Bexar County Hospital District d/b/a University Health's Operating, Debt Service and Capital Budgets for Fiscal Year 2021

Bexar County Commissioners Court

Tuesday, December 1, 2020
Double-Height Courtroom, Suite 2.01
Bexar County Courthouse
100 Dolorosa
San Antonio, Texas 78205-3038

George B. Hernández, Jr., President/CEO

University Health's
Preliminary Operating, Debt Service, and Capital Budgets
For Fiscal Year 2021

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University Health
Preliminary 2021 Budget Summary

Strategic Vision

University Health 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 2021 Budget was developed with this strategic vision in mind. University Health is consistently recognized as a leader in advanced treatment options, new technologies and clinical research. University Health 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. University Hospital continues to be ranked #1 by local consumers when asked which hospital has the best image and reputation. This year, for the first time, University Hospital is also the most preferred hospital in the community for an inpatient stay (NRC Health Market Insights 2020 Study).

Triple-Aim *Plus*

The Triple-Aim *Plus* concept continues to be the guiding principles of how University Health executes its strategy to serve the community. University Health 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 2021 Budget

- The COVID-19 pandemic had a huge impact on 2020 operations, new procedures were implemented in many areas related to screening, testing, and treatment of patients. A large decrease in patient activity also occurred impacting corresponding revenues and expenses. The 2021 budget assumes activity levels will return to 2019 levels which will increase patient revenues and expenses. Due to the emergency declaration, revenue related to many of the Supplemental Funding programs increased in 2020. The 2021 budget assumes the increases related to the pandemic will end in early 2021. There are expenses related to COVID-19 testing, Personal Protective Equipment (PPE), staff screeners and vaccine purchases built into the 2021 budget.

- Optimization of the Epic system will improve many processes during 2021 and beyond. All of the Triple Aim *Plus* goals should improve due to the implementation of the Epic system.

- DSRIP funding is scheduled to end September 30, 2021, reducing supplemental funding by $17.1 million.

- Continued growth of the Pharmacy Meds-to-Beds and retail pharmacy services, as well as the beginning of a Specialty Pharmacy program, will increase both revenue and expenses throughout 2021.

- Resource investment to improve and upgrade existing buildings, equipment, and software will be a focus in 2021, as University Health continues pursuit of being the preferred health system in the community.

Capital Budget Projects

Funded Projects that will impact operations and the 2021 Budget:

- The Women's and Children's Hospital project will become more visible in 2021, the vertical construction of the building's structure will be completed and the dry-in will begin. Two tower cranes are currently in place and the majority of the excavation and ground work has been completed.

- The Advanced Diagnostic Center (ADC), previously called the Heart, Vascular, and Advanced Endoscopy Area (HVE), is planned to open in December 2020. This $56 million project will increase University Health's capacity to perform advanced cardiac, vascular and endoscopy procedures in a state of the art facility.

- University Health went live with the EPIC electronic health record (EHR) on July 11, 2020. The expense related to building the Epic system, interfacing other systems, and hardware upgrades has been capitalized and will be depreciated over the next 15 years. The 2021 budget takes into consideration the ongoing operating expense of the system. Many operational and quality improvements will occur as staff, physicians, and patients optimize use of the tool.

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
        - Children's Health and neonatal care
        - Women's Health Services including perinatal
        - Trauma
        - Transplant
        - 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

2021 Consolidated Budget Summary

The table below is a summary of the 2021 Consolidated Budget and a comparison to Projected 2020.

Consolidated (Dollars in Millions)	**2019 Audited**	**2020 Projected**	**2021 Preliminary Budget**	**Variance from Projected**	**% Variance**
Total Operating Revenue	$2,006.7	$2,187.6	$2,207.6	$20.0	0.9%
Total Operating Expense	$1,847.6	$1,985.9	$2,105.3	$119.4	6.0%
Operating Gain	$159.1	$201.7	$102.3	($99.5)	(49.3%)
Nonoperating Revenue/(Expense):					
Depreciation/Amortization	($70.4)	($69.8)	($90.7)	($20.9)	(30.0%)
Other Non-operating	$33.1	$17.7	$6.9	($10.8)	(61.1%)
Premium Deficiency Reserve	$0.2	$0.2	$1.4	$1.2	804.0%
Total Nonoperating Revenue	($37.1)	($51.9)	($82.4)	($30.5)	(58.8%)
Bottom Line excluding Debt Service	**$122.0**	**$149.8**	**$19.9**	**($130.0)**	**(86.8%)**

