

# University Health System

Bexar County Hospital District d/b/a  
University Health System's Operating,  
Debt Service and Capital Budgets  
for Fiscal Year 2020

## **Bexar County Commissioners Court**

Tuesday, December 3, 2019  
Double-Height Courtroom, Suite 2.01  
Bexar County Courthouse  
100 Dolorosa  
San Antonio, Texas 78205-3038



**University Health System’s  
Preliminary Operating, Debt Service,  
and Capital Budgets  
For Fiscal Year 2020**

**Table of Contents**

Strategic Vision .....	3
Triple-Aim <i>Plus</i> .....	3
2020 Consolidated Budget Summary Briefing .....	6
Access (Activity) Assumptions.....	10
Total Operating Revenue (TOR) .....	11
Total Operating Expense (TOE) .....	17
Debt Service Requirement.....	22
Ongoing Capital Requirements .....	23
2020 Community First Health Plans Budget .....	24
Exhibits .....	29

## University Health System Preliminary 2020 Budget Summary

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### **Strategic Vision**

University Health System (Health System) continues to pursue its strategic vision to be the premier health system in South Texas, committed to delivering patient-centered, culturally competent and high quality healthcare, based on a strong foundation of outcomes-based research and innovative teaching. This vision serves to guide decision-making and operational execution. The 2020 Budget was developed with the strategic vision in mind. University Health System is consistently recognized as a leader in advanced treatment options, new technologies and clinical research. The Health System is also among an elite group (est. 6%) of U.S. hospitals to earn Magnet designation – the gold standard in nursing care. Consumer trust and preference for University Hospital has grown significantly in recent years. Currently, University Hospital is ranked #1 by local consumers when asked which hospital has the best image and reputation, and is the second most preferred for an inpatient stay (NRC Health Market Insights 2019 Study).

### **Triple-Aim Plus**

The Triple-Aim *Plus* concept continues to be the guiding principles of how the Health System executes its strategy to serve the community. The Health System continues to be successful in executing the aims of:

- Improving quality, safety and outcomes
- Improving the patient experience
- Improving efficiencies
- Improving access to care

These principles are the foundation of healthcare transformation and all initiatives pursued are developed in the spirit of transforming care using the Triple Aim *Plus* goals.

## **Major Impacts to the 2020 Budget**

- The Epic implementation and go-live is budgeted to increase operating expense in 2020 by \$62 million.
- The transition from BCCS Charity Care expansion to the Local Provider Participation Fee (LPPF) will increase Medical Expense by \$25 million.
- Medicaid Uncompensated Care funding is increasing due to an increase in the State UC Pool, a positive budget impact of \$33.7 million.
- Scheduled reductions to DSRIP funding, negative impact of \$4.1 million.
- Improved Medicare UC funding, positive impact of \$14.5 million.
- Continued growth of the Pharmacy Meds-to-Beds and retail pharmacy service.
- Resource investment to improve and upgrade existing buildings.

## **Capital Budget Projects**

Funded Projects that will impact operations and the 2020 Budget:

- The new Women's and Children's Hospital construction will ramp up in 2020 with the demolition of the North Parking Garage and excavation of the site.
- The Heart, Vascular, and Advanced Endoscopy (HVE) buildout is planned to be complete in the fall of 2020.
- The Health System will go-live with the EPIC electronic health record (EHR) which is now adopted by most of the Academic Medical Centers in the country. This project is perhaps the most significant and important undertaking a health system will ever make. The EHR is not only costly but also connects with every facet of the patient experience, from registration to the final bill. After a patient discharge or a clinic visit, the EHR serves as the platform for a patient's personal chart. Health System operations and revenue cycle are also reliant on the EHR. Both clinical and financial systems must interface correctly to capture charges appropriately and bill payers correctly. Significant investment in human and financial resources are committed to this project in 2020.

## **Operational Improvements – Working in conjunction with UT Physicians**

- Emergency Room throughput and efficiency: Power UP
- Inpatient Care Transitions: Power Through
- Clinical Documentation improvements
- Maintain and improve patient satisfaction
- Length of stay reductions
- Improvement in quality metrics
- Employee engagement and satisfaction
- Implement strategic tactics to fulfill projected activity by:
  - Focusing on key service lines
    - Trauma
    - Transplant
    - Children’s Health and neonatal care
    - Women’s Health Services including perinatal
    - Cardiovascular
    - Neurosciences
    - Oncology
  - Enhance marketing, outreach and referral development
  - Executing planned clinical integration and physician alignment initiatives with key service line physicians
- Enhance human capital through recognition programs and continuous learning
- Produce positive financial results to fund capital improvements

## 2020 Consolidated Budget Summary Briefing

Following is a summary of the 2020 Consolidated Budget and a comparison to Projected 2019:

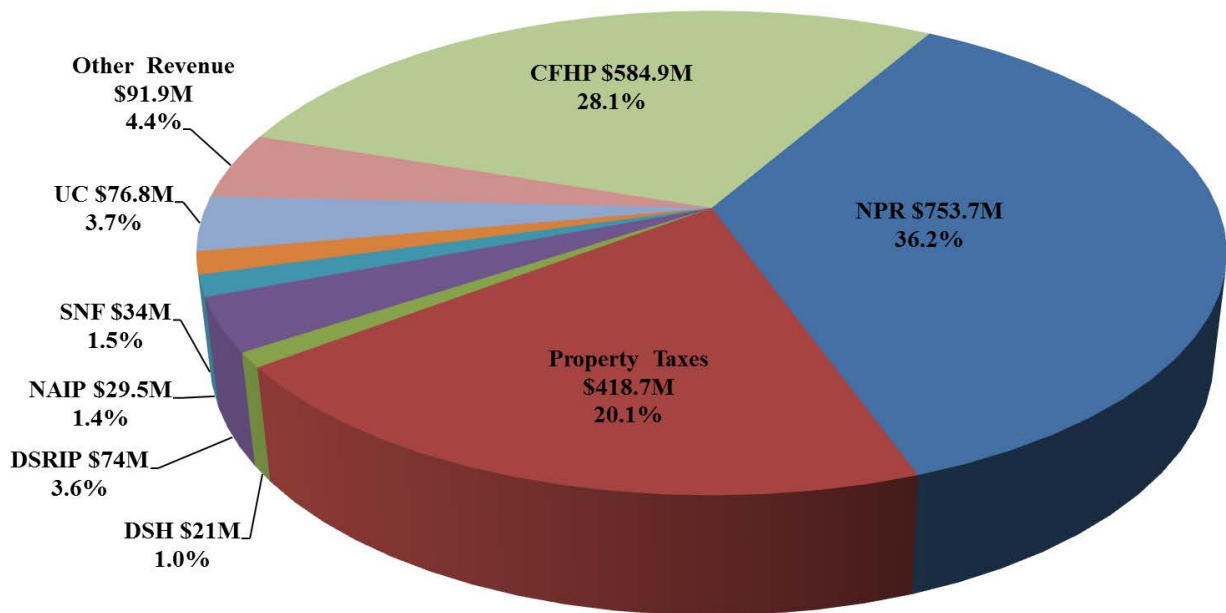
<b>Consolidated</b> (Dollars in Millions)	<b>2018 Audited</b>	<b>2019 Projected</b>	<b>2020 Preliminary Budget</b>	<b>Variance from Projected</b>	<b>% Variance</b>
<b>Total Operating Revenue</b>	\$1,861.7	\$1,979.3	\$2,084.1	\$104.9	5.3%
<b>Total Operating Expense</b>	\$1,746.3	\$1,817.2	\$2,017.0	\$199.8	11.0%
<b>Operating Gain</b>	\$115.4	\$162.1	\$67.1	(\$94.9)	(58.6%)
<b>Nonoperating Revenue/(Expense):</b>					
<b>Depreciation/Amortization</b>	(\$76.4)	(\$71.3)	(\$77.0)	(\$5.6)	(7.9%)
<b>Other Non-operating</b>	\$18.7	\$35.0	\$25.7	(\$9.3)	(26.6%)
<b>Premium Deficiency Reserve</b>	\$4.3	\$0.6	\$1.2	\$0.6	112.4%
<b>Total Nonoperating Revenue</b>	(\$53.5)	(\$35.8)	(\$50.1)	(\$14.3)	(40.0%)
<b>Bottom Line excluding Debt Service</b>	<b>\$61.9</b>	<b>\$126.3</b>	<b>\$17.1</b>	<b>(\$109.2)</b>	<b>(86.5%)</b>
<b>Debt Service Revenue</b>	\$61.6	\$66.0	\$70.2	\$4.2	6.4%
<b>Debt Service</b>	\$61.6	\$65.4	\$70.2	\$4.8	7.4%
<b>Net Debt Service</b>	\$0.0	\$0.6	\$0.0	\$0.0	0.0%
<b>Capital Requirements</b>	<b>\$28.6</b>	<b>\$33.1</b>	<b>\$40.2</b>	<b>(\$7.1)</b>	<b>(21.4%)</b>

