



May 27, 2022

**VIA ELECTRONIC MAIL ONLY**

Honorable Zach Scrivner, Chairman  
Kern County Board of Supervisors  
1115 Truxtun Avenue, Fifth Floor  
Bakersfield, CA 93301

RE: Kern County Hospital Authority Operating and Capital Budget Fiscal Year 2022-2023

Dear Chairman Scrivner:

Attached is the Kern County Hospital Authority Operating and Capital Budget Fiscal Year 2022-2023 for approval by the Kern County Board of Supervisors. The Budget was approved by the Hospital Authority Board of Governors on May 18, 2022.

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott Thygerson".

Scott Thygerson  
Chief Executive Officer

Enclosures

cc: Phillip Peters  
Mike Maggard  
David Couch  
Leticia Perez  
Ryan Alsop  
Kathleen Krause  
Elsa Martinez



**BOARD OF GOVERNORS  
KERN COUNTY HOSPITAL AUTHORITY REGULAR MEETING**

May 18, 2022

**Subject:** Proposed Kern County Hospital Authority Operating and Capital Budgets for Fiscal Year 2022-2023

**Recommended Action:** Approve; Refer to Kern County Board of Supervisors for Approval

**Summary:**

**COVID-19 Ramifications:**

The onset of the COVID-19 virus in early calendar year 2020, and its official designation as a pandemic, has continued to create unprecedented uncertainty for health care providers both locally and on a worldwide basis. Information about the virus changes rapidly. This makes it difficult to determine the effects that the pandemic will have on key performance indicators for the hospital and clinics including patient volumes, revenues, expenses and the staffing levels needed. The recommended budgets for operations and capital below are based on the best available information at this time. The Kern County Hospital Authority, which owns and operates Kern Medical Center (and referred to herein as “Kern Medical”) will closely monitor COVID-19 activity and will adjust operations as necessary throughout FY 2022-23 to ensure that adequate supplies and staffing levels are maintained to provide quality and safe patient care.

**Summary of FY 2022-23 Recommended Budgets**

Kern Medical budgeted \$493.0 million total revenue from all sources and \$491.8 million in expenses with EBIDA of \$13.8 million and net income of \$1.2 million. Kern Medical is also planning on \$13.7 million in capital expenditures with the funds provided by operations and grants.

**Net Revenues**

Kern Medical budgeted \$493.0 million for total revenue for FY 2022-23. Budgeted operating revenue includes \$260.5 million from patient revenue net of contractual adjustments and bad debt from services to Medicare, Medi-Cal, private pay patients, and commercial insurance. Total revenue also includes \$169.2 million in net state and federal funding and \$3.4 million in county funding to reimburse Kern Medical for providing services for indigent patients. Other operating revenue includes cafeteria sales, reimbursement from medical education, and services provided by Kern Medical to various county departments. The budget also includes reimbursement of \$32.3 million from the county for Kern Medical to provide inpatient and outpatient services for adult inmates and juvenile detainees.

**State and Federal Funding Program Changes**

Kern Medical will continue to participate in various other indigent funding programs including the Global Payment Program (GPP), the Quality Incentive Program (QIP), and the Enhanced Payment Program (EPP). The five-year Medi-Cal 1115 waiver programs that were scheduled to end in 2020 were extended through fiscal year 2021 due to the COVID-19 pandemic. As the previous waiver ended the process to reorganize the programs started during FY 2021-22 with the State’s announcement of the Medi-Cal 1115 waiver renewal. The Whole Person Care (WPC) program has ended but a similar program titled Enhanced Care Management and

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A Designated Public Hospital

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Community Supports (ECM) will replace it for FY 2022-23 as part of the State's CalAIM initiative. The largest program in the prior waiver, the Public Hospital Redesign and Incentive in Medi-Cal (PRIME) program, was reorganized as part of the QIP pay-for-performance program. It is anticipated that the overall total funding amounts for all of these supplemental programs should be about the same as prior year. For FY 2022-23 Kern Medical has budgeted \$39.8 million for GPP and \$15.4 million for the ECM program. QIP is a quality incentive-based program that ties payments to designated performance metrics in primary care, specialty care, inpatient care, and resource utilization. The EPP program is based on overall utilization of contracted services with Medi-Cal managed care plans. In FY 2019-20 these two programs replaced the SPD-IGT and MCE to Cost program funding streams. For FY 2022-23 net QIP revenue is estimated at \$54.5 million and net EPP revenue is estimated at \$21.7 million. To reiterate, even under normal circumstances the estimates for all indigent funding streams are subject to change at the discretion of the State. The uncertainty in the current health care environment due to the COVID-19 pandemic increases the likelihood of changes in these estimates.

