



Washington Health Budget Estimate



FY 2026

DIRECTORS AND OFFICERS

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT
2000 Mowry Avenue
Fremont, California 94538
(510) 797-1111

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Mission, Vision & Values

Washington Health is the Community's Health System

We were founded as an independent health care district in 1948 to provide residents with health care close to home. In 1958, we opened a 150-bed hospital so residents no longer had to travel significant distances to receive care. As the community has grown, our commitment to local accountability has led us to evolve into a comprehensive health system. Our commitment to patient care and the community drives our vision, mission, and values.

Our Mission

Deliver exceptional, accessible, and personalized care to enhance the health and well-being of our diverse community.

Our Vision

Be the trusted first choice for care, where everyone does their best work.

Our Values

- **Excellence:** Providing the highest standard of quality, safe, and accessible health care.
- **Patient-Centered Care:** Putting the patient at the center of everything we do.
- **Compassion:** Responding with care, empathy, and equity in every interaction.
- **Respect:** Relating to each person with dignity – appreciating the uniqueness of each person and contribution of each team member.
- **Integrity:** Acting with honesty and accountability to do the right thing.

*Resolved by the Board of Directors
Washington Township Health Care District
December 11, 2024*



INCOME STATEMENT

<i>(In thousands)</i>	Projected FY 2025	Budget FY 2026	Change	Percent Change
Patient Revenue				
Inpatient	\$ 1,595,521	\$ 1,766,610	\$ 171,089	10.7%
Outpatient	1,101,099	1,080,890	(20,209)	-1.8%
Total Patient Revenue	\$ 2,696,620	\$ 2,847,500	\$ 150,880	5.6%
Contractual Allowances	(2,042,371)	(2,120,992)	(78,621)	-3.8%
Provisions for Charity and Doubtful Accounts	(41,861)	(59,468)	(17,607)	-42.1%
Total Contractual Allowances and Provisions for Charity and Doubtful Accounts	(2,084,232)	(2,180,460)	(96,228)	-4.6%
Contractual Allowances as a % of Revenue	75.7%	74.5%		
Provision for Charity and Doubtful Accounts as a % of Revenue	1.6%	2.1%		
Net Patient Revenue	\$ 612,388	\$ 667,040	\$ 54,652	8.9%
Other Operating Revenue	16,832	18,170	1,338	7.9%
Net Operating Revenue	\$ 629,220	\$ 685,210	\$ 55,989	8.9%
Operating Expenses				
Salaries	294,776	325,130	(30,355)	-10.3%
Benefits	101,602	110,680	(9,078)	-8.9%
Professional Fees	55,079	58,533	(3,454)	-6.3%
Supplies	82,913	88,318	(5,405)	-6.5%
Purchased Services	34,841	36,528	(1,686)	-4.8%
Utilities	7,322	7,949	(627)	-8.6%
Insurance	4,332	4,768	(436)	-10.1%
Marketing & Advertising	864	1,527	(664)	-76.8%
Software Licenses & Maintenance	7,637	8,845	(1,208)	-15.8%
Other Expenses	3,488	3,646	(158)	-4.5%
Depreciation	42,516	44,013	(1,497)	-3.5%
Total Operating Expenses	\$ 635,370	\$ 689,938	\$ (54,568)	-8.6%
Income from Operations	\$ (6,149)	\$ (4,727)	\$ 1,422	23.1%
Operating Margin	-1.0%	-0.7%		
Net Non-Operating Income & Expense				
Unrestricted Investment Income	2,000	1,608	(392)	-19.6%
Board Design Investment Income	5,934	4,056	(1,878)	-31.6%
Property Tax Revenue	26,332	24,546	(1,786)	-6.8%
Rental Income, Net	1,483	1,165	(318)	-21.4%
Bond Issuance Cost	(1)	-	1	100.0%
Interest Expense	(20,298)	(19,741)	557	2.7%
Gain/(Loss) on Investments	3,837	-	(3,837)	-100.0%
Foundation Donation	5,242	6,561	1,319	25.2%
Equity Investment Earnings	2,730	2,511	(219)	-8.0%
Federal Subsidies	160	-	(160)	-100.0%
Other Non-Op Exp/Rev	(7)	-	7	100.0%
Total Net Non-Operating Income & Expense	\$ 27,413	\$ 20,706	\$ (6,707)	-24.5%
Net Income	\$ 21,264	\$ 15,979	\$ (5,285)	-24.9%
Net Margin	3.4%	2.3%		
*Net Loss of Affiliate Operations	\$ (29,742)	\$ (32,398)	\$ (2,655)	-8.9%
Consolidated Net Income / (Loss)	\$ (8,479)	\$ (16,420)	\$ (7,941)	-93.7%