- The Health System’s Consolidated Preliminary 2020 Budget (Exhibit 1A) reflects a gain from operations of \$67.1 million and a bottom line gain of \$17.1 million after including non-operating income/(expense) of (\$50.1) million.
- University Health System (less Community First Health Plan), the Clinical Services Division (Exhibit 1B) reflects a \$61.9 million gain from operations and a bottom line gain of \$9.8 million after including depreciation expense of \$75.1 million and \$23.0 million of non-operating revenue.
- CFHP (Exhibit 1C) reflects a gain from operations of \$5.2 million and a bottom line gain of \$7.3 million after including depreciation expense of \$1.9 million, premium deficiency reserve of \$1.2 million and non-operating income of \$2.7 million.

- The budget includes \$70.2 million in debt service for bonds used to fund University Health System’s Capital Improvement Program (CIP). The tax rate set to fund the required debt service for 2020 is \$0.039666 per \$100 valuation (Exhibit 7).
- The Health System’s 2020 capital budget for the clinical services division includes \$39.9 million (Exhibit 8) in items that have been prioritized and approved by the capital committee. These capital items will be funded by cash flow from operations. Capital requests for CFHP are \$285,000 for a total request of \$40.2 million.

A summary of consolidated sources of funding is as follows:

**Consolidated Total Operating Revenue: \$2.08B**

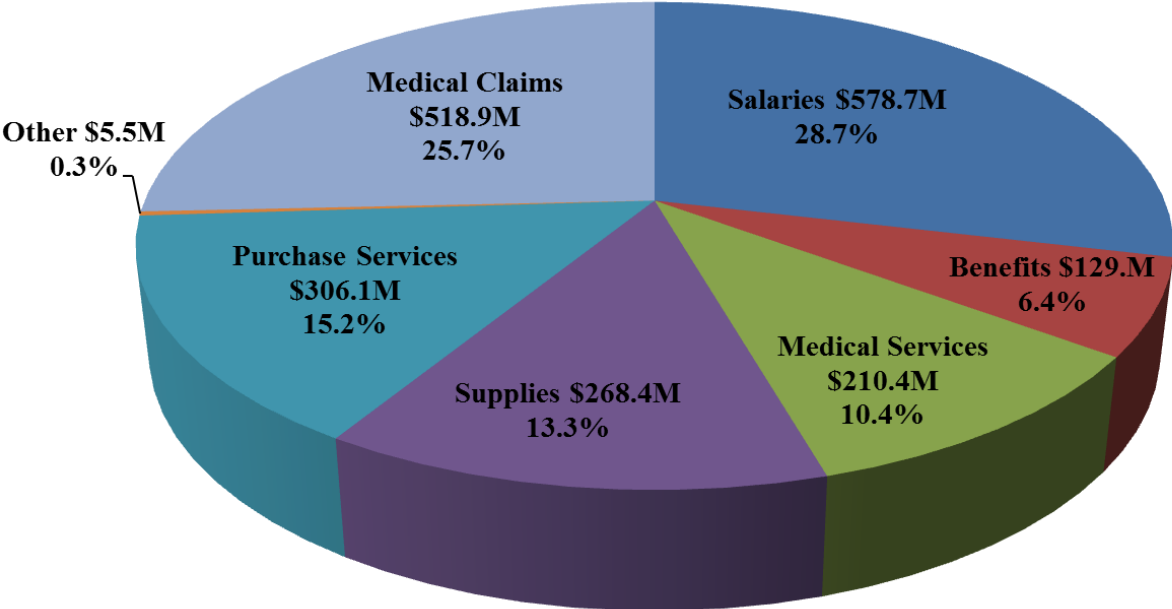


On a consolidated basis, Total Operating Revenue (TOR) is \$2.08 billion. Net Patient Revenue (NPR), or collections from third party payers and patients, represents the largest percent of TOR at 36.2%. Premium revenue from CFHP follows at 28.1%. Property taxes account for 20.1% and supplemental funding programs (DSH, DSRIP, NAIP, UHRIP and UC) account for 15.6%.

A summary of Consolidated Total Operating Expense (TOE) is as follows:

On a consolidated basis, TOE is \$2.02 billion. Salaries and benefits represent the largest percentage at 35.1% followed by medical claims for CFHP at 25.7%. Purchased Services at 15.2%, Supplies are 13.3%, and Medical Services are at 10.4% of TOE.

**Consolidated Total Operating Expenses: \$2.02B**





## **2020 Clinical Services Division (Health System less CFHP)**

The Health System developed the 2020 Clinical Services Division Budget to incorporate the strategies and initiatives described in the preceding sections. The Clinical Services Division will produce Operating gain of \$61.9 million and Bottom Line of \$9.8 million.