Debt Service Revenue	$66.5	$70.2	$73.3	$3.1	4.4%
Debt Service	$66.5	$70.2	$73.3	$3.1	4.4%
Net Debt Service	$0.0	$0.0	$0.0	$0.0	0.0%

Capital Requirements	**$33.5**	**$44.1**	**$44.4**	**($0.3)**	**(0.7%)**

- University Health's Consolidated Preliminary 2021 Budget (Exhibit 1A) reflects a gain from operations of $102.3 million and a bottom line gain of $19.9 million after including non-operating income/(expense) of ($82.4) million.

- University Health (less Community First Health Plan), the Clinical Services Division (Exhibit 1B) reflects a $92.3 million gain from operations and a bottom line gain of $8.4 million after including depreciation expense of $89.2 million and $5.3 million of non-operating revenue.

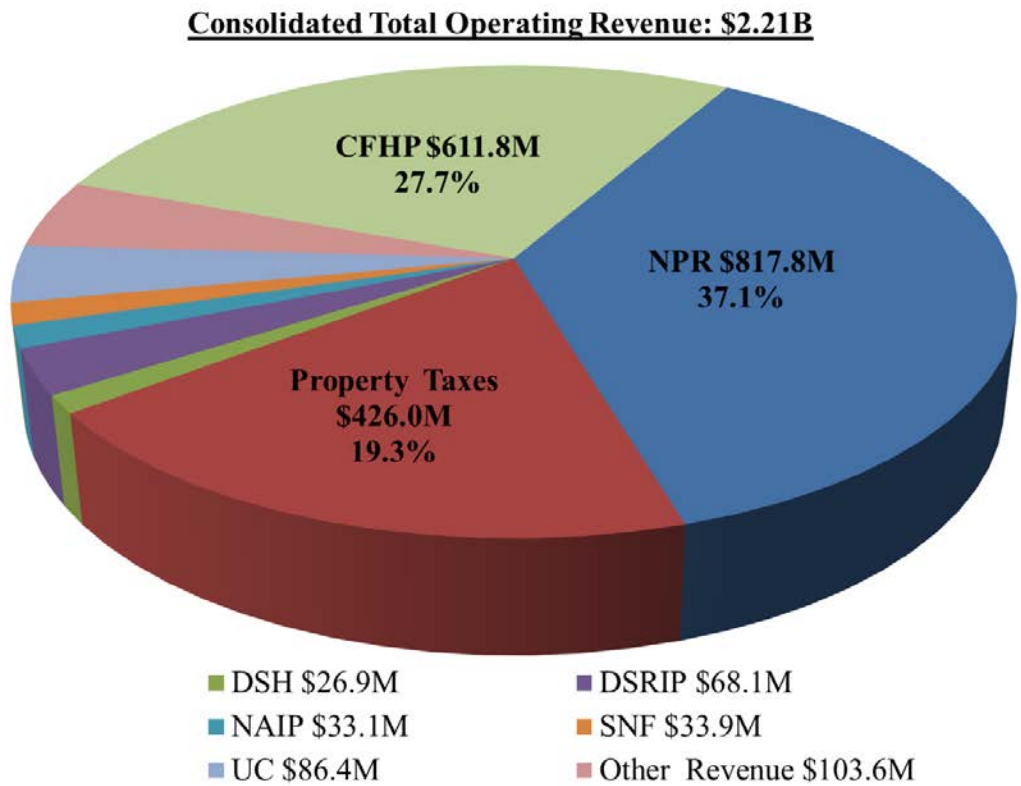
- CFHP (Exhibit 1C) reflects a gain from operations of $9.9 million and a bottom line gain of $11.5 million after including depreciation expense of $1.5 million, premium deficiency reserve of $1.4 million and non-operating income of $1.6 million.

- The budget includes $73.3 million in debt service for bonds used to fund University Health's Capital Improvement Program (CIP). The tax rate set to fund the required debt service for 2021 is $0.039482 per $100 valuation (Exhibit 7). Several of the bond issuances used in the original CIP were taxable Build America Bonds (BABs) and had an annual subsidy, the last BABs bonds were issued in 2010. The 2010 BABs bonds were refunded on

February 15, 2020 and no BABs Subsidy will be received going forward.

