

Nassau Health Care Corporation - 2026 Operating Budget

State of Nassau Health Care Corporation (NHCC)

NHCC is a public benefit corporation consisting of Nassau University Medical Center (NUMC) a 530-bed safety net academic medical center located in East Meadow, New York serving the most vulnerable residents of Nassau County, A. Holly Patterson Extended Care Facility (AHP) a 589-bed skilled nursing facility located in Uniondale, New York, and a Faculty Practice Plan.

As a safety net provider and serving as one of three Level-1 trauma centers in the County, NHCC has experienced operating losses for many years as a result of its predominantly high Medicaid and Medicare payer mix, large behavioral health and substance abuse program, and high costs incurred due to competition for talent with other health care providers in the downstate NY market. NUMC also experiences high levels of uninsured patients, particularly in its emergency department and ambulatory clinics. Additionally, NUMC's past years of significant underperformance around basic operational processes for management of both revenue and expenses have also contributed substantially to its very large past and ongoing operating losses without additional State aid. NHCC received a going concern opinion from its auditors for the fiscal year ended December 31, 2024.

In 2025, NHCC experienced significant changes to both its Board and Management. Effective June 1, 2025 legislation enacted by New York State reconfigured NHCC's Board and gave new authority to the Nassau Interim Finance Authority (NIFA). There was also abrupt turnover of the entire senior management team in June 2025.

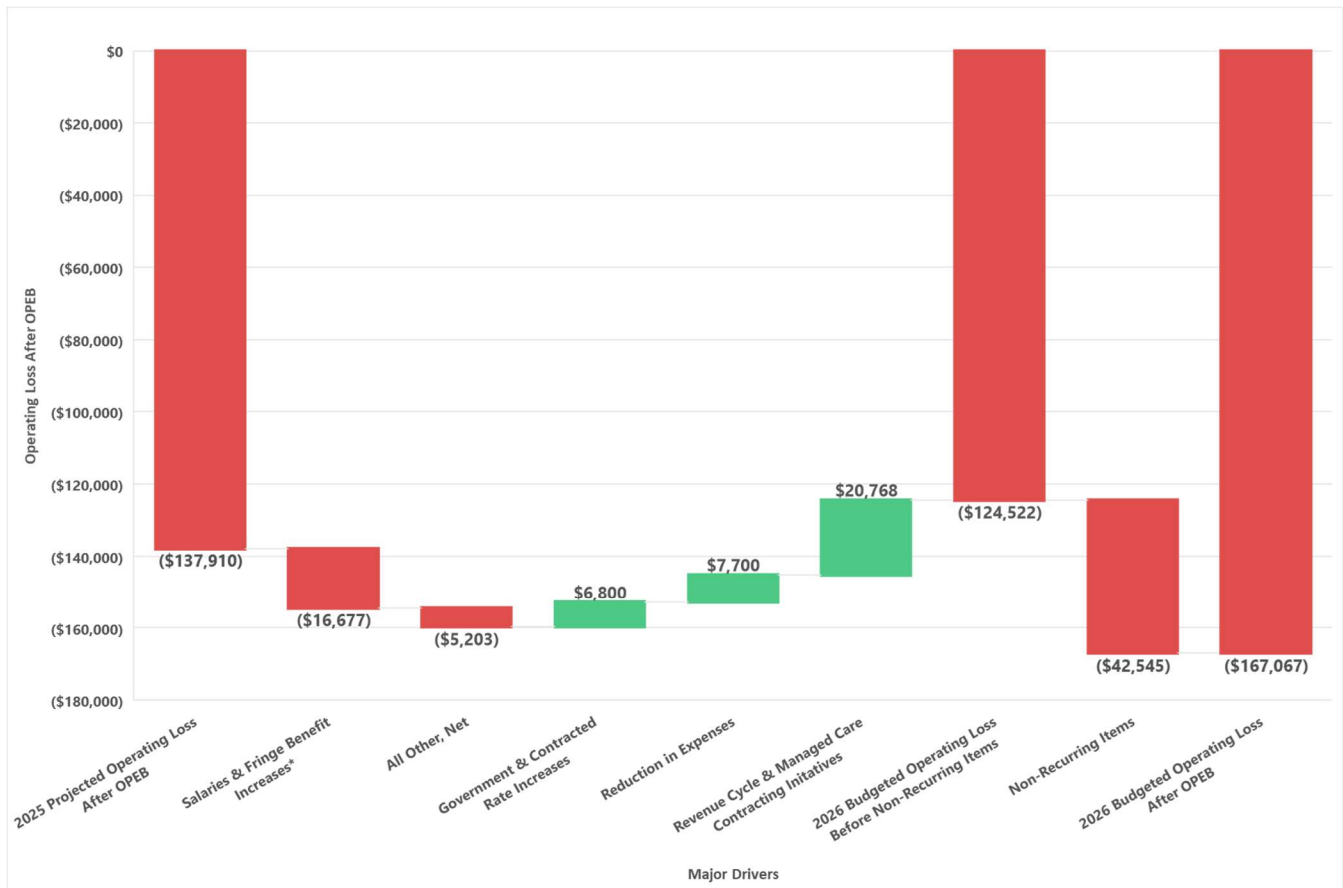
Through September year-to-date, patient service volume has declined by 8% for inpatient discharges and approximately 9.5% for emergency department visits. Other ambulatory visits are tracking in line with 2024. NHCC will incur approximately \$8.0 million in consulting and outside service fees in 2025 due to the abrupt leadership turnover and ongoing litigation. Management is projecting the 2025 operating loss after OPEB at \$137.9 million, inclusive of \$43.0 million in Federal & State Aid received in 2025.