**The Net Loss of Affiliate Operations includes eliminations*



DATE: June 11, 2025

TO: Washington Township Health Care District Board of Directors

FROM: Kimberly Hartz, Chief Executive Officer

SUBJECT: Proposed Fiscal Year 2026 Budget Estimate for: Washington Township Health Care District

The proposed Fiscal Year 2026 Budget Estimate for the Washington Township Health Care District will be presented to the Board of Directors for consideration at the June 11, 2025 meeting. Upon approval, this Budget will authorize the Chief Executive Officer to manage the District's financial obligations within available resources, and in full alignment with our Mission, Vision, and Values, as well as all governing laws, regulations, and policies.

The FY 2026 Budget outlines net operating revenue of \$685.2 million, against total operating expenses of \$689.9 million, including \$44.0 million in depreciation. This positions us to deliver a projected net operating loss of \$4.7 million and a net income of \$16.0 million. Capital investments are budgeted at \$100 million, funded through \$60.1 million in bond proceeds and philanthropy, with \$39.9 million supported by internal cash flow. Additionally, there is a projected net loss of \$32.4 million to support the operations of the Washington Township Hospital Development Corporation and the Washington Health Medical Group - key affiliates in advancing our mission of improving community health.

A Transformative Year: FY 2025 Reflections

FY25 marked a pivotal chapter in our history. On July 1, 2024, Washington Health officially launched its Level II Trauma Center, closing a critical gap in emergency services for South County. This achievement was the result of years of preparation, cross-system collaboration, and commitment from our entire team of staff and physicians across the health system. By year-end, we will have treated over 1,865 trauma patients and delivered numerous hours of impactful trauma prevention education to our community.

We also launched our new Mission, Vision, and Values, and rebranded as Washington Health with a new logo to reflect our evolution into an integrated health system. While we honor our legacy, we recognize the need to grow alongside our community and continue to evolve into a comprehensive health system capable of meeting the community's needs for generations to come. In today's dynamic health care environment, being seen and acting as one cohesive system is essential to our long-term success and sustainability.

Significant infrastructure progress was made to support the community needs now and into the future. The infrastructure initiatives will take multiple years in some cases to bring to fruition and are a continued focus for FY26 and beyond. Some significant initiatives include:

- Construction of the UCSF-Washington Cancer Center began and should be completed by the end of calendar year 2025.

- The construction phase began on the Morris Hyman Pavilion Infill Project (new operating rooms, imaging center, pharmacy and other support areas) and will continue through FY26.
- Extensive work occurred with the architects on the design for the Expansion Building which will house the birthing center, an intensive care unit for infants, medical/surgical units and other departments that need to be moved from the main hospital tower in order to meet the state mandated seismic requirements.

In FY25, efforts also included implementing operational performance improvement, better care coordination and growth across service lines. This work will continue in FY26. Some accomplishments include:

- Achieved a 2.1% increase in Gross Revenue compared to budget FY25
- Expanded our Cardiac Service Line with advanced procedures including TAVR, Watchman, and MitraClip
- Improved our Average Length of Stay from 5.4 in FY24 to a projected 5.2 in FY25
- Engaged revenue cycle consultants and enhanced our 340B program
- Reduced Observation Days
- Renegotiated payer contracts

Internal Pressures and External Risks on the Horizon

Despite our progress, rising pension/OPEB costs and benefit plan expenses drove to a large extent a projected FY25 net operating loss of \$6.1 million. Workforce-related costs, staffing, premium pay, and productivity improvements will continue to be a focus in FY26.