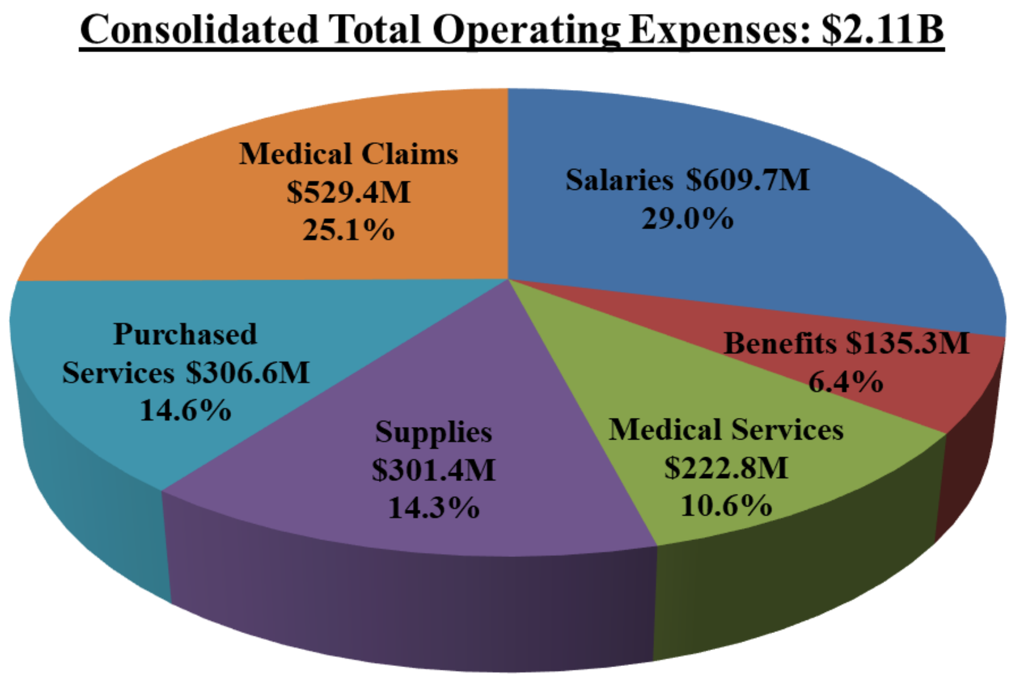
- University Health's 2021 on-going capital budget for the clinical services includes $44.2 million (Exhibit 8) in items that have been prioritized and approved by the capital committee. These capital items will be funded by cash flow from operations. In addition, capital requests for CFHP are $202,000.

A summary of consolidated sources of funding is as follows:



On a consolidated basis, Total Operating Revenue is $2.21 billion. Net Patient Revenue (NPR), or collections from third party payers and patients, represents the largest percent at 37.1%. Premium revenue from CFHP follows at 27.7%. Property taxes account for 19.3% of total operating revenue and DSH, DSRIP, NAIP, and UC (Supplemental Funding) account for 9.7%.

A summary of Consolidated Total Operating Expense is as follows:



On a consolidated basis, Total Operating Expense is $2.11 billion. Salaries and benefits represent the largest percentage at 35.4% followed by Medical Claims for CFHP at 25.1%, Purchased Services at 14.6%, Supplies are 14.3%, and Medical Services are at 10.6%.

2021 Clinical Services Division (University Health less CFHP):

University Health developed the 2021 Clinical Services Division Budget to incorporate the strategies and initiatives described in the preceding sections. The Clinical Services Division Preliminary 2021 Budget will produce an operating gain of $92.3 million and bottom line of $8.4 million.

