



Harney District Hospital

May 5, 2026

To: Health District Board, Budget Committee Members, and Harney County Citizens

From: Catherine White, CFO

Subject: Harney County Health District Budget Message for Fiscal Year 2026-27

Executive Summary

The Fiscal Year 2026-2027 budget reflects a continued focus on financial stability amid ongoing workforce challenges, rising operating costs, and uncertainty in federal healthcare policy. Key drivers of this budget include a 6% rate increase (the maximum allowed under payer contracts), strategic reductions in traveler utilization, and targeted investments in staffing, infrastructure, and patient care equipment.

At the same time, the District is preparing for potential adverse impacts related to federal Medicaid policy changes, which are expected to increase uncompensated care and reduce reimbursement levels. Despite these pressures, the District maintains a strong cash position, with projected reserves of approximately 87 days cash on hand at year end.

Budget Overview

The following pages provide detailed financial information supporting this budget. Projections for the current fiscal year are based on nine months of actual activity through March 31, 2026, with estimates for the remainder of the year. Variances between projected and final results may occur due to timing differences in revenue and expense recognition.

A Balance Sheet and Income Statement as of March 31, 2026, are included for reference.

Revenue (see page 3)

This budget assumes a 6% price increase in inpatient and outpatient rates, consistent with contractual limits from commercial insurers. Each 1% change in rates impacts the bottom line by approximately \$613,000, underscoring the importance of rate adjustments in maintaining financial performance.

Pharmaceutical pricing has been increased by 30% following a comprehensive review that identified the District's markup as materially below market benchmarks. This adjustment is a start to bring pricing into alignment with industry standards.

No volume growth has been assumed in this budget, reflecting a conservative approach to the revenue forecast.

Other Revenue (see page 4)

Other revenue includes cafeteria sales, ambulance memberships, 340B program revenue, and home health services, and is budgeted consistent with recent performance.

Notable items:

- Other Operating Revenue - Other: Reduced to \$5,000, as prior-year revenue included one-time FSA-related (Flexible Spending Account) refunds not expected to recur.
- Foundation Contribution: Includes \$600,000 to fund the Physical Therapy remodel.
- Grant Revenue: Very little is budgeted due to uncertainty in timing and award amounts. Awards received will be directed toward capital purchases.

Deductions from Revenue (see page 5)

Deductions from revenue—including contractual adjustments, bad debt, and charity care—are expected to increase significantly.

This is driven primarily by anticipated impacts from the H.R.1 Federal Reconciliation Act, which may:

- Reduce Medicaid coverage for certain populations
- Lower reimbursement rates for Medicaid services

These changes are expected to increase uncompensated care and insurance contractual adjustments, thereby reducing net patient revenue.

Depreciation Expense (see page 5)

Depreciation expense reflects both existing assets and planned capital investments. This includes the recently implemented MRI and associated improvements, which contribute approximately \$250,000 in annual depreciation.

Salaries & Wages (see page 6)

A 3% wage increase is included for all staff, totaling approximately \$489,000 including benefits. Each 1% change in wages impacts the bottom line by approximately \$163,000.

FTE (Full-time Equivalent) counts for FY2027 include both employees and contracted travelers to provide a more accurate representation of total staffing needs.

Key Staffing Changes:

- **Nursing:** Reduction in traveler reliance as permanent Registered Nurse positions are filled. A CNA (Certified Nursing Assistant) training program is expected to support staffing stabilization.
- **Emergency Department:** Increased physician costs due to higher coverage rates.
- **Surgery:** Reflects one employed general surgeon, with locum coverage budgeted separately.
- **Compliance:** Elimination of one FTE following leadership restructuring.
- **Imaging:** Includes a short-term ultrasound traveler.
- **Laboratory:** Continued reliance on travelers, including longer-term international contracts.
- **Rehabilitation:** Includes a contracted occupational therapist (budgeted in Services & Supplies).

Benefits and taxes (see page 6)

PERS (Public Employee Retirement System) contribution rates for the biennium are:

- PERS Tier 1/Tier 2: 24.81%
- OPSRP (Oregon Public Employees Retirement Plan): 23.04%

Employees may alternatively elect participation in the AIG retirement plan, which includes up to a 4% employer match.

Services & Supplies (see pages 7& 8)

This category reflects continued reliance on contract labor in key areas, as well as inflationary pressures:

- Supplies increased by **3.4%**
- Pharmaceuticals increased by **2.84%**

Notable Items:

- Locum OB-GYN coverage to maintain obstetrics services
- Contracted surgical and specialty coverage
- Investment in cybersecurity and IT infrastructure
- Facility repairs and life safety improvements
- Strategic planning and compliance system enhancements

Capital Expenditures (see page 9 for replacement reason)

Total capital requests of **\$1.3 million** focus on patient care, safety, and infrastructure reliability. Major items include:

- Replacement of aging surgical equipment and imaging technology
- Facility and life-safety upgrades

- Dietary and rehabilitation equipment
- Information technology infrastructure modernization

The Physical Therapy remodel is funded through Foundation support.

Debt & Cash Flow (see page 10 and 2)

Total annual debt service is \$1.24 million, with several obligations concluding during the fiscal year, including the ambulance loan and Medical Office Building bonds.

Cash is projected to decrease modestly from \$11.7 million to \$10.8 million, maintaining approximately 87 days cash on hand, which supports continued operational stability.

Closing

I look forward to discussing this budget with the Committee on **Wednesday, May 20 at 3:00 p.m.** Participation is available in person or via Zoom.

Please feel free to contact me at cwhite@harneydh.com in advance with any questions so that we can ensure a productive and efficient budget discussion.

Thank you for your time, engagement, and continued support of the District.