Below is a summary of the 2020 Preliminary Budget and a comparison to Projected 2019:

<b>University Health System (Less CFHP)</b>	<b>2018 Audited</b>	<b>2019 Projected</b>	<b>2020 Preliminary Budget</b>	<b>Variance from Projected</b>	<b>% Variance</b>
Dollars in Millions					
<b>Total Operating Revenue</b>	\$1,319.4	\$1,403.4	\$1,496.4	\$93.0	6.6%
<b>Total Operating Expense</b>	\$1,184.0	\$1,244.6	\$1,434.4	(\$189.8)	(15.3%)
<b>Gain/(Loss) from Operations</b>	\$135.4	\$158.8	\$61.9	(\$96.8)	(61.0%)
<b>Depreciation Expense</b>	(\$75.4)	(\$69.6)	(\$75.1)	(\$5.5)	7.8%
<b>Other Non-operating</b>	\$16.2	\$31.8	\$23.0	(\$8.8)	(27.7%)
<b>Total Non-Operating Revenue/Expense</b>	(\$59.3)	(\$37.8)	(\$52.1)	(\$14.3)	(37.7%)
<b>Bottom Line excluding Debt Service</b>	\$76.1	\$120.9	\$9.8	(\$111.1)	(91.9%)

- University Health System (less Community First Health Plan), reflects a \$61.9 million gain from operations and a bottom line gain of \$9.8 million after including depreciation and amortization of (\$75.1) million and \$23.0 million of non-operating revenue (Exhibit 1B).
- The budget includes \$70.2 million in debt service for University Health System's Capital Improvement Program (CIP). The tax rate set to fund required debt service for 2020 is \$0.039666 per \$100 valuation (Exhibit 7). Prior to 2020 the Health System received a subsidy on Build America Bonds that were issued in 2010. Those bonds are anticipated to be refunded on February 15, 2020 and no BABs Subsidy will be received after that date.
- The 2020 Health System's on-going capital budget for the clinical services division includes \$39.9 million (Exhibit 8) in items that have been prioritized and approved by the capital committee. This is an increase of \$8.2 million over 2019 due to the planned replacement of two MRIs and one CT scanner.

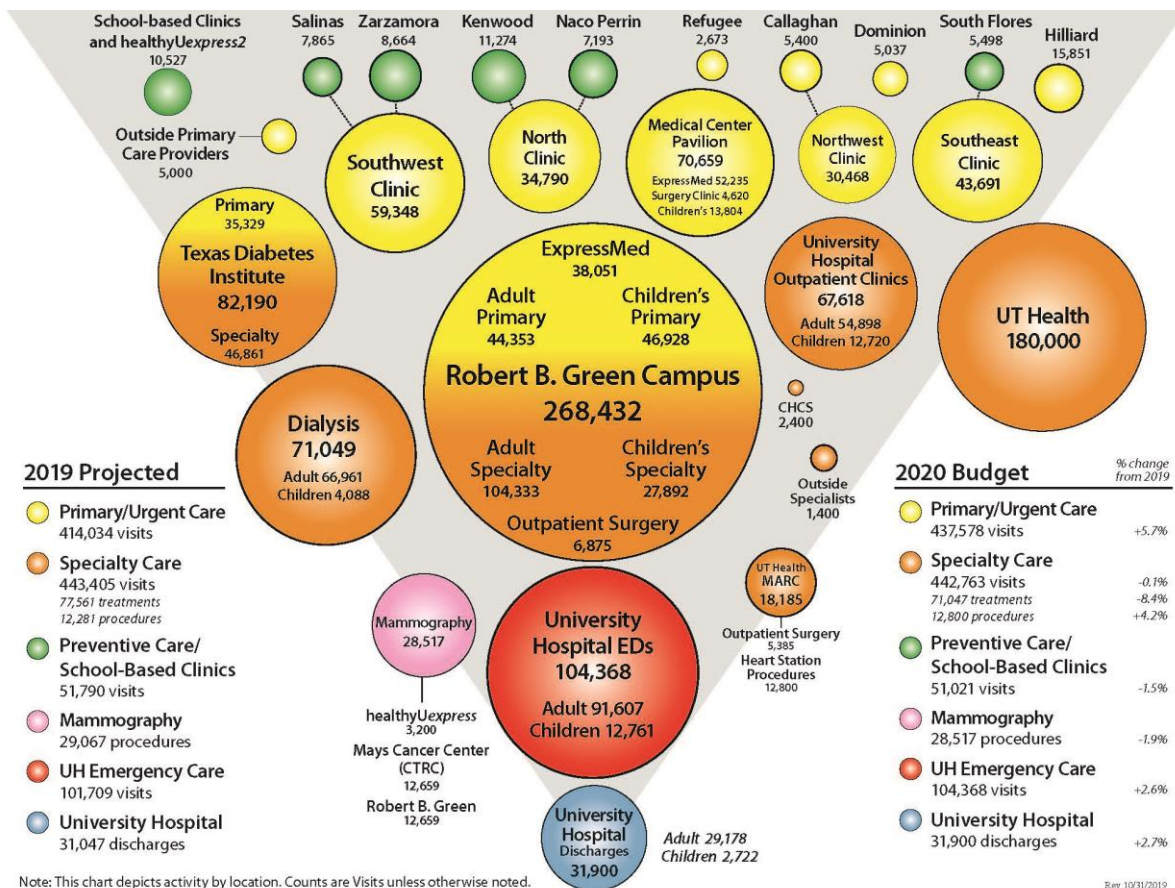
## Access (Activity) Assumptions

UHS anticipates that activity in the 2020 Budget will increase 2.7% based on adjusted discharges over levels projected for 2019. A detail of Activity in the Preliminary 2020 Budget can be found in Exhibit 2. The major factors contributing to this growth include:

- Growth in the Women’s Services, Neonates, Trauma and Transplant service lines.
- Pediatrics service lines are projected to grow by 5.5%
- Overall, 2020 budgeted outpatient volumes are slightly higher than 2019 projections due to expected increases at Express Med locations and the transplant clinic.
- Additional ambulatory clinic focus on improving patient throughput by adding additional staff resources to the existing providers in order to maximize provider efficiency.

The following chart illustrates the relative magnitude of the activity projections.