Below is a summary of the 2021 Preliminary Budget and a comparison to Projected 2020:

University Health (Less CFHP)	**2019 Audited**	**2020 Projected**	**2021 Preliminary Budget**	**Variance from Projected**	**% Variance**
Dollars in Millions					
Total Operating Revenue	$1,428.5	$1,568.9	$1,592.7	$23.8	1.5%
Total Operating Expense	$1,267.2	$1,418.7	$1,500.4	$81.7	5.8%
Gain/(Loss) from Operations	$161.3	$150.2	$92.3	($57.9)	(38.6%)
Depreciation Expense	($69.0)	($68.1)	($89.2)	($21.1)	31.0%
Other Non-operating	$30.0	$16.3	$5.3	($11.0)	(67.6%)
Total Non-Operating Revenue/Expense	($39.0)	($51.8)	($83.9)	($32.1)	(62.0%)
Bottom Line excluding Debt Service	**$122.3**	**$98.5**	**$8.4**	**($90.1)**	**(91.5%)**
Debt Service Revenue	$66.5	$70.2	$73.3	$3.1	4.4%
Debt Service	$66.5	$70.2	$73.3	$3.1	4.4%
Net Debt Service	$0.0	$0.0	$0.0	$0.0	0.0%
Capital Requirements	**$32.9**	**$43.8**	**$44.2**	**($0.4)**	**(0.9%)**

- University Health (less Community First Health Plan), reflects a $92.3 million gain from operations and a bottom line gain of $8.4 million after including depreciation and amortization of ($89.2) million and $5.3 million of non-operating revenue (Exhibit 1B).

- The budget includes $73.3 million in debt service for University Health's Capital Improvement Program (CIP). The tax rate set to fund required debt service for 2021 is $0.039482 per $100 valuation (Exhibit 7). Prior to 2021, University Health received a subsidy on Build America Bonds (BABs) that were issued in 2009 and 2010. The final BABs issuance from 2010 was refunded on February 15, 2020. No additional BABs subsidy will be received going forward.

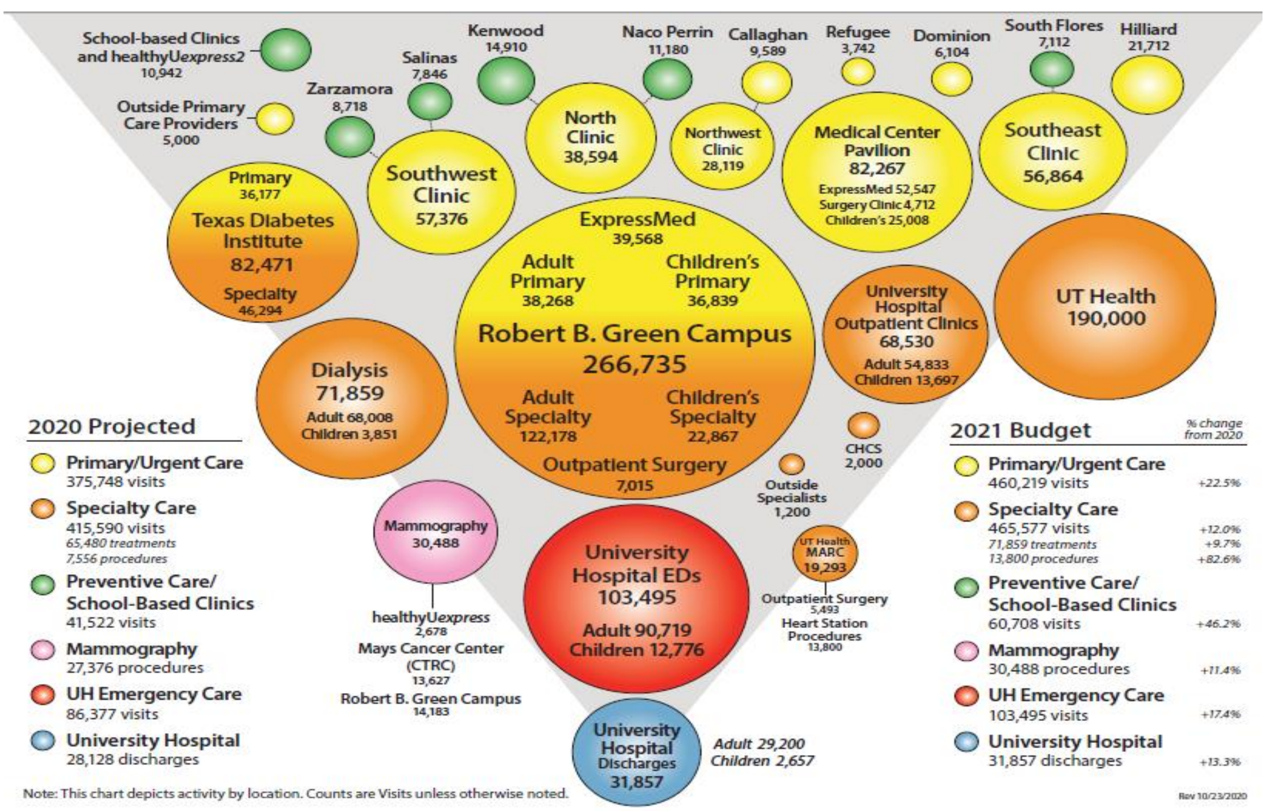
- The 2021 capital budget for University Health less CFHP includes $44.2 million (Exhibit 8) in items that have been prioritized and approved by the capital committee. The majority of the capital budget request is comprised of replacement equipment and upgrades at $32.0 million, $9.2 million for new services, and $3.0 million for mandated regulatory or safety items. Several large capital projects included in the 2021 capital budget include $5.7 million for replacing Radiology equipment still on the XP platform, $5.0 million for fire alarm system replacement in the Horizon and Rio Towers, and $2.3 million for a new surgical robot.

