Episode 31: Looking at the Financials & Facility Needs

Jolene Francis: Enloe's Senior Team message is presented in this caregiver-centric podcast, providing an update on what's new and exciting across the campuses of Enloe Health.

Hello, everyone. I'm Jolene Francis, Vice President of Philanthropy & Communications. Welcome to the August 2024 episode of Enloe's Message. Today we welcome Enloe Health's Chief Financial Officer, Kevin Woodward, to give us an update on our fiscal year-end financial results and a few other hot topics that fall within his division. Hey, Kevin, how are you?

Kevin Woodward: Good, Jolene. Thanks.

JF: So Kevin, the year-end results are not final. However, based on the speed with which your team works, I'm guessing that we have a pretty good idea of how we did with the June 30 close of Fiscal Year '24. What kind of data can you share with us about our year-end results?

KW: Well, before we get into the results for 2024, I just want to remind everybody we came off of a couple of years of both Fiscal '22 and Fiscal '23 ending June 30 with a break-even level of financial performance.

In 2023 we started to see a real change in utilization patterns across the organization – not necessarily a flip, but there was definitely a flattening of inpatient utilization with an exponential growth in the outpatient setting. And I use "exponential" – anything over a point or two for health care in light of, you know, stable or not a big change in the demographics of the patient population that we serve – a point or two change is meaningful. And so, on an outpatient basis, in 2023 we experienced about 15% change in outpatient utilization, with inpatient utilization actually declining by about 7%.

Coming into 2024, believe it or not, we were able to repeat that in the outpatient setting. We once again experienced what I call an exponential growth in outpatient utilization of about 15% for year two in a row, and then inpatient utilization coming back to normal levels. And I know that's hard to believe in light of the last couple of months that we've experienced, but really coming back to normal levels and experiencing about 3% growth over 2023, and keeping in mind 2023 actually experienced a 7% decline in inpatient utilization.

So, with all that being said, 2024 from a financial perspective is looking very favorable. What I mean by that is we're producing about a 3% margin. So, when we compare ourselves to like organizations across the country, a 3% margin is pretty meaningful, particularly standalone health care organizations like ourselves.

JF: And that's, you know, actually pretty good, considering the capital needs that we have within the organization. I mean, those are huge, just replacing equipment that wears out, the inflation that we're dealing with — that everybody's dealing with — but it also applies to us when we talk about supplies and pharmaceuticals and everything else that we need to run the organization. So, doing better than everyone else is great, but we kind of have to keep our eye on the ball, don't we?

KW: Right, and you made think of something. That 3%, you know, translates to yes, a profitable margin for the organization. But what doesn't necessarily run through a profit-loss statement for an organization is its principal debt-service requirement and its planned level of capital spend. Those are items that don't necessarily push through an income statement. So, our debt-service requirement is right around $27 million a year, and our projected level of capital spend for Fiscal '24 was about $28 million.

So we needed a level of financial performance to support about a $55 million capital structure – meaning making our mortgage payment and then reinvesting in the organization so that we have, you know, state-of-the-art equipment, IT infrastructure, and generally good facilities.

JF: You know, history tells us that each new year brings new challenges in health care finance and in health care in general. And I know that Fiscal Year 2025 will bring its own hurdles. So, what can you tell us about what's on the horizon? I mean, what challenges are you seeing and what do we all need to focus on to meet those challenges?

KW: Each year, obviously, we go through a budget process, and I like to refer to it as a projection. That projection for 2025 really produces what we consider an outlook and, given the level of precision of these work products, it's best to look at that and suggest, well, are we looking at a stable environment? Is the outlook giving us a pause of concern, or is the outlook just simply favorable?

We really don't have much concern about, again, the planned level reinvestment and meeting our mortgage requirement. And so in 2025, we are experiencing and projecting what we consider softening margins and almost pushing the organization to have a negative margin for the fiscal year. And that's really coming on the back of, you know, basically wage pressures, as well as general costs or the change in our cost structure that we're fighting on a daily basis.

And just to give some perspective to that, our wage and benefit cost structure is about $600 million. So, when we consider the repricing effect of wages, many of us are subject to a step increase annually and/or simply a repricing of the entire wage scale that we're a part of. And so, when that changes by 1% point on $600 million, that's $6 million.

So it gets to be, again, exponential really quick relative to the changing cost structure, against the ability of the organization to reprice its revenues right. And repricing – you can consider growth, new revenues or repricing, simply increasing the rate at which we're paid for our services.

And the difficult challenges that we're all aware of is about 75% of our payor mix is the government payor – Medicare and Medi-Cal – and we're not really expecting any repricing to occur. So about two-thirds of our revenues are not going to reprice. Nearly 60% of our cost structure is certainly going to reprice, and all of that is challenging.

JF: That can eat into that 3% margin really, really quickly.

Let's shift gears a little bit. You are the Senior Team "project champion" for the new Gonzales Comprehensive Cancer Center construction project. So, I was wondering if you could please take a minute or two and give us an update on this critically important project. Where are we with that?

KW: Hundreds, if not thousands, of yards of concrete have been poured just simply for the foundation, which really remains unseen to anybody driving by the location. But we expect steel delivery next week – beginning of next week, actually – and steel erection scheduled and to be finished by mid-September. So, we'll see a meaningful structure at the close of September.

There'll be a beam signing ceremony Friday and Saturday in mid-August, and we're expecting – again, just keeping the timeline forward – expecting the building to be turned over to us in late '25 or December of '25 with licensing expected in the following quarter.