The current Board and Management team are focused on improving operating performance and patient access to quality care, while engaging with New York State to access aid necessary to ensure NHCC's sustainability. The Board is also leading the development of a State-mandated transformation plan, with a report due in December, 2026 that will guide the future vision for NHCC.

2026 Operating Budget – Executive Summary

The 2026 Operating Budget reflects an operating loss of \$137.1 million before OPEB (Other Post-Retirement Benefits) and an operating loss of \$167.1 million after OPEB. The 2026 operating loss after OPEB reflects a \$29.2 million increase in the operating loss as compared to projected 2025 results. After consideration of non-operating activities, the budgeted Change in Net Position is a loss of \$150.1 million, which is an increase in the loss of \$10.0 million as compared to projected 2025.

The chart below highlights the major drivers of the budgeted changed in operating loss after OPEB. The Key Budget Assumptions section below provides further details.



*Salaries increase is \$4.3 million; Fringe Benefit increase is \$12.4 million

**State Aid decrease is \$25.0 million related to VAPAP (pending notice of funding amount), \$0.9 million decline in NYS grants; Federal Aid decrease is FEMA grant decline from 2025 of \$8.6 million

Key Budget Assumptions

Net Patient Service Revenue (NPSR):

The 2026 patient service revenue budget of \$461.4 million is an increase of \$27.1 million over projected 2025 due primarily to management efforts to mitigate the continuation of current year declines in emergency visit volume combined with payment rate increases and revenue cycle improvements.

For NUMC, the Operating Budget anticipates patient service volume to be flat to 2025 projections. On payment rates, the 2026 Budget reflects published rate increases for Medicaid, Medicare, and Worker's Compensation as applicable for inpatient, ambulatory, and physician services. For Commercial payers, contracted rate increases are included. There are also management initiatives related to revenue cycle management, principally in the areas of revenue integrity, such as charge capture, as well as managed care contract renegotiations. Both of these initiatives are underway and are expected to yield \$20.8 million of additional revenue in 2026.

For AHP, patient service volume is flat to 2025 projection. Payment rates from Medicaid, the principal payer at AHP, are expected to decline by 1%.

Other Operating Revenue:

Other Operating Revenue includes non-direct patient service revenue such as Intergovernmental Transfer payments, which are budgeted at \$47.5 million or a \$1.5 million increase over projected 2025. This amount includes \$37.0 million in DSH Hospital payments for NUMC, \$9.0 million in Upper Payment Limit "UPL" payments for AHP, and \$1.5 million in UPL payments for physician services. Other Operating Revenue also includes contracted services provided to Nassau County and the Corrections Center at \$22.3 million and \$19.7 million, respectively. These amounts are assumed to be relatively flat to 2025 projection. The Nassau County Corrections Center services agreement expires on July 31, 2026; for Budget purposes, the current payment level was assumed to be maintained through December 2026.

The Budget assumes \$8.5 million of Federal & State Aid, consisting of \$6.4 million of FEMA grants (COVID-19 related) and \$2.1 million of NYS grants. Note that 2025 projected operating results include \$43.0 million of Federal & State Aid, of which \$15.0 million relates to FEMA grants (COVID-19 related), \$25.0 million relates to New York State VAPAP funding received, and \$3.0 million relates to New York State grants. There are ongoing discussions with New York State officials regarding the amount and timing of additional VAPAP funding in 2026.

Miscellaneous Revenue of \$27.1 million reflects a decrease of \$3.9 million from projected 2025 due to updates received post development of the 2025 projections. Miscellaneous revenue

includes items such as 340(b) revenue, Healthfirst dividends, and billed non-patient care services.

Operating Expenses

On expenses, Salaries are budgeted in 2026 at \$312.0 million, reflecting an increase of \$4.3 million or 1.4% over 2025 projection. This increase is due to contracted step increases for union employees and staff additions in certain clinical specialties to improve access to care and certain administrative functions to reduce the use of outside services, partially offset by reductions in outside agency costs. The current management team is focused on filling vacant positions in order to reduce the use of overtime and outside agency use, which are both paid at premium levels.

Fringe benefit costs are budgeted at \$196.1 million, reflecting an increase of \$12.4 million or 6.7% over 2025 projection. This increase is due primarily to an assumed 8% increase in active and retired employee health insurance benefits as well as a 12.5% increase in pension expense. Fringe benefit costs as a percentage of salary cost is budgeted at 62.9%; after adjusting for fringe benefit costs related to County employees (related revenue is reflected in Nassau County Billings), the effective NHCC fringe benefit rate as percentage of salary cost is 58.9%. Management will be initiating a review of fringe benefit costs to benchmark NHCC versus peer organizations to identify potential areas for cost efficiencies.