Clinical Activity (Access) Assumptions:

The Preliminary 2021 budget projects inpatient activity will increase by 13.3% and outpatient activity will increase by 23.6% compared to the volumes projected for 2020. The major assumptions for clinical volumes revolves around the COVID-19 pandemic. For budgeting purposes, the assumption is that the pandemic will ease in early 2021, as vaccines become available and demand for services will return to historical levels. There should be additional volume related to a backlog of elective procedures that were delayed due to the pandemic. A detail of Activity in the Preliminary 2021 Budget can be found in Exhibit 2. The major factors contributing to this growth include:

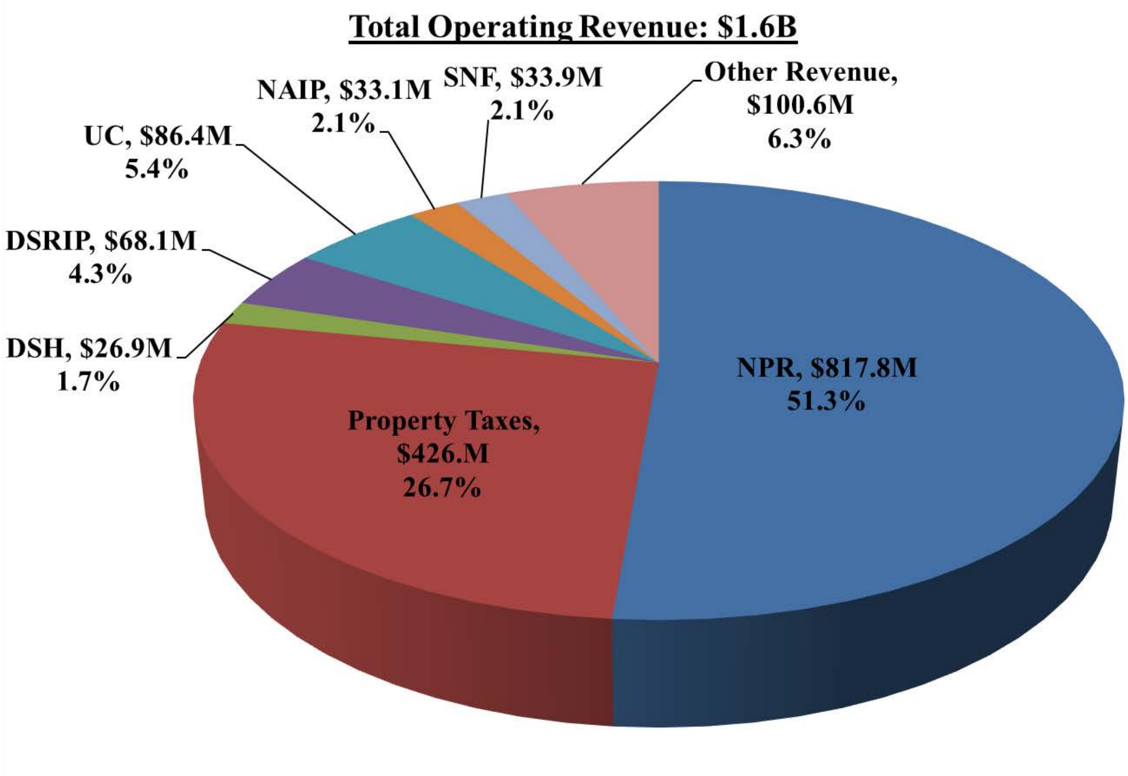
- Assumption that patient volumes will return to 2019 levels.
- Additional outpatient volume related to the opening of the ADC and several new ambulatory clinic locations.
- Growth in the Orthopedics, Transplant, and Heart/Vascular cases, due to delays in treatment during 2020.
- Women's service line enhancement will drive continued volume increases in both inpatient and outpatient settings.
- Additional ambulatory clinic focus on improving patient throughput by optimizing Epic and improving the patient scheduling process in order to maximize provider efficiency.