So it's going to progress rather fast, particularly with completion of the steel structure in late September. And then, obviously, the closing of the building. So it'll become much more tangible for all of us really quick.

JF: Yeah, you know, it's so interesting. There aren't a lot of people driving by it right now, because Bruce Road is under construction, and 20th Street is like the road to nowhere – so it's not like anybody goes out there and sees it. But what's so funny about this project is, you know, months go by, and it looks like nothing's happening, and a ton is happening.

And then it's going to be a really short period of time, and there's going to be a steel structure, and then it'll be enclosed. It'll look like a building that's finished – almost. And then it's going to look like nothing happens for a long time, as they work on the inside. So I just find that fascinating the way construction projects work.

But I do want to back up a little bit just to the beam signing ceremony, and remind everyone that this is an opportunity for all of our caregivers, our volunteers – anyone associated with the organization – our donors, to come out and write a message of hope and healing on one of those big, 30-foot steel beams that's going to become part of the structure. Those messages will live in the building forever.

So we want to invite everyone to participate in that. And, again, it's on Friday and Saturday, Aug. 16 and Aug. 17, from 7:30 to 10:30 a.m. each day. We'll have some light refreshments out there. It's just to drop-by – you know, no ceremonies or anything – but it gives everyone a chance to put their mark on the building a little bit, so more information will be available about that. So hopefully, everyone will come out and join us.

You know, this project is super exciting. I've been really watching you shepherd this through, and I'm incredibly impressed by it. But this won't be our last construction project, will it? I mean, I know you're working on something else. So tell us what else you're currently studying to solve some of the critical space needs that we have in the coming years.

KW: Yeah, I'll just even go back a little bit in time. So in late '22, early '23 – in the midst of a pretty significant financial crisis for the country – we were trying to put together a deal to restructure our debt as well as prepare the organization to invest in the future. And so, we were able to get a pretty meaningful transaction done.

We went out a little early because we were concerned with the financial markets. And so that provided us not only the refinancing of our current debt without really changing the original maturity of that debt – meaning we didn't take a 30-year mortgage, and that we paid it down for 10 years, and we went back to 30. We didn't do that. We kind of matched maturities.

But we were able to restructure our debt such that we could take on additional new debt, changing meaningfully our mortgage payment. And that provided us about $200 million in project funds, so we are currently sitting on $200 million worth of project funds.

We have strategically invested that in a structured portfolio of treasuries to preserve it and protect it. Yet, we're realizing significant yield on that. So that is growing those project funds to a projected about $225 million, and the Foundation — our most meaningful capital partner — has raised in excess of $17 million for principally the cancer program.

And so that means we have about $235-$240 million in project funds. And so, we know the Cancer Center is coming in right around $150 million, so that suggests we have between $85 and $90 million left.

And we have long known that the next strategic priority for the organization was the reinvestment in our imaging services, as well as our cardiovascular program. We've completed the business case to that particular – we'll call it a project.

If we were to stack it – imaging on the first floor and our cardiovascular services on the second floor of the structure – that is penciling out to roughly a 60,000- to 70,000-square-foot building. So the business case has been developed and supports that level of investment.

We are moving into the next phase of the project life cycle, which would mean we're moving into schematic design. And so, we will be going through an RFP process for an architect. From that schematic design we'll be able to better price out that project in a sense.

We know it's right around $90 million right now. But as we refine the design and the concept further, we can get to a greater level of precision and confidence in that project and that's where we're moving next. I would suggest that we'll probably see construction occurring concurrently, meaning the cancer center will be nearing completion, and we'll certainly have more than broken ground with the next project.

These are both strategic in the sense of providing margin to support the mission of the organization. It's vitally important that we continue this projected investment strategy to support the organization, give us further runway and give us additional margin for the rest of our mission.

JF: It's an exciting project. And just two things: we've talked about this before, but I think it bears repeating for folks to remember that those project funds you secured cannot be used for anything other than construction. It is for facilities only, so it's not like we've got $80 million in the bank that we can just shoot from the hip and do whatever we want with. It has to be put into facilities.

This is a really good project for property that we already own on East Avenue, next to our rehabilitation site, and that and the placement of that new project in that site allows us to maximize our revenue. Is that right?

KW: Yeah. It preserves, you know, the Medicare reimbursement that we often chase. We refer to it as "facility fees," or whatever it is.

JF: Yeah.

KW: But yeah, it protects and preserves the organization's revenue stream.

JF: Another great project that's coming out of your office. We are so appreciative of all the work that you and your team do on our behalf, keeping us financially healthy. Anything else you want to share for the good of the group today?

KW: No, but there's a ton of people working on that and making sure that both projects are, you know, successful. I just want to comment to the team that's been put together relative to the building of the Cancer Center project. Since its inception, we have not missed a milestone – and there, as you can imagine, are hundreds of milestones. We have not only asked our partners, meaning the builder as well as the architect and the project manager, to put a certain proportion of their profits at risk, which they've done, [but] to date we haven't missed a milestone. We are several million under our initial budget for the project – so things are working out really well for us thus far.

JF: There's not a lot better on a construction project than on-time and on-budget. So, good job to everybody involved.

Well, that's about all the time we have for today. I want to thank you, Kevin, for sharing time with us behind the Enloe Health microphone, and special thanks to all of our caregivers for spending time with us and sharing this program with your colleagues and friends.

We'll talk again in September, when we're joined by another member of our Senior Team to discuss what's new and exciting across our campuses. Thank you all for your hard work and for choosing to be part of the Enloe Health team. Take care, everyone.