Supplies expenses are budgeted at \$55.4 million, reflecting an increase of \$1.6 million or 3.0% over 2025 projection. The increase is primarily due to inflationary trends in medical and pharmaceutical costs.

Other Expenses are budgeted at \$115.0 million, reflecting a decrease of \$7.7 million or 6.3% under 2025 projection. The decrease is primarily due to reductions in outside services, such as consulting and staffing agency costs.

Utilities expenses are budgeted at \$21.1 million, reflecting an increase of \$0.9 million or 4.2% over 2025 projection. The increase is primarily due to assumed inflation trend.

Depreciation expense is budgeted at \$23.9 million, in line with 2025 projection.

OPEB and NYS Actuarial Pension Adjustment

OPEB is budgeted at a cost of \$30.0 million for 2026, equal to the 2025 budget and consistent with prior practice. The actual 2025 amount will not be known until actuarial reports are available in March 2026 and any required adjustment will be reflected in the 2025 audited financial statements. The NYS Actuarial Pension Adjustment is budgeted at zero. During August 2025, NHCC was notified of a favorable \$8.0 million adjustment in these costs for the State fiscal

year ended March 31, 2025. Given the volatility and unknown amount of this adjustment for 2026, management has budgeted at zero consistent with prior practice.

Non-Operating Activities

Non-operating activities includes Interest Income of \$1.5 million, which is budgeted to decline in 2026 by \$0.6 million from projected 2025 amount due to expected lower average cash balances in 2026. Interest Expense of \$2.3 million is budgeted to decline by \$0.8 million in 2026 from projected 2025 amount due in accordance with the long-term debt amortization schedule. Deferred Loss on Debt Refunding declines by \$1.3 million in 2026 from projected 2025 as 2026 reflects the final year and final amount for recognition of the deferred loss.

Capital contributions of \$18.0 million reflect an increase of \$17.6 million from projected 2025 due expected \$6.0 million in NYS Capital Transformation grants as well as \$12.0 million in expected funding from the \$50.0 million NUMC five-year capital grant included in the State fiscal year 2026 enacted budget.

Conclusion

The new interim management team, fully in place for approximately three months, has initiated significant changes to improve clinical, operational and financial management at NHCC with substantial positive changes already demonstrated in various revenue and expense metrics throughout the organization. Despite these immediate successes, there are still automatic and contractual increases in expenses that are challenging to offset in this relatively short period of time, ultimately making the 2026 budget, without additional external financial support, worse financially than the 2025 year-end projection. It is important to emphasize the conservative approach taken in composing this budget as well as the lack of performance and statistical data that, typically, would allow management to build a budget with more operational insight and precision. Lacking such data and supporting analytics, the budget we present is built with the best available information, albeit highly imperfect. We do expect current management efforts to result in continued favorable improvements to both revenue capture and expense management as we progress through 2026.

Nassau Health Care Corporation & Subsidiaries
Consolidated Revenue & Expenses
(in thousands)

	Audited 2024	Projected 2025	Budget 2026
<u>Operating Revenues:</u>			
Net Patient Service Revenue	\$ 454,483	\$ 434,317	\$ 461,405
<u>Other Operating Revenues:</u>			
NYS Intergovernmental Transfer	62,742	46,000	47,500
Nassau County Billings	20,234	22,368	22,320
Corrections Contract	19,458	19,458	19,704
Federal & State Aid	13,195	43,000	8,455
Miscellaneous	28,493	30,966	27,097
Total Operating Revenues	\$ 598,605	\$ 596,109	\$ 586,481
<u>Operating Expenses:</u>			
Salaries	\$ 302,007	\$ 307,716	\$ 311,991
Fringe Benefits	173,074	183,707	196,109
Supplies	60,411	53,806	55,447
Expenses	108,282	122,695	114,995
Utilities	19,658	20,251	21,096
Depreciation	24,052	23,844	23,910
Total Operating Expenses	\$ 687,484	\$ 712,019	\$ 721,548
Operating Loss before OPEB	\$ (88,879)	\$ (115,910)	\$ (137,067)
Employee Benefits - NYS Pension & OPEB	(60,149)	(22,000)	(30,000)
Operating loss	\$ (149,028)	\$ (137,910)	\$ (167,067)
<u>Non-Operating Activities</u>			
Interest Income	\$ 3,392	\$ 2,039	\$ 1,480
Interest Expense	(4,365)	(3,092)	(2,255)
Deferred Loss on Debt Refunding	(1,491)	(1,491)	(240)
Total Non-Operating Activities	\$ (2,464)	\$ (2,544)	\$ (1,015)
Capital Contributions	3,213	388	18,000
Change in Net Position	\$ (148,279)	\$ (140,066)	\$ (150,082)