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



Total Operating Revenue – Clinical Services Division:

The 2021 Total Operating Revenue is budgeted at $1.6 billion, which is $23.8 million or 1.5% higher than the 2020 projection. There are three primary areas that make up the Clinical Services Division's operating revenue: Net Patient Revenue (NPR), Supplemental Funding, and Property Tax Revenue.



Net Patient Revenue (NPR)

2021 NPR was budgeted at the clinical service line level using the projected activity, gross charges and historical payment rates by the various payers. NPR is budgeted at $817.8 million which is an increase of $86.6 million compared to the 2020 projection. The impact of legislative changes has been estimated in light of information currently available. The following is a summary of the key NPR assumptions:

- Actual inpatient payment rates by service line from calendar year 2019 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.

- Increasing volumes back to 2019 levels is projected to add $30.3 million to NPR resulting from additional inpatient revenue of $19.7 million and outpatient revenue of $10.7 million.

- Medicare UC Rate Change – CMS changed the methodology used to allocate UC revenue from one based on Medicaid services provided to one based on Charity Care expense. Charity Care expense at University Health has increased relative to other hospitals in the U.S., which will increase Medicare and Managed Medicare UC payments by an estimated $9.8 million.

- Other Medicare and Managed Medicare Rate changes related to an increased Wage Index and the impact from the Center for Life on our Transplant program will add an additional $12.4 million in 2021.

- Managed care contract rate improvements will increase NPR by $10.2 million.

- Retail Pharmacy sales and the Meds-to-Beds program – in 2021, an additional $3.8 million in NPR is projected due to continued growth in the program. Meds-to-Beds allows discharged patients, regardless of insurance coverage, the opportunity to fill their prescriptions prior to leaving the hospital or clinic setting.

- The new Specialty Pharmacy Program is budgeted to increase patient revenue by $19.7 million. This program is designed to meet the needs of patients prescribed a "specialty drug." Two pharmacies, RBG and Outpatient UH, will be designated as Specialty Pharmacies in 2021.

- The Federal sequestration reduction of 2% on Medicare payments was paused during the COVID-19 pandemic. The Preliminary 2021 budget assumes sequestration will return, having a negative impact on Medicare payments of $1.6 million.

Supplemental Funding:

Supplemental Funding is a combination of multiple Federal and State programs that help offset the cost of caring for low income and uninsured patients. These programs are subject to legislative actions and frequent rule changes and often have a limited life span. University Health staff utilized the best information available as of October 2020, to prepare the impact of Regulatory and Legislative actions (Exhibit 4). All of the changes in this chart, which reflect a $53.9 million decrease in funding from the 2020 projection, are included in the Preliminary 2021 budget. Some components of the Regulatory and Legislative actions are included in Net Patient Revenue while others are reported as stand-alone items on financial reports. The following are the key assumptions relative to legislative impacts on operating revenue:

CARES Act:

As a result of the COVID-19 pandemic, the Federal Government passed the Coronavirus Aid, Relief, and Economic Stability Act (CARES Act). The CARES Act provided several trillion dollars of relief funding to help offset the financial disruptions caused by the COVID-19 pandemic. The CARES Act Provider Relief Fund provided financial relief to Hospitals and other health care providers. University Health received General Distribution payments of $17.6 million in 2020. This funding is subject to recoupment if certain conditions are not met, namely University Health must have a combination of direct COVID-19 expenses or lost patient revenue related to the pandemic. Staff have done the calculations and are certain University Health will not be subject to recoupment. The Preliminary 2021 budget assumes no additional relief funding for 2021.

