Wages	\$ 242,680	\$ 264,887	\$ 264,963	\$ 279,192	\$ 287,653	\$ 297,157	\$ 310,331
Other Employee Benefits	74,949	81,603	80,936	86,661	91,753	97,561	103,931
Professional Services and Contracts	90,685	102,469	94,243	104,368	107,649	108,734	116,232
Supplies and Materials	210,315	233,535	244,349	264,316	253,558	254,248	271,261
Other operating expenditures	5,547	10,162	4,948	7,820	7,976	8,115	8,030
<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	29,190	48,159	38,723	53,209	45,167	37,977	43,406
Miscellaneous	467	5,800	3,546	9,535	4,789	2,484	7,346
Total Expenditures	\$ 674,941	\$ 767,463	\$ 752,282	\$ 826,045	\$ 819,462	\$ 827,091	\$ 881,163
Capital Contributions	2,647	3,858	4,325	1,500	1,375	-	-
"Excess (deficiency) of revenues and capital contributions over expenditures"	\$ 29,458	\$ 3,880	\$ 16,076	\$ (5,153)	\$ 9,016	\$ 13,876	\$ (23,292)

Note: FY20-FY22 assumes sufficient operating support will be provided by NYS to fund core operations.

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	\$ 16.1	\$ (5.2)	\$ 9.0	\$ 13.9	\$ (23.3)
Other Changes in Unrestricted Cash	(18.6)	(7.7)	(5.2)	(2.0)	(8.7)	(5.4)
Cash Impact from Operations	\$ (14.7)	\$ 8.4	\$ (10.4)	\$ 7.0	\$ 5.2	\$ (28.7)

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
Visits	247,388	262,484	254,647	252,483	254,998
<u>Direct Patient Service Revenue</u>					
RPCI IP Revenue	\$ 210,141	\$ 214,829	\$ 223,402	\$ 233,327	\$ 243,987
RPCI OP Revenue	338,337	372,465	363,787	360,413	363,405
Other	40,931	50,516	51,782	52,580	53,362
RPCI Total	\$ 589,408	\$ 637,809	\$ 638,971	\$ 646,319	\$ 660,754
CPP IP Revenue	\$ 18,978	\$ 20,052	\$ 20,788	\$ 21,665	\$ 22,597
CPP OP Revenue	38,544	41,840	42,074	42,787	44,411
CPP Total	57,521	61,892	62,861	64,453	67,007
Total Direct Patient Service Revenue	\$ 646,930	\$ 699,701	\$ 701,832	\$ 710,772	\$ 727,761
Other RPCI Patient Service Revenue	\$ 2,341	\$ (1,116)	\$ 713	\$ 44	\$ (518)
Other CPP Patient Service Revenue	758	758	758	758	758
Total Other Patient Service Revenue	\$ 3,099	\$ (358)	\$ 1,471	\$ 802	\$ 240
Total Net Patient Service Revenue	\$ 650,029	\$ 699,343	\$ 703,303	\$ 711,574	\$ 728,001
RPCI Provision for Bad Debts	\$ 6,963	\$ 7,265	\$ 7,234	\$ 7,360	\$ 7,710
CPP Provision for Bad Debts	719	765	770	788	820
Total Provision for Bad Debts	\$ 7,682	\$ 8,030	\$ 8,005	\$ 8,148	\$ 8,530
Total Net Patient Service Revenue Net of Provision for Bad Debt	\$ 642,346	\$ 691,313	\$ 695,298	\$ 703,426	\$ 719,471
Grants and Contracts	1,308	1,422	1,422	1,422	1,422
Total Charges for Services	\$ 643,654	\$ 692,734	\$ 696,720	\$ 704,848	\$ 720,893

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
New Programs funded through Alliance	211	2,673	3,289	4,548	2,775
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
Rebates (VHA/Utilities)	2,012	2,051	2,072	2,093	2,113
Cafeteria	1,908	1,982	2,002	2,022	2,042
LSB - UB Reimbursement	1,275	1,275	1,288	1,301	1,314
Network Affiliations & Service Agreements	1,091	1,127	1,138	1,149	1,161
All Other	1,352	743	751	758	766
Other Operating Revenues (Consolidated)	\$ 13,713	\$ 17,899	\$ 20,780	\$ 25,199	\$ 25,702