The FY 2022-23 budget includes approximately \$150 million in Intergovernmental Transfers (IGTs) paid to the state that will be used to draw down federal funding. The IGT amounts represent the non-federal share of the indigent programs. Matching contributions to the State, as well as the return of the initial IGT investments, are reported in the budget under other charges and intergovernmental revenue, respectively.

As part of Kern Medical's priorities to both develop an integrated delivery system and meet certain regulatory requirements in primary care as a public hospital, Kern Medical will continue to pursue alternative payment models in FY 2022-23.

### **Operating and Other Expenses**

Budgeted operating expenses total \$491.8 million for FY 2022-23. Staffing cost accounts for \$327.0 million, which is Kern Medical's largest expense. The remaining \$164.8 million in operating expenses are comprised primarily of medical supplies, contracted physician fees, purchased medical services, external provider care services, insurance, utilities, and equipment rental and maintenance. Other expenses include recruiting, outreach, and legal expenses. The following specified annual obligations and amounts are included in the operating and other expenses: \$510,000 US Bank lease for copy machines and printers and Pension Obligation Bonds that total 6.0% of payroll (which does not include the \$381.2 million net pension liability).

### **Staffing and Authorized Positions**

The proposed budget provides funding for all authorized positions. Although all recommended positions are funded for FY 2022-23, it is important to note that Kern Medical budgets for staffing based on patient census and full-time equivalents (FTEs), not authorized positions. Mandated staff-to-patient ratios and the appropriate allocation of FTEs drive staffing costs, as is customary in the hospital industry.

Kern Medical has 2,686 authorized positions for FY 2022-23. At this point in time, 2,007 of these positions have been filled and 679 are vacant. We anticipate a 10% vacancy rate due to staff turnover and recruiting issues.

### **Planned Capital Expenditures**

Kern Medical is budgeting \$13.7 million in capital expenditures for FY 2022-23 funded by operations and grants. Of the \$13.7 million, \$3.0 million is for the replacement or upgrade of existing operating equipment. It is anticipated that \$1.0 million will be used to upgrade and modernize IT systems and infrastructure. The hospital remains committed to significant capital investment to address deficiencies in the buildings and patient care areas with \$9.7 million budgeted for major capital and construction projects to address areas of immediate concern.

### **Summary of Changes in Net Position**

Kern Medical is projected to have a net position of negative \$97.7million as of June 30, 2022. This negative amount is due to the long-term liabilities primarily related to pension obligations incurred prior to the formation of the Kern County Hospital Authority. These liabilities reduce the net position by \$445.4 million. Adjusting for the effect of these liabilities leaves a budgetary net position of \$347.7 million. With a budgeted \$493.0 million in revenues from all sources and total expenses of \$491.8 million along with \$13.7 million in capital expenditures, the planned change in net position is a decrease of \$12.5 million with an estimated budgetary balance of \$335.2 million.