University Health was able to take advantage of another source of Provider Relief Funding related to the pandemic which involved payments for COVID-19 positive, uninsured patients. This program is administered by Health and Human Services (HHS) and requires a very detailed patient level billing process. University Health is projecting to receive $7.2 million in HHS COVID-19 uninsured patient payments in 2020 and an additional $2 million in 2021. In total, $24.8 million dollars of CARES Act funding is predicted for 2020 and $2 million is budgeted for 2021 creating a $22.8 million negative variance when comparing 2020 projection to the 2021 budget.

Texas 1115 Medicaid Waiver:

The Texas Medicaid 1115 Waiver (Waiver) created the two largest supplemental programs in place currently. The Waiver consists of two programs - Uncompensated Care (UC) and the Delivery System Reform Incentive Program (DSRIP). The Waiver is projected to provide approximately $187 million in supplemental funding to University Health during 2020 (UC funding of $101.9 million and $85.2 million in DSRIP funding). The original Waiver was started in 2014 and ran for five years, it was renewed and has been extended through September 30, 2022 or Demonstration Year (DY) 11.

In 2021, the Waiver is expected to provide approximately $154 million in supplemental funding to the University Health which is $32.6 million lower than the 2020 projected funding. UC funding in 2020 was inflated by $15.5 million due to a large increase in the Federal Medical Assistance Percentages (FMAP) related to the COVID-19 emergency declaration. We are projecting the FMAP increase will end when the current emergency declaration ends in January 2021.

The Waiver includes planned reductions in DSRIP funding which began October 1, 2019, with a 10% reduction or $190 million statewide. An additional 17% reduction or $420 million, starting October 1, 2020, and no planned funding after September 30, 2021. The decrease in DSRIP funding is projected to have a negative impact on University Health of $17.1 million in 2021, and a $68.1 million reduction in 2022. Across the state, hospitals and the hospital associations are working to implement new funding streams to replace lost DSRIP revenue. For the 2021 preliminary budget the assumption is that DSRIP will end as scheduled.

Other Supplemental Programs:

- Federal regulations are in place to reduce Texas' Medicaid DSH allocation by 30% starting December 11, 2020. This will have a $17.3 million negative impact on University Health in 2021. 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 $33.1 million in funding for 2021 which is slightly lower than 2020 due to the projected lower FMAP.

- The Uniform Hospital Rate Improvement Program (UHRIP) is a program that improves Managed Medicaid rates for hospitals in specific Service Delivery Areas (SDAs). It is projected that this program will increase University Health Managed Medicaid payments by $32.5 million in 2021, consistent with the 2020 amount. University Health is required to Inter-Governmental Transfer (IGT) $13.8 million which is recorded as a purchased services expense to fund this program. The net impact of this program is $18.7 million.

- The Medicaid Graduate Medical Education (GME) reimbursement program started in 2019. This program helps to offset the unreimbursed expenses related to medical residents. University Health's net benefit amount of $8.2 million received in 2020 is projected to be slightly lower for 2021.

- The Nursing Home Quality Incentive Payment Program (QIPP) is projected to have an $800,000 positive impact on the University Health's 2021 funding which is consistent with 2020. University Health owns the licenses for four Skilled Nursing Facilities (SNF's) in our operating area.

- Tobacco Settlement funding is budgeted at $8.7 million, which is $281,000 lower than the amount received in 2020 due to expected lower investment income.

Property Tax M&O

Property tax revenue for operations (M&O) is projected to increase $11.6 million, which is the combination of $4.6 million for new properties and $7.0 million for the increased value of existing properties. Excluding CFHP, property taxes for operations as a percent of Total Operating Revenue decreases from 28% in 2020 Budget to 26.7% for the 2021 Budget.

A summary of the property taxes reflected is as follows:

Preliminary 2021 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**	**2020 Estimated Taxes[1]**	**2021 Estimated Taxes[2]**	**Proposed Net Change From Prior Year**	**% Increase**
Operating Rate	0.236569	0.236753	0.000184	0.08%	$414,370	$425,979	$11,609	2.80%
Debt Rate	0.039666	0.039482	(0.000184)	(0.46%)	$70,203	$73,287	$3,084	4.39%
Total Tax Rate	0.276235	0.276235	-	0.00%	$484,573	$499,266	$14,693	3.03%

[1] 2020 Estimated Tax revenue calculated on 2019 property values as of 9/30/20 and 2019 Tax Rate

[2] 2021 Estimated Tax revenue calculated on 2020 property values certified on 10/01/20 and 2020 Tax Rate

Exhibit 7 reflects the tax rate calculation.