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

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203.5(e)/203.5(f)

	FY18 Projected	FY19 Budget	FY20 Budget	FY21 Budget	FY22 Budget
<u>Salaries</u>					
Salaries and Wage Costs	\$ 259,170	\$ 277,012	\$ 285,407	\$ 294,845	\$ 307,948
Overtime Payments	5,793	2,180	2,245	2,313	2,382
TOTAL Personnel Service Expense	\$ 264,963	\$ 279,192	\$ 287,653	\$ 297,157	\$ 310,331
<u>Fringe</u>					
NYS Pension Expense & TIAA CREF	\$ 25,929	\$ 26,839	\$ 27,845	\$ 29,007	\$ 30,284
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	23,029	24,162	25,161	26,258	27,533
TOTAL Fringe Expense	\$ 80,936	\$ 86,661	\$ 91,753	\$ 97,561	\$ 103,931

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	\$ 94,243	\$ 104,368	\$ 107,649	\$ 108,734	\$ 116,232
Pharmaceuticals	\$ 184,600	\$ 205,988	\$ 195,825	\$ 196,172	\$ 211,716
Medical, Blood, Other Supplies	59,749	58,328	57,733	58,076	59,545
Supplies & Materials	\$ 244,349	\$ 264,316	\$ 253,558	\$ 254,248	\$ 271,261
Other Operating Expenditures	\$ 4,948	\$ 7,820	\$ 7,976	\$ 8,115	\$ 8,030
TOTAL Non Personnel Service Expense	\$ 343,540	\$ 376,504	\$ 369,183	\$ 371,098	\$ 395,523

Reconciliation FY18 Budget to FY18 Projected (in millions)

1 Excess (Deficiency) Revenues over Expenses (FY18 Budget)	\$ 3.9
2 Global Biotechnology and Cancer Therapeutics expense adjustment	(3.3)
3 Updated Strategic Plan initiatives, BMT and other adjustments	0.6
4 Capital Expenditure timing adjustments	10.3
5 Excess (Deficiency) Revenues over Expenses (FY18 Budget Amendment)	\$ 11.5
6 Increase in Investment Earnings	1.3
7 Favorable Utilities	1.4
8 Capital Expenditure timing adjustments - additional	1.4
9 All Other	0.6
10 Excess (Deficiency) Revenues over Expenses (FY18 Projected)	\$ 16.1

<u>Functional Classification</u>	Total # Employees	Total # Full Time	Total # FTE's
Clinical / Clinical Research / Academic	1,981.0	1,703.0	1,789.6
Scientific / Academic	225.0	208.0	214.3
Administrative and Other	695.0	624.0	645.6
Total All Functional Areas	2,901.0	2,535.0	2,649.5

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	\$ 18.7
Transformation Savings Program (incremental)	\$ 2.4

The institute is projecting non-recurring capital contribution revenues of approximately \$4.3 million in FY18, \$1.5 million in FY19 and \$1.4 million in FY20. 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	\$ 19,861
Clinical, Scientific & Administrative Equipment	19,680
Information Technology	13,668
Total Capital Expenditures	\$ 53,209

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 30, 2018
Approved by the Board of Director's on March 30, 2018

<u>Schedule</u>	<u>Change Description</u>
203.6e,g	Changes to financials in all years, with the most significant being: > Operating Revenues lowered in FY22 due to one-time implementation impact of new EHR system > Changes in Capital Spending in FY20 through FY22 due to timing of major projects
203.5h	Updated Cash Projections based on changes to Net Income and Unrestricted Cash (noted above)
203.5d	Updated to reflect change in Financials (noted above)
203.5e,f	Updated to reflect change in Financials (noted above)
203.6f	Updated to reflect change in Financials (noted above)
203.6i	Changes in estimates to Clinical Margin Improvement and Transformation Savings
203.6m	Change in estimated timing and amount of Total Capital Expenditures

Note: Changes made since posting on 1/30/18 reflect the most up-to-date and accurate information available prior to the Board approval on 3/29/18.