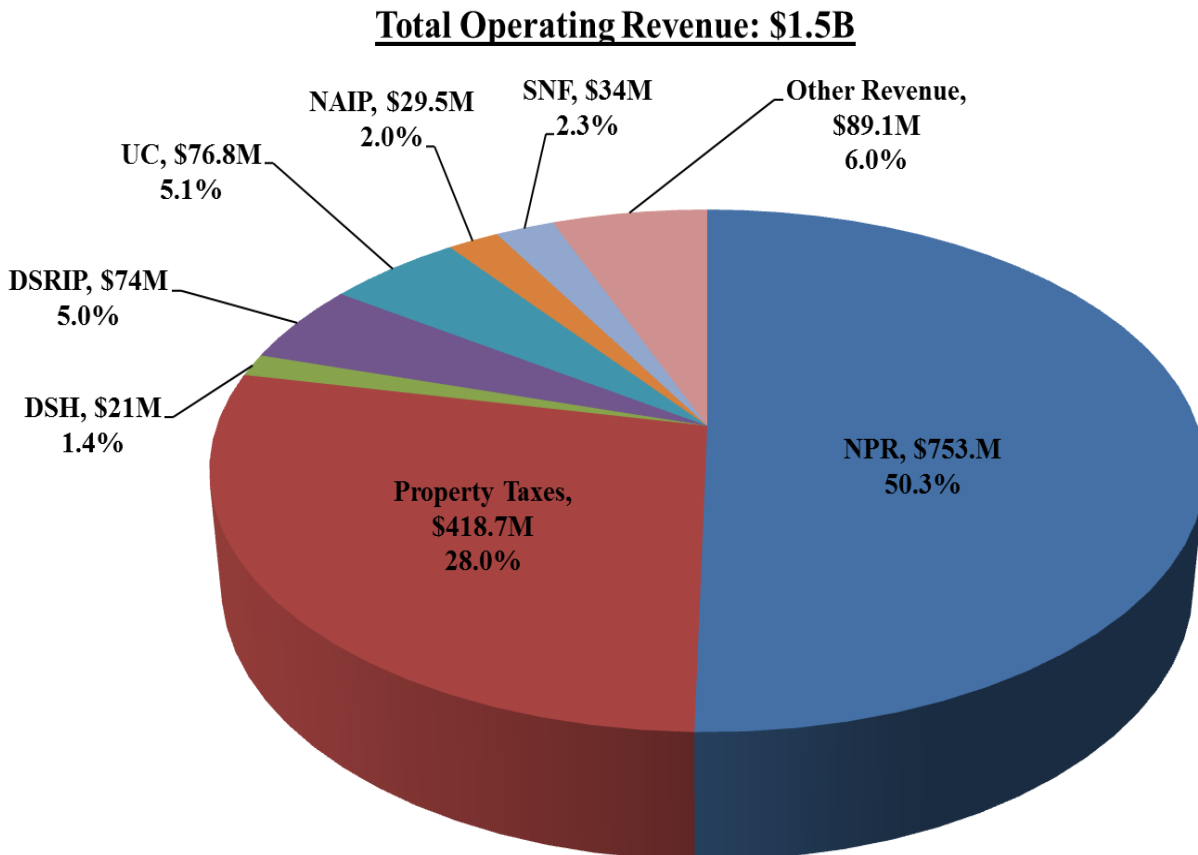
### Improving Access to Care Overall Activity to grow 2.7%



**Total Operating Revenue (TOR) –Clinical Services Division**

2020 TOR is budgeted at \$1.5 billion, which is \$93.0 million or 6.6% higher than the 2019 projection. The Medicaid 1115 waiver has been extended through September 30, 2022 or Demonstration Year (DY) 11. The statewide Uncompensated Care Pool (UC) was adjusted up from \$3.1 billion to \$3.8 billion for State Fiscal Year 2020. This change combined with changes in the distribution formula has increased the Health System’s UC funding for 2020 by \$33.7 million. DSRIP will decline by about 10% per year for DY9, 17% for DY10 and will be zero for DY11 (Oct 2021-Sept 2022).

The Waiver currently provides approximately \$151 million in supplemental funding to the Health System (UC funding of \$76.8 million and \$74.2 million in DSRIP funding). In total, the various changes to supplemental funding programs are projected to have a positive impact of \$34.9 million for the 2020 Budget. Increases in the M&O portion of property taxes of \$32 million and an increase in Net Patient Revenue of \$30 million are the other drivers of the increase in TOR for 2020. A detail of Legislative impacts is included (Exhibit 4) and a chart summarizing the changes in TOR by category and drivers that impact these changes is provided in Exhibit 3.



## **Net Patient Revenue (NPR)**

2020 NPR was budgeted at the strategic service line level using the projected activity, gross revenue and historical actual payment rate by payer. The impact of legislative changes has been estimated in light of information currently available. The following is a summary of the key NPR assumptions:

- Medicare UC Rate Change - This is the last year of the phase-in to the new methodology which uses charity write-offs instead of the Medicaid and uninsured payment shortfall. The benefit to the Health System is \$14.5 million in 2020.
- Managed Medicare follows the Traditional Medicare Rates, impact to the Health System is an additional \$3.8 million in 2020.
- Increased volume is projected to add \$8.7 million to NPR; additional Inpatient volume \$6.9 million and Outpatient volume \$1.8 million.
- Managed care contract rate improvements will increase NPR by \$6.5 million.
- Actual inpatient payment rates by service line from calendar year 2018 were utilized as the base for NPR. These rates were adjusted for known payment changes including; Commercial, State and Federal Legislative updates. Exhibit 3 details changes to the Total Operating Revenue, including NPR that illustrates impacts due to volume and rate improvements.
- Retail Pharmacy sales and the Meds-to-Beds program implemented in 2019 continues to grow. In 2020, an additional \$13.2 million in NPR is projected due to growth in the program. Meds-to-Beds allows discharged patients, regardless of insurance coverage, the opportunity fill their prescriptions prior to leaving the hospital or clinic setting.
- Transitioning to EPIC has the potential for a one time revenue shortfall. Based on other Epic implementations, the transition period may result in lost revenue. To be conservative, a negative revenue impact of \$8.8 million or less than 2% of NPR has been budgeted.

## **Property Tax for M&O**

- Property tax revenue for operations (M&O) is projected to increase \$31.6 million due to higher property values and new properties in Bexar County. Of this increase, \$8.4 million relates to taxes on new properties. Excluding CFHP, property taxes for operations as a percent of TOR decreases from 29% projected for 2019 to 28% in the 2020 Budget.

A summary of the property taxes reflected is as follows:

**2020 Budget: Analysis of Tax Rate**

Dollars in Thousands	2019 Tax Rate	2020 Tax Rate	Tax Rate Change from Existing Rate	% Change from Existing Tax Rate	2019 Estimated Taxes	2020 Estimated Taxes	Proposed Net Change From Prior Year	% Increase
Operating Rate	0.236800	<b>0.236569</b>	(0.000231)	-0.10%	\$387,100	\$418,694	\$31,594	8.16%
Debt Rate	0.039435	<b>0.039666</b>	0.000231	0.59%	\$65,966	\$70,203	\$4,237	6.42%
Total Tax Rate	0.276235	<b>0.276235</b>	-	0.00%	\$453,066	\$488,897	\$35,831	7.91%

Exhibit 7 reflects the tax rate calculation.

**Legislative and Regulatory Assumptions Impacting Operating Revenue**

The Health System utilized the best information available as of October 2019 to prepare the impact of Regulatory and Legislative actions (Exhibit 4). All of the changes reflected in this chart, which total \$9.9 million, are reflected in the Projected 2019 and Preliminary 2020 budget. The following are the key assumptions relative to legislative impacts on operating revenue:

**Federal Rate Impacts**

- In 2017 the Center for Medicare & Medicaid Services (CMS) began phasing in a new way to pay hospitals for the Medicare DSH add-on to the DRG payment. They began moving away from using Medicaid patient days to using charity care as reported on worksheet S-10 of the Medicare cost report. This shift benefits the Health System by \$14.5 million for 2020 compared to 2019.
- Federal Sequestration reductions of 2% will continue throughout 2020 and this impacts all Medicare payments.
- Medicare Quality Reductions for Value Based Purchasing, Hospital Readmissions and Hospital Acquired Complications are expected to continue at the same rate.
- Proposed CMS regulations for Medicare outpatient reimbursement will further reduce payments for clinic visits. This change will reduce Health System payments by \$1.0 million. The Health System is working with the American Hospital Association and American Essential Hospitals who are fighting this change.