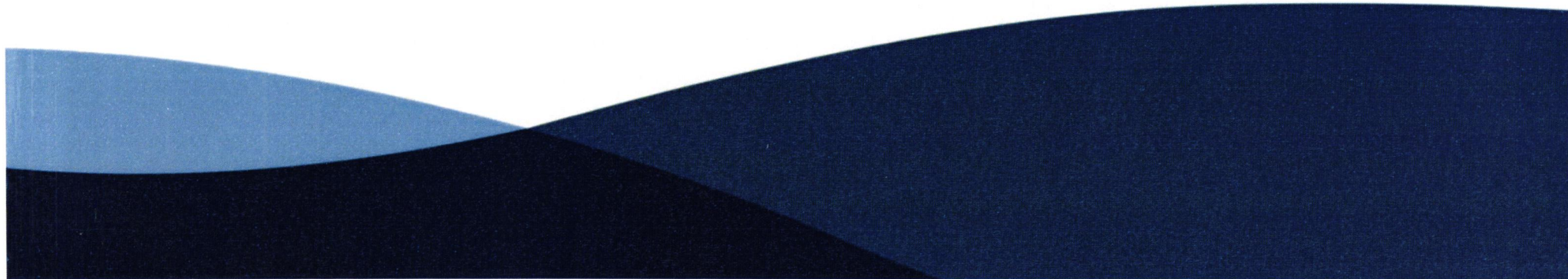
### **Pandemic-related Services**

Kern Medical, along with many other health care organizations in our community and across the nation, drastically pivoted these past two years to confront the pandemic and meet the needs of society. Many of these services were collaboratively carried out with government agencies and other providers. At the heart of our organization's efforts were heroic individuals tirelessly laboring to provide care, source supplies and medications, find alternative COVID-19 care locations, and stand-up community testing and vaccination sites. Kern Medical also treated the unseen impacts of COVID-19 on society. As the area's only trauma center and hospital with an inpatient behavioral health unit, our organization saw an onslaught of trauma that started almost at the outset of the Governor's quarantine order in March 2020 and averaged nearly 60 additional trauma cases each month above the budgeted monthly 235 patients from violence, suicide, and motor vehicle accidents. The number and acuity of behavioral health patients also significantly increased. Kern Medical will continue its focus to treat and be prepared for COVID-19. This includes the continuing operations of a community testing site as well as both fixed site and mobile vaccine clinics.

Kern Medical has a vital role and mission to serve our community as the area's only teaching hospital, trauma center, and designated public hospital while continuing to expand and strengthen relationships with local health plans and community providers. Through these efforts, Kern Medical seeks to demonstrate its value, experience, and outcomes.



**KERN COUNTY HOSPITAL AUTHORITY  
Operating and Capital Budget  
Fiscal Year 2022-2023**



# KERN MEDICAL

## Hospital Operations Indicator Report

### Revenue

Volume	Actual 2020	Actual 2021	Project 2022	Budget 2023	Financial Overview	Actual 2020	Actual 2021	Project 2022	Budget 2023
Admits - Acute	9,213	9,763	14,644	11,923	<b>EBIDA</b>	<b>67,153</b>	<b>63,037</b>	<b>41,174</b>	<b>13,770</b>
Patient Days - Acute	47,427	52,825	63,145	53,655	<b>EBIDA - SCRUBBED</b>	<b>13,685</b>	<b>12,925</b>	<b>24,139</b>	
LOS - Acute	5.1	5.4	4.3	4.5	NOI	56,205	51,323	28,857	<b>1,172</b>
Adjusted Admissions	17,646	17,647	25,171	20,925	NOI - SCRUBBED	965	1,081	11,821	
		<i>Change in Adj. Admissions:</i>		<b>-16.9%</b>					
Births	2,241	2,321	2,221	2,276	Operating Margin % - SCRUBBED	0.1%	0.1%	1.0%	0.10%
Surgeries - Inpatient	2,283	2,614	2,752	2,594	EBIDA Margin % - SCRUBBED	1.5%	1.2%	2.1%	1.2%
Surgeries - Outpatient	3,121	3,119	3,003	3,048	Debt Coverage Ratio	6.08	7.67	10.42	4.80
ER Visits	49,655	54,725	57,954	56,322	Gross Revenue per APD	10,009	11,089	10,602	12,293
Outpatient Visits	149,568	203,069	205,276	186,974	Outpatient Revenue %	47.8%	44.7%	41.8%	43.0%
Reimbursement	Actual 2020	Actual 2021	Project 2022	Budget 2023	Payor Mix	Actual 2020	Actual 2021	Project 2022	Budget 2023
Net Patient Rev	218,307	251,739	277,674	260,448	COMM FFS/HMO/PPO	13.2%	13.3%	11.5%	11.5%
Indigent Funding	209,156	192,122	178,074	169,202	MEDI-CAL	19.2%	24.0%	18.7%	18.7%
County Contribution	3,423	3,423	3,423	3,428	MEDI-CAL HMO - KERN HEALTH SYSTEMS	34.1%	37.7%	39.4%	39.4%
Correctional Medicine	33,589	30,896	31,400	32,342	MEDI-CAL HMO - HEALTH NET	7.9%	8.7%	9.1%	9.1%
Capitation Revenue	(899)	5,052	-	-	MEDI-CAL HMO - OTHER	1.6%	1.7%	1.8%	1.8%
Other Operating Revenue	15,291	24,731	28,377	26,927	MEDICARE	10.5%	8.8%	11.3%	11.3%
Net Rev	478,865	507,963	518,947	492,347	MEDICARE HMO	3.0%	3.9%	6.0%	6.0%
Net Patient Rev Yield	24.0%	23.8%	24.1%	22.5%	OTHER GOVERNMENT	8.7%	0.4%	0.8%	0.8%
Net Patient Rev Per AA	12,371	14,265	11,032	12,447	SELF-PAY	2.0%	1.4%	1.5%	1.5%
		<i>Change In Net Revenue per AA:</i>		<b>12.8%</b>					

