

July 15, 2010

Dear Friends and Colleagues:

One reason NCH has been able to make progress, despite the nation's and the region's continuing economic woes, is that we've developed a disciplined budgeting process, so critical to our own economic health.

The new NCH financial year begins October 1. Each summer we plan for the new year by preparing a budget that anticipates our needs and resources, our supplies and facility improvements/additions—so that we remain at the cutting edge of technology while serving the community's healthcare needs with the highest quality.

As we begin that planning process, **Jerry Markham**, Forecast and Reimbursement Director and his team from NCH Central have summarized three important goals for the new financial year.

**1. Manage to season.** Of all Florida counties, Collier County has the largest seasonal swing in terms of hospitalized patients. Last winter, we experienced a peak of 610 patients for our system which has a total capacity of 681 beds. This was in stark contrast to the nadir of 303 patients we treated a few weeks ago. Collier County has a total capacity of about 880 beds, including both NCH hospitals and both Physicians Regional hospitals. Hypothetically, during the slow summer months, all inpatients could be consolidated into the 420-bed, downtown NCH facility. The point is that excess capacity is inefficient, and in a period where healthcare resources become even more precious, we must become more efficient.

**2. Manage to Medicare.** The sad reality is that our nation's two major health care payers, the federal and state governments, are short of funds. In fact, 44 of 50 states are experiencing budget shortfalls this year. Florida is down about 18%. This has significant impact on NCH. The federal government pays for Medicare, which accounts for about 61% of our patients. The state government pays for Medicaid, which accounts for 8%. As a consequence, we anticipate a decrease in reimbursement this coming year.

**3. Manage to metrics.** We will focus this year on three financial metrics, drawn from the "Thompson Reuters Top 100," to measure our progress. These will measure (1) severity-adjusted length of stay, (2) expense per adjusted discharge and (3) operating profit margin. These financial metrics will complement the seven metrics we use for our most important focuses—quality and patient satisfaction. Our goal is to continue to improve both efficiency and effectiveness, as we deliver better value—which we define as *quality divided by cost*.

As to our progress in the current financial year, CFO **Vicki Hale** reported to our 24-member Board that with two-thirds of the year completed, we have stayed ahead of plan as a result of hospital operations performing better than both budget and prior year. The summer months, of course, are typically a soft period. And management's goal is to break even during the summer, so that we can deliver our year-to-date gain.

To achieve this, of course, will require everyone's continued best efforts, as we navigate a volatile economic environment, while working to improve the level of healthcare quality we deliver to the community.

As always, we appreciate your support and best efforts in realizing our budgeting and quality goals.

Respectfully,



Allen S. Weiss, M.D., President and CEO

P.S. Feel free to share *Straight Talk* and ask anyone to email me at [allen.weiss@nchmd.org](mailto:allen.weiss@nchmd.org) to be added.