**Service Line Break Even Analysis Memo**

The proposed costs to operate this new facility are as follows:

Expected Monthly Revenue (Membership Fee): $125 per person

Monthly Fixed Costs

* Utilities: $590
* Health/Wellness Staff: $2,500
* Arts/Crafts Staff: $2,000
* Supplies: $800
* Fitness Equipment Maintenance Contract: $200

Variable Costs

* Monthly Lunch Cost: $25
* Monthly Breakfast Cost: $15

Based on the information above, once the minimum threshold of participants is reached, the initial investment to establish the center is $317,880. The organization anticipates that it will generate $46,920 of net revenues in the first year, $68,166 in the second year, $93,404 in the third year, $123,287 in the fourth year, and $158,573 in the fifth year.

1. Perform the break-even analysis to determine how many seniors would need to have full monthly membership and pay for breakfast and lunch for UMUC Home and Community-Based Services to cover its monthly expenses.
2. Calculate the payback period to determine how long it will take for the organization to recover its initial investment of establishing the senior multipurpose center.

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Transcript of the VOICEMAIL FROM George Costanza (CFO):

Hi, it's George. I hear you're working on a budget for the Med-Surg department for FY 2019. I'd like you to come to the budget meeting this afternoon, because I'm going to be sharing some numbers that are likely to have an impact on your budget. I've sent you the year-to-date statements through December, the overall budget for the year, and the year-to-date budget variance for your department. Take a look at them, and bring them with you to the meeting. See you later!

Transcript from BUDGET MEETING:

**George C.**, *CFO*  
Hi, everyone. Thanks for coming. We've got some important numbers to go through and a big challenge to respond to, so I think we better get started.  
  
**Jerry**, *Vice President of Operations*  
That sounds ominous.  
  
**Newman**, *Vice President of Medical Support*  
Well, can we at least get an idea of how we're doing year-to-date before you go to the 40,000-foot level?  
  
**George**  
I think you might need to hear this first. Here's the situation: The hospital has to cut operating expenses by 5 percent for next fiscal year.  
  
**Kramer**, *Director of Clinical Operations*  
I'm sorry, did you say 5 percent? Operating expenses?  
  
**George**  
That's right.  
  
**Jerry**  
That's a big ask. We're already operating awfully lean.  
  
**George**  
Agreed. But it's the situation we're in. I'll get to the reasons, but based on what I'm going to go over, I just want everyone to keep in mind that we can't make assumptions we were making before. So let me give you an overview of the budget and the year-to-date numbers, and I think you'll see why we're going to have to make those cuts.  
  
Now, last year, for the entire hospital, we assumed that we would see $1.2 billion in total patient revenue. But as you can see, for half the year, we've only hit just over $607 million. By this point in the year, we should be over $612 million. So already in terms of total patient revenue, we've got a deficit of nearly $5 million that we didn't expect. The problem is made worse when we see that other operating revenue is also under budget by $1.5 million.  
  
I believe that recent efforts in the billing department coupled with some of the solid work by the c-suite team on physician engagement and external marketing are going to have an impact on the revenue side of things. We’re also currently negotiating with a couple of our primary commercial payers, but those negotiations remain uncertain. All things considered, I’m hoping for about a 5% bump on the revenue side for FY 19. Our operating expenses are fairly close to target so far this year, but given the situation with uncertain revenue, we will need to try to find some additional cost savings opportunities. I want to be reasonably conservative in case market conditions change or negotiations with our payers don’t go as expected.  
  
**Newman**   
Wow. Well, okay, so that's the reality. What's the timeline? How long do we have to make these cuts?  
  
**George**  
Well, implementation is obviously by June 30 since the next fiscal year starts July 1. The board will approve the new budget probably by mid-June, but all the negotiation at the unit and department level will be going on this month. Our first official budget committee meeting is in early May. So I'd suggest getting your ducks in a row within the next week or so.

In your proposal, think through the cuts that are being proposed. Do you simply want to take a ‘salami slice’ cut across all areas of expense? Or, are there areas where it might make more sense to protect while others are more flexible? Since this is a simulation, you won’t know everything that you normally would about the organization, the people involved, etc. However, think through what the second and third order effects are of a budget cut and provide some commentary regarding what other issues might surface and/or may need to be addressed as a result.