# KERN MEDICAL

## Hospital Operations Indicator Report

### Expenses

Labor*	Actual 2020	Actual 2021	Project 2022	Budget 2023	Supplies	Actual 2020	Actual 2021	Project 2022	Budget 2023
Labor Costs including Benefits	254,246	275,265	277,673	289,340	Supply Costs	61,206	69,039	71,457	69,164
Productive FTE's (Excl. Contract Labor)	1,637	1,697	1,667	1,670	Supplies as a % of Net Pt Rev	12.8%	13.6%	13.8%	14.0%
Non-Productive FTE's	233	252	280	280	Supplies per AA	3,469	3,912	2,839	3,305
Contract Labor % of Total Prod	7.8%	6.8%	9.7%	8.5%	<i>Change in Supply Cost per AA:</i>				<i>16.4%</i>
Overtime % of Prod HRs (Excl CL)	3.6%	3.6%	4.2%	3.1%	Pharmaceutical Cost per AA	1,658	1,701	1,022	1,123
Total FTE's per AOB	7.54	7.45	6.55	7.56					
Labor Cost per FTE (Inc Benefits)	135,898	141,245	142,557	148,369					
				<i>Change in Labor Cost per FTE:</i>					<i>4.1%</i>
Lbr Cost (Inc Ben) % of Total Exp	61.4%	61.4%	56.9%	60.4%					
Pur Ser & Other Expenses	Actual 2020	Actual 2021	Project 2022	Budget 2023	Other Key Statistics	Actual 2020	Actual 2021	Project 2022	Budget 2023
Medical Fees	20,450	20,783	21,055	21,606	Adjusted patient Days	90,839	95,486	108,536	94,164
Other Professional Fees	17,484	17,333	18,631	18,564	Adjusted Occupied Beds	248.2	261.6	297.4	258.0
Purchased Services	23,436	23,271	23,470	23,403	Gross Days in AR, Excl Cap	118	110	72	65
Other Expenses	17,809	20,907	19,706	19,412					
Depreciation and Amortization	8,281	10,114	11,305	11,583					
Capital Expenses	Budget 2023								
Funded through operations									
Routine Equipment	3,000								
Information Technology	1,000								
Projects	5,400								
Funded through grants									
Projects	4,300								

Kern County Hospital Authority  
Budget for Fiscal Year 2023  
Exhibit A - Projected Income Statement