The external environment for FY26 presents a great deal of uncertainty and could be one of the most volatile and unpredictable fiscal years since the pandemic. There are a number of external factors that may have a significant impact on the FY26 budget and could result in the need to bring forward a budget amendment in the future. Significant volatility includes:

- **Federal Medicaid Cuts:** Proposed reductions of more than \$800 billion over the next decade could lead to coverage restrictions, eligibility limits, and lower reimbursements.
- **California Medi-Cal Shortfall:** A \$12 billion state budget gap could force reductions in coverage and program funding, along with Federal Medicaid (MediCal) cuts that are passed through to the State level.
- **Tariff Uncertainty:** Federal tariffs could increase costs across supplies, pharmaceuticals, IT infrastructure, and delay capital projects. No specific tariff impact is built into the FY26 budget, but we consider it a key risk.
- **Office of Health Care Affordability:** A new State board is requiring all hospitals in California to be subject to a spending growth target of 3.5% that does not take into account labor costs, inflation or other factors. The Board has also identified specific hospitals, including Washington Health, to be subject to an even tighter growth target. Washington has filed a formal appeal due to reporting errors with the data.



While many of these pressures lie outside our control, our ability to respond with discipline and agility will be critical.

Capital Investments and Cash Position

The FY26 Budget includes nearly \$100 million in capital and infrastructure investments, with \$39.1 million funded by internal cash flow. Given the projected operating loss and elevated expenses, we will monitor liquidity closely and prioritize projects based on strategic value, urgency, and ROI (return on investment). We will consider delaying or phasing non-critical capital projects. Flexibility will be key to ensuring we maintain financial health throughout the year.

Staying the Course with Discipline and Heart

Our FY26 Budget reflects a disciplined and conservative approach—anchored in stable volume trends, a growing surgical service line, and strengthened payer contracts. While we are projecting a Net Operating Loss of \$4.7 million, this reflects an improvement of \$1.4 million over FY25 despite continued external and internal pressures.

Expense growth is forecasted at \$54.6 million (8.6%), with a significant portion, \$39.4 million (9.9%), attributed to Salaries, Wages, and Benefits. This area will require continued monitoring and proactive management, particularly as volume shifts occur throughout the year.

We remain committed to advancing key financial strategies, including:

- Advancing Strategic Map initiatives
- Focusing on revenue cycle modernization and improvement
- Driving operational efficiency

Closing

In FY26, we will continue to focus on delivering exceptional care to every patient, supporting our staff and physicians so that they can do their best work, and building the long-term sustainability of Washington Health. While FY26 presents financial and operational challenges, we are well-positioned to navigate them, anchored by our mission, vision and values and your continued support as an independent, local community health system.

A handwritten signature in blue ink, appearing to read "Kimberly Hartz", written over a light blue circular background.

KIMBERLY HARTZ

Chief Executive Officer

Volume and Expense Details

SERVICE VOLUMES

- Discharges for FY26 are budgeted to increase by 8.9%, with 2.3% of the increase driven by volume growth and 6.6% attributed to the conversion of Outpatient Observation days to Inpatient, assuming trauma volume remains flat.
- Average Length of Stay (ALOS) is projected to remain flat in FY26. While efforts to reduce ALOS are ongoing, these initiatives have not been incorporated into the budget.
- Patient Days are expected to increase by 9.8%, with 3.2% driven by volume growth and 6.6% due to the conversion of Outpatient Observation days to Inpatient.
- Surgical cases are budgeted to increase by 2.9%, primarily driven by growth in orthopedic cases from UCSF surgeons and Gastroenterology cases following the introduction of SpyGlass (a high-definition fiberoptic camera).
- Total Cath Lab cases are projected to increase by 3.9%, fueled by growth in cardiac procedures — including a full year of MitraClip cases — and an increase in vascular case volume.
- Outpatient visits continue to exceed budget expectations with notable growth anticipated in Cardiac Rehab visits.
- These operational changes are reflected in the revenue, reimbursement, and expense projections included in this budget.

PATIENT REVENUES

- Gross patient revenue is expected to increase by 5.6%, driven by volume growth as outlined above, while trauma volume is assumed to remain flat.
- The contractual write-off and provision for doubtful accounts percentage is projected to decrease to a 76.6% contractual adjustment rate, primarily due to contract rate increases, supplemental revenue, and improvements in outpatient observation days.

- As a result, Net Patient Revenue is expected to increase by 8.9%.

OTHER OPERATING REVENUES

- Other operating revenue is expected to increase by 7.9% primary driven by 340B initiatives.