- Other changes in the Medicare payment calculation primarily driven by a 2% reduction in the wage index will decrease total Medicare collections by \$2.2 million.

## **State Waiver Related Programs**

### **Uncompensated Care Funding**

- Uncompensated Care (UC) program payment amounts for 2018 and 2019 were finalized in 2019. Because of the settlement of lawsuits brought by Children’s Hospitals and the increase in the number of urban ‘Rider 38’ hospitals, there was a reduction of UC payments to large public hospitals. The Health System received a net benefit of \$37 million for 2018 and \$34 million for 2019. For 2020, the Health System is projected to receive \$79 million. There are several reasons for this increase. First, the statewide Uncompensated Care Pool will increase from the current \$3.1 billion to \$3.87 billion for 2020 through 2022. More importantly is that the allocation of the UC pool is based on charity care provided rather than Medicaid and uninsured payment shortfall.

### **DSRIP Funding**

- Texas has entered the final two years of funding for DSRIP. Texas Health and Human Services Commission (HHSC) submitted a Draft Transition Plan to CMS on October 1, 2019. The plan proposes ten milestones related to how the state will further develop its delivery system reform efforts without DSRIP funding. HHSC has begun its work on the milestones, and CMS is expected to approve the Transition Plan by March 31, 2020. The first two proposed milestones are targeted for September 2020 and include updating the state’s Value Based Purchasing Program and submitting to CMS a proposal for new programs to sustain key transformation initiatives in the first post-DSRIP year, which begins October 1, 2021.
- DSRIP payments for 2020 are budgeted at \$74.2 million. This is a slight decrease of \$4.2 million from 2019 levels due to the reduction of the DSRIP pool which is winding down to an end date of September 30, 2021. DSRIP funding will be based on quality goals related to patient outcomes compared to the historical program which was based on completion of projects.

## **Other State Programs**

- Federal regulations are in place to reduce Texas' Medicaid DSH allocation by 25%. This will have a \$6.1 million negative impact on the Health System in 2020. This reduction has been delayed before and we are working with strategic partners to advocate for the full retention of DSH funding by the Federal Government.
- The Network Access Improvement Program (NAIP), which is designated as a pass through program, is a lump sum payment that is passed through Managed Medicaid payers to participating providers. The NAIP program will provide \$29.5 million in funding for 2020 which is consistent with 2019.
- Uniform Hospital Rate Improvement Program (URHIP) is a program that improves Managed Medicaid rates for hospitals in specific Service Delivery Areas (SDAs). It is projected that this program will increase Health System Managed Medicaid payments by \$29.6 million in 2020, an \$800,000 increase over 2019. The Health System is required to IGT \$13.8 million which is recorded as a purchased services expense to fund this program. The net impact of this program is \$15.8 million.
- A new Medicaid Graduate Medical Education (GME) reimbursement program started in 2019. This program helps to offset the unreimbursed expenses related to medical residents. The Health System's net benefit amount of \$7.7 million received in 2019 is projected to be the same for 2020.
- The Nursing Home Quality Incentive Payment Program (QIPP) is projected to have a \$690,000 positive impact on the Health System's 2020 Budget. The Health System owns the licenses for four Skilled Nursing Facilities (SNF's) in our operating area.
- Tobacco Settlement funding is budgeted at \$8.2 million which is consistent with 2019 funding.

## **Transition from BCCS to LPPF**

- New legislation was passed in May of 2019 creating the Bexar County Hospital District Health Care Provider Participation Program. These programs are commonly referred to as Local Provider Participation Fees or LPPF's. The Bexar County Hospital District LPPF will replace the Bexar County Collaborative Services (BCCS) community benefit model which has been in place since 2006. The BCCS funding mechanism has been challenged by the Federal Centers for Medicare and Medicaid Services (CMS) for the past several years. The LPPF is the new method preferred by CMS.

- The elimination of the “community benefit” model by CMS for private hospital IGTs results in a \$25M negative impact on operating expenses. Under the BCCS model the Health System saved on the difference between the cost of the physician services and IGT provided for the Bexar market.
- The amounts received by UT, for physician services, are not impacted by this change.

**Other Revenue**

<b>Other Revenue</b>			
(Dollars in Millions)	<b>2019 Projected</b>	<b>2020 Preliminary Budget</b>	<b>% Var</b>
<b>Other Revenue</b>	\$73.7	\$80.9	
Change		\$7.2	9.8%

Other Revenue of \$73.7 million includes reimbursement for residents that work in non-Health System sites, Grants, Foundation revenue, cafeteria revenue for visitors and staff, catering revenue, sundry revenue from parking, disposal of assets, clinical research studies, UT leased space at UH and TDI, pharmacy rebates, vendor rebates, medical records copies, lease payments, reimbursement under the 1115 waiver for anchor administrative costs, and other miscellaneous items.

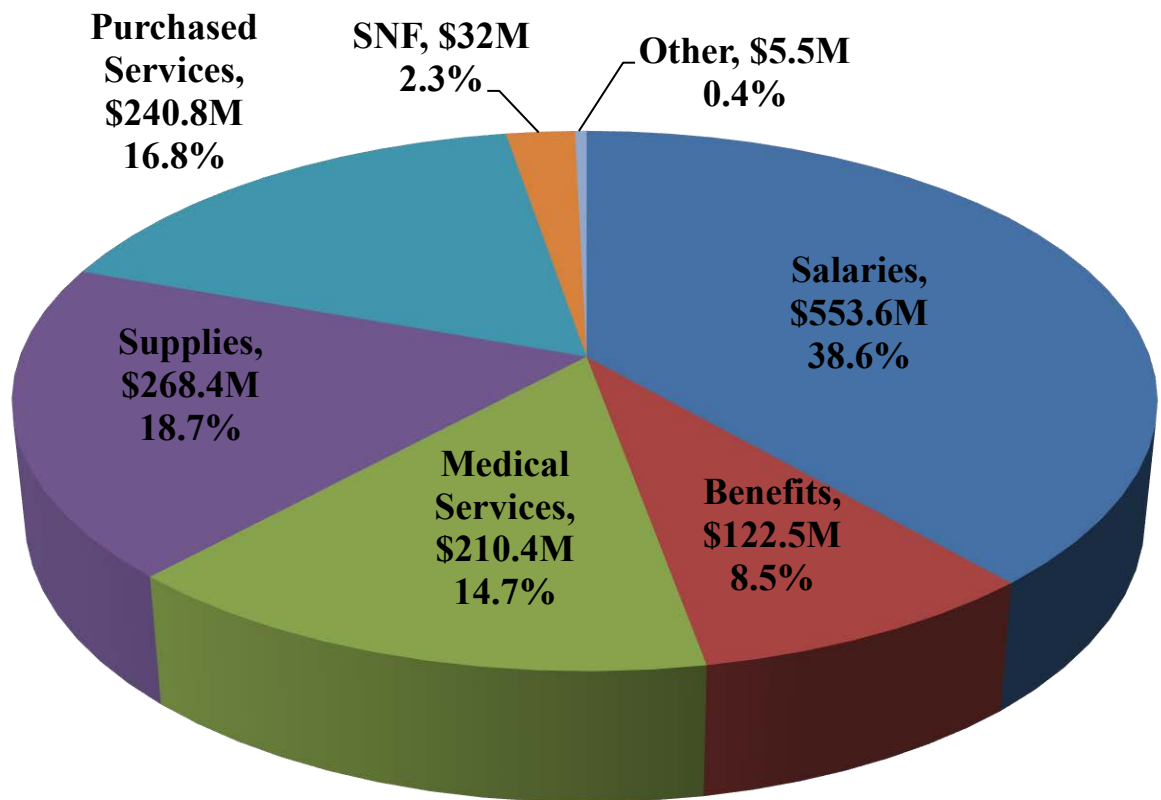
- The \$7.2 million increase for 2020 is the net impact of multiple revenue changes. Primarily \$4 million in Foundation Revenue for the capital campaign related to the new Women’s and Children’s hospital.