	<u>ACTUAL FY22 JUL - MAR</u>	<u>PROJECTED YEAR END FY22</u>	<u>BUDGET FY23</u>
<b>Total Gross Charges</b>	\$ 883,946,920	\$ 1,154,653,078	\$ 1,157,545,911
<b>Total Patient Revenue Deductions</b>	(676,598,493)	(876,979,077)	(897,098,081)
<b>Net Patient Revenue</b>	207,348,427	277,674,001	260,447,830
<b>Indigent Funding</b>			
Correctional Medicine	23,109,136	31,400,004	32,342,004
County Indigent Funding	2,567,213	3,422,532	3,427,699
State and Federal Indigent Funding	129,896,116	178,073,514	169,202,486
<b>Total Indigent Funding</b>	155,572,466	212,896,050	204,972,189
<b>Other Operating Revenue</b>	21,567,543	28,376,643	26,927,075
<b>Total Operating Revenue</b>	384,488,435	518,946,695	492,347,094
<b>Expenses</b>			
Salaries	146,161,468	194,704,145	202,884,480
Benefits	62,283,786	82,969,276	86,455,162
Registry Nurses	42,193,450	56,206,603	37,671,364
Medical Fees	15,806,001	21,055,440	21,605,987
Purchased Services	17,618,434	23,469,811	23,402,767
Supplies	53,641,576	71,456,844	69,163,582
Other Professional Fees	13,985,746	18,630,647	18,563,825
Other Expenses	14,793,177	19,706,239	19,411,908
<b>Operating Expenses</b>	366,483,637	488,199,005	479,159,075
<b>Gain/(Loss) From Operations</b>	18,004,798	30,747,689	13,188,019
Depreciation and Amortization	(8,409,402)	(11,305,167)	(11,583,059)
Interest Expense	(759,882)	(1,012,252)	(1,014,929)
Non-Operating Revenue	6,393,375	10,426,465	582,252
<b>Total Non-Operating Revenue/(Expense)</b>	(2,775,910)	(1,890,954)	(12,015,735)
<b>Earnings Before Interest Depreciation and Amortization</b>	<u>\$ 24,398,173</u>	<u>\$ 41,174,154</u>	<u>\$ 13,770,271</u>
<b>Net Income/(Loss)</b>	<u>\$ 15,228,889</u>	<u>\$ 28,856,736</u>	<u>\$ 1,172,284</u>



Kern County Hospital Authority  
 Budget for Fiscal Year 2023  
 Exhibit B - Projected Change in Net Position

Projected Year end Retained Earnings for FY22-23

Estimated Ending Fund Balance Available as of June 30 \$ (97,723,748)

**Long Term Accounts**

22500271	LONG TERM L-POB 2003	7,750,889
22500273	LONG TERM L-POB 2008	5,392,893
22700000	NET PENSION LIABILITY	381,152,811
22701000	DEFERRED INFLOW-PENSIONS	30,132,624
22750271	LT INTEREST L-POB 2003	5,707,331
22760000	OTHER POST EMPLOYMENT BENEFITS	1,653,757
22761000	ACCRUED COMP ABSENCES LT	3,830,085
22762000	WORKERS COMP PAYABLE LT	4,903,284
22763000	PROFESSIONAL LIABILITY LT	4,916,056
		4,916,056

**Budgetary Retained Earnings** \$ 347,715,982

BUDGET FY 22-23

Estimated Budgetary Retained Earnings Balance 347,715,982

Sources and uses

Total FY 22-23 Estimated Revenues	492,929,347
Total FY 22-23 Estimated Expenses	(491,757,063)
Total FY 22-23 Estimated Capital Expenditures	(13,700,000)
Total Estimated Change in Net Position	(12,527,716)

**Estimated Ending Balance** \$ 335,188,266

Kern County Hospital Authority  
Budget for Fiscal Year 2023  
Exhibit C - Summary of Capital Expenditures

<u>Uses of Capital</u>			
<u>Operating Equipment</u>	<u>IT Capital Projects</u>	<u>Capital Building and Construction</u>	<u>Total</u>
\$ 3,000,000	\$ 1,000,000	\$ 9,700,000	\$ 13,700,000

<u>Sources of Capital</u>
<u>Operations &amp; Grant Revenue</u>
\$ 13,700,000

Kern County Hospital Authority  
Budget for Fiscal Year 2023  
Exhibit D - Position Summary

<u>Division</u>	<u>Authoriz ed</u>	<u>Filled</u>	<u>Vacant</u>	<u>Total</u>
Kern Medical	2,686	2,007	679	2,686