OPERATING EXPENDITURES

Significant factors influencing the overall 8.6% increase in operating expenditures for the budget year are as follows:

- Salaries and Wages are expected to increase by 10.3%, driven by wage inflation and increases in FTEs due to higher volume, partially offset by reduced overtime/double-time (OT/DT) in specific areas.
- Employee Benefits are projected to rise by 8.9%, primarily due to higher pension/OPEB costs, increased employee medical claims, and an uptick in FICA expenses due to increase in salaries.
- Professional Fees are anticipated to grow by 6.3%, mainly due to the new cancer center, the addition of a new Maternal Child Health Chief and the 340B retail program.
- Supplies are expected to increase by 6.5%, driven by higher infusion volume related to the new cancer center, inflation, and volume-driven increases in variable supplies.
- Purchased Services are projected to rise by 4.8%, primarily due to collection agency fees, which are offset by corresponding revenue.
- Utilities are expected to increase by 8.6%, driven by PG&E rate hikes.
- Insurance is projected to rise by 10.1%, due to rate increase in Beta and D&O

insurance coverage.

- Marketing & Advertising is expected to increase significantly, by 76.8%, due to the brand rollout.
- Software Licenses & Maintenance costs are increasing by 15.8%, due to the renewal of over 70 applications with annual contract increases, the rising cost of the Orthogrid imaging system, and the software for automating Net Patient Revenue.
- Depreciation is expected to rise by 3.5%, reflecting new capital requests.

NON-OPERATING INCOME

- Board Designated, Unrestricted Investment income and Equity investment earnings are projected conservatively to be lower by \$2.5M due to market uncertainty.
- Rental income is expected to decrease by \$318K.
- As part of the District's continuing budget policy, realized and unrealized gains or losses on the investment portfolio are not budgeted due to the unpredictability of market performance.
- FY26 budgeted property tax revenue of \$24.5M is lower than FY25 actuals because FY25 included a \$3.7 million catch-up for FY24 revenue.
- Foundation Donation is expected to increase by 25.2% to include \$4 million for new cancer center.
- Interest expense is expected to decrease by 2.7% compared to projected FY25 due to a partial principal payment on the bond, resulting in lower interest expense.
- We are not going to issue any bonds this FY26, so Bond Issuance Cost is \$0.

AFFILIATE OPERATIONS

- FY 2026 Budget Estimate includes support for WHMG and other affiliate operations, representing a consolidated net loss of \$16.4M — a \$7.9M unfavorable variance compared to the projected FY 2025.

VOLUMES

	Projected FY 2025	Budget FY 2026	Change	Percent Change
Discharges	12,122	13,206	1,084	8.9%
Patient Days	62,782	68,938	6,156	9.8%
Average Daily Census (ADC)	172.0	188.9	16.9	9.8%
Outpatient Observation Days	3,756	3,579	(177)	-4.7%
Average Length of Stay	5.2	5.2	-	0.0%
Deliveries	1,647	1,659	12	0.7%
Surgical Cases	6,385	6,573	188	2.9%
Orthopedics Cases	2,415	2,510	95	3.9%
Cardiac OR Cases	122	125	3	2.5%
Cardiac Endo Cases	213	216	3	1.4%
Neuro-Surgical Cases	317	330	13	4.1%
Gastroenterology Cases	1,465	1,498	33	2.3%
General Surgery Cases	660	670	10	1.5%
Vascular Cases	399	408	9	2.3%
Other Cases	794	816	22	2.8%
Cath Lab Cases	2,309	2,400	91	3.9%
Cardiac Cases	1,263	1,320	57	4.5%
Interventional Radiology Cases	706	715	9	1.3%
Neuro IR Cases	114	115	1	0.9%
Vascular Cases	226	250	24	10.6%
Trauma Cases	1,865	1,867	2	0.1%
Emergency Room Visits	62,519	63,086	568	0.9%
Outpatient Visits	108,550	108,957	407	0.4%

PERFORMANCE INDICATORS

	<u>Projected FY 2025</u>	<u>Budget FY 2026</u>	<u>Percent Change</u>
<u>Productivity</u>			
Fixed FTEs	463.5	459.0	1.0%
Variable FTEs	1,244.2	1,362.6	-9.5%
Total Paid FTEs	1,707.7	1,821.6	-6.7%
Paid FTEs/Adjusted Occupied Bed	6.0	6.0	0.1%
Productive FTEs/Adjusted Occupied Bed	5.3	5.2	1.2%