## Total Operating Expense (TOE)

TOE is budgeted at \$1.43 billion which is a \$190 million or 15.3% increase over the 2019 projected total. For the Clinical Services Division (UHS less CFHP) salaries and benefits make up 47.1%. Medical Services, Purchased Services, and Supplies make up 14.7%, 16.8%, and 18.7%, respectively. A chart summarizing the changes in TOE by category and drivers that impact the changes is provided in Exhibit 5.

### Total Operating Expenses: \$1.43B



**Salaries**

Salaries			
(Dollars in Millions)	2019 Projected	2020 Preliminary Budget	% Var
<b>Salaries</b>	\$500.9	\$553.6	
Epic Impact		(\$18.3)	
Merit Increases at 2.5%		(\$12.5)	
Retail Pharmacy Growth		(\$8.1)	
Volume Impact		(\$6.3)	
Market Adjustment		(\$5.0)	
New Fixed		(\$2.5)	
Total Change		(\$52.7)	(10.5%)

Salary cost of \$553.6 million is \$52.7 million or 10.5% higher than 2019 projected.

- The staffing budget was built in EPSI (the Health System’s budgeting and financial reporting system) using historical and benchmark productivity standards at the cost center and job class level. The salary budget was built based on the departmental activity budgets then multiplied by the productivity targets for each job class and the hourly rates.
- The budget reflects a 2.5% or \$12.5 million merit increase and a \$5.0 million salary investment for competitive pay adjustments in 2020.
- The Epic project, discussed in detail at the October 29, 2019 Board of Manager meeting will impact salary expense by an additional \$18.3 million in 2020.
- Another major project, the expansion of Meds-to-Beds and the retail pharmacy program, will increase the salary expense by \$8.1 million in 2020.
- The combination of increased activity and improved efficiency will increase salary expense by a net impact of \$6.3 million.
- Additional fixed positions to support facilities maintenance, grant management, billing follow-up, and other miscellaneous support functions will increase salary expense by \$2.5 million in 2020.
- A total of 8,612 FTEs are budgeted for 2020, which is an increase of 612 FTEs compared to the 2019 run rate. Part of the increase is due to budgeting of positions vacant for a period during 2019, totaling 129 FTEs. Other large changes are the impact of EPIC 175 FTEs, retail pharmacy program 104 FTEs, transplant programs 45 FTEs, volume increases in Ambulatory 58 FTEs, and Hospital volume increase 54 FTEs, the total additional budgeted FTEs total a 7.6% increase. The FTEs for Pharmacy and additional volume will be offset by additional revenues, the budgeted vacancy replacement positions are offset by lower contract agency and overtime expense. Detail of FTE increases can be found in **Exhibit 6**.

## Employee Benefits

<b>Benefits</b>			
(Dollars in Millions)	<b>2019 Projected</b>	<b>2020 Preliminary Budget</b>	<b>% Var</b>
<b>Benefits</b>	\$105.7	\$122.5	
Pension: Mortality Table Update		(\$7.0)	
OPEB: GASB Update		(\$6.4)	
Employee Benefits		(\$3.4)	
<b>Total Change</b>		<b>(\$16.9)</b>	<b>(16.0%)</b>

Benefits of \$122.5 million are \$16.9 million or 16% higher than 2019 projected.

- Increased pension plan liabilities will add \$7.0 million in expense due to a change in the mortality table.
- The GASB accounting standard update applied to the OPEB plan will add \$6.4 million in additional benefit expense.
- Social Security and other employee benefits are directly related to the increase in salary expense.

## Medical Services

<b>Medical Services</b>			
(Dollars in Millions)	<b>2019 Projected</b>	<b>2020 Preliminary Budget</b>	<b>% Var</b>
<b>Medical Services</b>	\$171.1	\$210.4	
BCCS to LPPF Impact		(\$25.2)	
UT Master Services Increase		(\$12.0)	
Increased Carelink Services		(\$1.4)	
UMA Contracts with UT		(\$0.6)	
<b>Total Change</b>		<b>(\$39.2)</b>	<b>(22.9%)</b>

Medical Services of \$210.4 million reflects an increase of \$39.2 million or 22.9% from the projected 2019 amount. The major increase in Medical Services is related to the transition to the LPPF funding mechanism from the current BCCS charity expansion program. This change will increase the Health System's expense by \$25.2 million. The total budgeted for the UT Master Services Agreement contract is \$148.6 million which is an increase of \$12 million from 2019 due to physician salary increases and additional coverage. An expected increase in Carelink utilization impacts Medical Services by \$1.4 million and UMA is

increasing \$0.6 million in contracts with UT Health OBGYN providers to expand availability of service.

**Purchased Services**

Purchased Services			
(Dollars in Millions)	2019 Projected	2020 Preliminary Budget	% Var
<b>Purchased Services</b>	\$214.2	\$274.0	
EPIC Project		(\$37.7)	
Planning, Design & Construction		(\$10.4)	
Maintenance Contracts		(\$5.0)	
Transplant Programs		(\$2.0)	
Community Support		(\$1.5)	
Net Other Purchased Services		(\$3.2)	
<b>Total Change</b>		(\$59.8)	(27.9%)

Purchased Services are budgeted overall at \$274.0 million, a \$59.8 million or a 27.9% increase from the 2019 projection. Contributing to this change are the following:

- Epic EMR conversion costs for 2020 are estimated to increase \$37.7 million.
- Planning, Design and Construction are budgeted with a \$10.4 million dollar increase for Ambulatory repairs, roof replacement, concierge services related to the Women’s and Children’s construction, and other non-capital projects.
- Maintenance contracts expense increase of \$5.0 million due to additional agreements with third parties to improve maintenance of aged facilities and infrastructure, cleaning service for regional ambulatory clinics, and to enhance IT data security needs.
- Transplant Programs increased by \$2.0 million in 2020 for organ acquisition charges related to the continued growth in kidney, liver, and lung programs.
- Support for community partners has increased by \$1.5 million to ensure improved service delivery with Haven for Hope, Crosspoint, and CHCS.
- Other Purchased Service increases are due to expansion of services for marketing, pharmacy safety controls, ambulatory clinic environmental services, and training for a new human resources technology to improve efficiency.

## Supplies

Supplies			
(Dollars in Millions)	2019 Projected	2020 Preliminary Budget	% Var
<b>Supplies</b>	\$247.4	\$268.4	
Drugs: Inpatient Pharmacy		(\$8.5)	
Drugs: Retail Pharmacy		(\$4.5)	
Medical Supplies: 2.7% Volume		(\$3.8)	
Medical Supplies: HVAE & OR 34/36		(\$3.8)	
Non-Medical Supplies		(\$0.4)	
Total Change		(\$21.0)	(8.5%)

In 2020, supplies are budgeted at \$268.4 million which is a \$21.0 million or 8.5% increase over projected 2019. Major impacts to the increase in supply cost are due to the following:

- Inpatient pharmaceutical expenses are planned to increase by \$8.5 million due to the 2.7% increase in volume, application of the industry standard 8% CPI increase, and allocation of a high-utilizer contingency expense.
- Expansion of the Meds-to-Beds program and retail pharmacy business will increase pharmaceutical expense by \$4.5 million in 2020. Patient revenues will cover this expense and the program delivers an improved customer experience.
- The budgeted volume increase of 2.7% will add \$3.8 million in variable medical supplies for inpatient and procedural service areas.
- The planned opening of OR's 34/36 in late 2019 and the Heart, Vascular, and Advanced Endoscopy suites will increase supply expense related to additional high-end procedures by \$3.8 million.
- Non-medical supply increase of \$0.4 million is planned to support building and infrastructure maintenance needs.

## Other Expenses

Other Expense			
(Dollars in Millions)	2019 Projected	2020 Preliminary Budget	% Var
<b>Other Expenses</b>	\$5.2	\$5.5	
Bexar County Appraisal District		(\$0.4)	
CHCS Match		\$0.1	
<b>Total Change</b>		(\$0.3)	(5.8%)

Other Expenses are budgeted at \$5.5 million and reflect a 5.1% increase from projected 2019.

- Center for Health Care Services (CHCS) and Alamo Area Council of Governments (AACOG) expense is budgeted at the UHS sponsorship obligation level.

## Non-Operating Revenue/Expense Assumptions

Depreciation & Amortization			
(Dollars in Millions)	2019 Projected	2020 Preliminary Budget	% Var
<b>Depreciation &amp; Amortization</b>	\$69.6	\$75.1	
Depreciation: Epic Go-Live May 9, 2020		(\$5.2)	
Net impact of new assets		(\$0.3)	
<b>Total Change</b>		(\$5.5)	(7.8%)

Depreciation is budgeted at \$75.1 million and is up \$5.5 million or 7.8% from the 2019 projected amount of \$69.6 million. The increase is related to the impact of Epic depreciation beginning at go-live, May 9, 2020, and new assets placed in service in late 2019.

## Debt Service Requirement

Debt payments by the Health System for 2020 are estimated at \$70.2 million. The 2020 debt tax rate is \$0.039666 per \$100 valuation. This rate is \$0.000231 or 0.59% higher than the existing debt tax rate of \$0.039435. The required debt payment for 2020 increased \$4.2 million from \$66.0 million to \$70.2 million.

- A Debt Service tax levy of \$70.2 million to cover payments due in 2020 was approved by Commissioners Court on September 10, 2019.

<b>Debt Service</b>				
Dollars in millions	2019 Projected	2020 Preliminary Budget	Variance from Projected	% Variance
<b>Debt Service I&amp;S Tax Funds</b>	\$ 66.0	\$ 70.2	\$ 4.2	6.4%
<b>Debt Service Payment</b>	\$ 66.0	\$ 70.2	\$ 4.2	6.4%
<b>Net Debt Service Revenue</b>	\$ -	\$ -	\$ -	0.0%

### **Ongoing Capital Requirements**

The capital budget for 2020 is recommended to be set at \$39.9 million. In prioritizing the capital needs for 2020, the Capital Committee met and focused on items that were considered as “Essential: Cannot Function Without”, “Important: Necessary for Improvement”, and “Proactive: Necessary to Avoid Problems”.

A summary of the capital by category used to prioritize projects is as follows:

<b>2020 Ongoing Capital Requirements</b>				
Priority	Mandated (Regulatory Safety & Required Maintenance)	Replacement	Strategic (New Service / Expansion)	Grand Total
Essential: Cannot Function Without	\$ 2,584,949	\$ 14,685,031	\$ 4,607,000	\$ 21,876,979
Important: Necessary For Improvement	\$ 5,131,168	\$ 5,405,836	\$ 4,745,316	\$ 15,282,321
Proactive: Necessary To Avoid Problems	\$ 32,020	\$ 2,693,030	\$ 14,000	\$ 2,739,050
<b>Total Clinical Services</b>	<b>\$ 7,748,137</b>	<b>\$ 22,783,897</b>	<b>\$ 9,366,316</b>	<b>\$ 39,898,350</b>

A detailed listing of capital requests can be found in **Exhibit 8**.

## **Community First Health Plans, Inc.'s Preliminary Operating and Capital Budget for Fiscal Year 2020**

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### **Executive Summary:**

Community First Health Plans, Inc.'s (CFHP) preliminary 2020 Operating Budget reflects Net Income of \$7,260,000 and Underwriting Income (excludes Investment Income and Premium Deficiency Reserve amortization) of \$3,360,000. Appropriate resources have been incorporated into the preliminary 2020 Budget to support the following strategic priorities:

- 1) Increase market share in STAR, STAR Kids, and CHIP lines of business.
- 2) Finalize stabilization of the QNXT core operating system and integration of ancillary systems (JIVA authorization system, Power BI analytics system, Enterprise Data Warehouse, etc).
- 3) Continue development and implementation of advanced alternative payment models and expansion of the provider incentive program to the STAR Kids line of business.
- 4) Enhance and expand coordination and integration with UHS in support of ongoing evolution towards an industry leading integrated delivery and financing system.
- 5) Enhance and expand advanced financial and medical economic analytics, including predictive modeling and risk score optimization.
- 6) Continue to enhance member satisfaction, provider satisfaction, and medical quality outcome measures.
- 7) Enhance and expand advanced integrated medical management organization structures and methodologies.

Note: While detailed planning is in process for the presumed award of a STAR+Plus contract effective September 2020, the CFHP preliminary 2020 budget does not incorporate any membership, revenue, medical expense, or administrative expense associated with the STAR+Plus line of business.