Financial Indicators

Contractual Allowances as a % of Revenue	75.7%	74.5%
Provision for Charity & Doubtful Accounts as a % of Revenue	1.6%	2.1%
Supplies/Net Patient Revenue %	13.5%	13.2%
Operating Margin	-1.0%	-0.7%
Net Margin	3.4%	2.3%

HOSPITAL REVENUE

<i>(In thousands)</i>	Projected FY 2025	Budget FY 2026	Percent Change
Patient Revenue:			
Inpatient	\$ 1,595,521	\$ 1,766,610	10.7%
Outpatient	1,101,099	1,080,890	-1.8%
Total Goss Revenue	\$ 2,696,620	\$ 2,847,500	5.6%
Contractual Allowances and Provisions:			
Contractual Allowances by Payors	(2,042,371)	(2,120,992)	3.8%
Provision for Charity and Doubtful Accounts	(41,861)	(59,468)	42.1%
Total Contractuals and Provisions for Charity and Doubtful Accounts	\$ (2,084,232)	\$ (2,180,460)	4.6%
Net Patient Revenue	\$ 612,388	\$ 667,040	8.9%
Other Operating Revenue	\$ 16,832	\$ 18,170	7.9%
Total Operating Revenue	\$ 629,220	\$ 685,210	8.9%
Total Net Patient Revenue as a Percent of Gross Revenue	22.7%	23.4%	

OPERATING EXPENSES

<i>(In thousands)</i>	Projected FY 2025	Budget FY 2026	Percent Change
Salaries	\$ 294,776	\$ 325,130	-10.3%
Benefits	101,602	110,680	-8.9%
Professional Fees	55,079	58,533	-6.3%
Supplies	82,913	88,318	-6.5%
Purchased Services	34,841	36,528	-4.8%
Utilities	7,322	7,949	-8.6%
Insurance	4,332	4,768	-10.1%
Marketing & Advertising	864	1,527	-76.8%
Software Licenses & Maintenance	7,637	8,845	-15.8%
Other Expenses	3,488	3,646	-4.5%
Depreciation	42,516	44,013	-3.5%
Total Operating Expenses	\$ 635,370	\$ 689,938	-8.6%

NON-OPERATING INCOME & EXPENSE

<i>(In thousands)</i>	Projected FY 2025	Budget FY 2026	Percent Change
Unrestricted Investment Income	\$ 2,000	\$ 1,608	-19.6%
Board Desig Investment Income	5,934	4,056	-31.6%
General Obligation Bond Property Tax Revenue	26,332	24,546	-6.8%
Rental Income, Net	1,483	1,165	-21.4%
Bond Issuance Cost	(1)	-	-100.0%
Interest Expense	(20,298)	(19,741)	2.7%
Gain/(Loss) on Investments *	3,837	-	100.0%
Foundation Donation	5,242	6,561	25.2%
Equity Investment Earnings	2,730	2,511	-8.0%
Federal Subsidies	160	-	-100.0%
Other Non-Operating Exp/Rev	(7)	-	-100.0%
Total Net Non-Operating Income & Expense	\$ 27,412	\$ 20,706	-24.5%

* Washington Hospital does not budget for gains or losses on investments.

CAPITAL BUDGET

*(In thousands)***Budget
FY 2026****Strategic**

Infill Project	\$ 40,000
Cancer Center	13,756
Fremont Office Center Phase 1	11,471
Warm Springs	8,880
Expansion Phase 3 Enterprise	8,000
ERP System	4,500
Urgent Care Clinic	2,135
Exterior Signage (New Brand)	500
Projects in Close Out	297
2500 Lobby Refresh	250
Total Strategic	\$ 89,788

Rental TI Improvement	\$ 1,000
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Routine Capital Equipment and Projects

FY25 Roll Over	\$ 2,044
FY26 Contingency	1,500
Outpatient CT	1,369
Stryker Laparoscopic Tower Replacement	1,098
Neuro Microscope Replacement	888
IS Infrastructure Refresh	750
XN9100 (cell counter for lab)	641
Epic Anesthesia Module Implementation	600
Stryker Neuro Drills and Power Equipment Replacement	324
Total Routine Capital Equipment and Projects	\$ 9,213

Total Capital Spend	\$ 100,001
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Capital Funded by Hospital	\$ 39,924
Capital Funded by GO Bond	\$ 47,726
Capital Funded by Philanthropy/Partnerships	\$ 12,351