A summary of the preliminary CFHP 2020 operating and capital budgets, which were reviewed and approved by the CFHP Board of Directors on October 25, 2019, follows:

## 2020 Budget

### ALL LOB

	2018 Actual	2019 Outlook	2020 Budget	\$ Variance 2020 vs 2019	% Variance 2020 vs 2019
<b>Member Months</b>	1,871,589	1,851,444	1,821,745	(29,699)	-1.6%
<b>Revenue</b>					
Premium Revenue	\$ 522,339,785	\$ 555,921,921	\$ 567,831,885	\$ 11,909,964	2.1%
Experience Rebate	-	(4,573)	-	4,573	-100.0%
NAIP	19,988,780	19,978,430	19,936,295	(42,135)	-0.2%
<b>Total Revenue</b>	542,328,566	575,895,778	587,768,180	11,872,402	2.1%
<b>Medical Expense</b>					
Medical Expense	481,094,426	494,731,673	498,724,827	3,993,154	0.8%
NAIP	19,581,552	19,578,083	19,545,387	(32,696)	-0.2%
<b>Total Medical Expense</b>	500,675,978	514,309,756	518,270,214	3,960,458	0.8%
<b>Total Administrative Expense</b>	62,649,982	59,944,649	66,137,966	6,193,317	10.3%
<b>Underwriting Income (Loss)</b>	<b>(20,997,394)</b>	<b>1,641,373</b>	<b>3,360,000</b>	1,718,626	104.7%
Investment Income	2,512,707	3,172,529	2,700,000	(472,529)	-14.9%
Premium Deficiency Reserve	4,285,934	565,000	1,200,000	635,000	112.4%
<b>Net Income (Loss)</b>	<b>\$ (14,198,753)</b>	<b>\$ 5,378,902</b>	<b>\$ 7,260,000</b>	\$ 1,881,097	35.0%

<b>Admin Ratio</b>	12.0%	10.8%	11.6%
<b>MLR</b>	92.1%	89.0%	87.8%
<b>FTEs</b>	415	395	414

Capital Investments - IS \$ 285,000

## Membership:

Overall membership is budgeted to decline slightly, consistent with recent actual enrollment experience and HHSC projections. Total 2020 CFHP membership is projected to be approximately 152,000 vs approximately 154,000 in 2019.

## **Revenue:**

Total Revenue is budgeted at \$587.8 million, an increase of 2.1% over the 2019 Outlook. 2020 Premiums are negatively impacted by the projected decrease in membership, offset by HHSC State Fiscal Year 2020 rate increases that went into effect September 2019 and continue through August 2020. No additional rate increases were assumed for State Fiscal Year 2021 (which commences September 2020).

2020 NAIP revenues were developed based on HHSC actual formulas.

## **Medical Expense:**

Total Medical Expense is budgeted at \$498.7 million, an increase of .8% over the 2019 Outlook, and represents a Medical Loss Ratio of 87.8%. The 2020 Medical Expense development incorporates a year-over-year medical expense trend of 4.5%. The 2020 Medical Expense was developed by line of business based on underlying average unit cost and utilization, separated into Inpatient, Outpatient, Physician, Pharmacy, and Ancillary.

2020 NAIP expenses were developed based on HHSC actual formulas.

## **Administrative Expense:**

Total Administrative Expense is budgeted at \$66.1 million, an increase of 10.3% over the 2019 Outlook, and represents a fully loaded Admin Ratio of 11.6%.

The 2020 Administrative Expense budget incorporates 414 FTEs, an increase of 19 over the 2019 Outlook (Finance +2, Member Services +2, Service Coordination +1, STAR Kids +2, Population Health Management +2, Network Management +4, Special Investigations Unit +1, Information Systems +3, and Business Development +2).

2020 Salaries reflect a merit increase of 2.0% and a vacancy factor of 5.0%.

Significant changes in the 2020 Administrative Expense budget vs the 2019 Outlook include:

- 1) Salaries increased approximately \$1.8 million due to: a) additional FTEs, b) 2020 merit increase, c) catch-up in the latter half of 2019 on past due performance reviews and merit increases, and d) hiring in the latter half of 2019 of approved positions that had been on hold.
- 2) Employee Benefits increased approximately \$1.9 million due primarily to post-employment benefit allocations from UHS.
- 3) Marketing (market outreach, advertising, agency, sponsorships, value adds, etc) increased approximately \$1.4 million due to restrictions on 2019 spending and enhanced marketing strategies for 2020.
- 4) Computer licensing increased approximately \$2.5 million due to QNXT and other systems go-live production status.
- 5) Minor Equipment and Premise Repair and Maintenance increased approximately \$1.0 million due to adoption of the UHS capitalization policy.
- 6) Provider Incentives increased approximately \$1.7 million due to expansion of the provider incentive program to the STAR Kids line of business.
- 7) Postage and printing increased approximately \$740,000 due to enhanced marketing and outreach initiatives.
- 8) Consulting decreased approximately (\$5.0 million) due to completion of QNXT implementation and termination of the implementation consultants.
- 9) Temporary Labor decreased approximately (\$1.4 million) due to reduced usage of temps related to claims processing and QNXT implementation.

HHSC utilizes defined formulas in their rate development process to determine what portion of premium is allocable for administrative expense spending. The CFHP 2020 administrative expense budget of \$66.1 million is compliant with these regulatory formulas.

### **Investment Income:**

Investment Income for 2020 is budgeted at \$2.7 million, and is based on projected investable assets and yields consistent with the CFHP investment policy.

### **Premium Deficiency Reserve:**

The 2020 Premium Deficiency Reserve (PDR) was determined by the external certifying actuary (Milliman) and pertains to the Commercial line of business. A PDR of \$1.2 million will be recorded as of yearend 2019 and will be amortized from January 2020 through August 2020 (conclusion of the ERS commercial contract period). No additional Premium Deficiency Reserves were incorporated into the 2020 budget related to State Fiscal Year 2021 (commences September 2020).

### **Capital:**

The CFHP 2020 Capital Budget is \$285,000, consisting entirely of IS investments. CFHP conforms to the UHS capitalization policy threshold of \$5,000.

# Exhibits

Exhibit 1A	Preliminary 2020 Consolidated Statement of Revenues and Expenses
Exhibit 1B	Preliminary 2020 UHS less CFHP Statement of Revenues and Expenses
Exhibit 1C	Preliminary 2020 CFHP Statement of Revenues and Expenses
Exhibit 2	Preliminary 2020 Activity and Notes
Exhibit 3	Preliminary 2020 Budget, Changes to Total Operating Revenue
Exhibit 4	Preliminary 2020 Budget, Legislative Changes
Exhibit 5	Preliminary 2020 Budget, Changes to Total Operating Expense
Exhibit 6	Preliminary 2020 Budget, FTE Changes
Exhibit 7	Preliminary 2020 Budget, Analysis of Tax Rate
Exhibit 8	Preliminary 2020 Budget, Detail of Capital Request, UHS less CFHP
Exhibit 9	Annual Report on Learning and Development