Other Revenue:

Other Revenue

(Dollars in Millions)

2020 Projected	**$97.6**	
Changes		
Cares Act Revenue	($17.6)	-18.0%
Grants	$5.3	5.5%
Net Other Revenue Changes	$6.5	6.7%
Total Change	**($5.8)**	**-5.9%**
2021 Preliminary Budget	**$91.8**	

Other Revenue of $91.8 million includes reimbursement for residents that work in non-University Health 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.

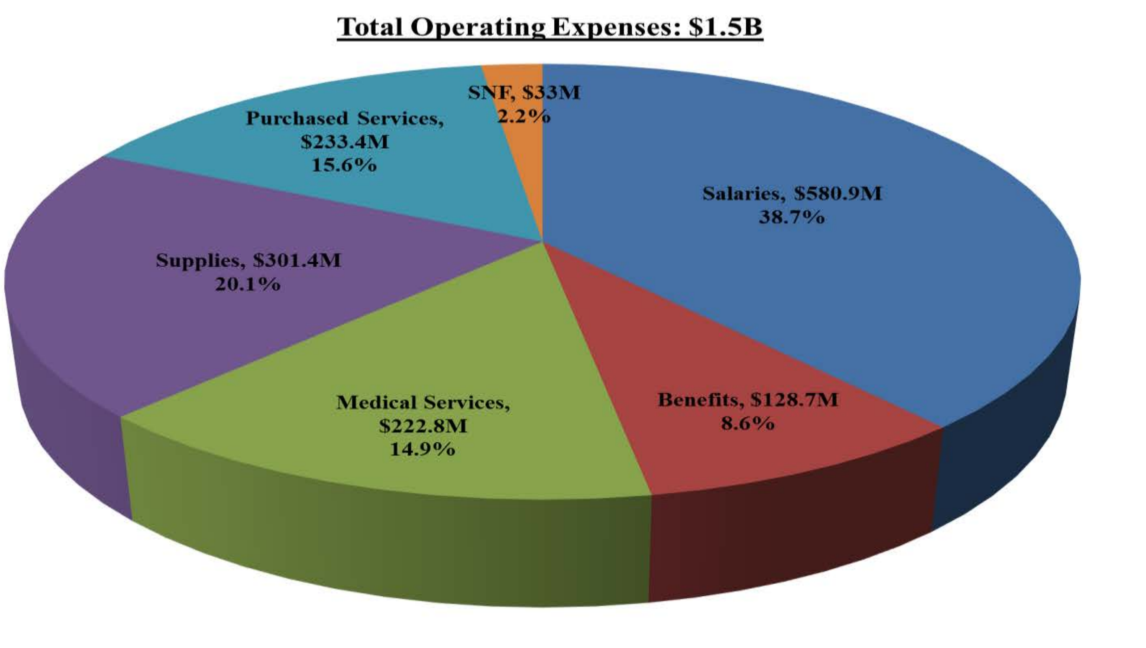
- $17.6 million of General Distribution CARES Act funding received in 2020 was booked in Other Revenue, no additional CARES Act General Distribution funding is budgeted for 2021.

- Grant Revenue is budgeted to increase by $5.3 million due to new grants received and increases in existing grants. The largest of the new grants is Operation Brave in the amount of $850,000.

- Net Other Revenue Change increase of $6.5 million is primarily driven by an increase in expected foundation and pharmacy revenues as University Health returns to pre-pandemic performance. An expected vendor rebate increase is due to improved compliance with Group Purchasing contracts.

Total Operating Expense:

Total Operating Expense for 2021 is budgeted at $1.5 billion which is a $81.7 million or 5.8% increase over the 2020 projected total. For the Clinical Services Division (UH less CFHP) salaries and benefits make up 47.3% of operating expense. Medical Services, Purchased Services, and Supplies make up 14.9%, 15.6%, and 20.1%, respectively. A chart summarizing the changes in expense category and the drivers that impact the changes is provided in Exhibit 5.



Salaries

Salaries
(Dollars in Millions)

2020 Projected	**$548.8**	
Changes		
Merit Increases at 2.0%	$11.0	2.0%
Volume Impact	$6.3	1.1%
Market Adjustment	$4.6	0.8%
New Programs	$4.5	0.8%
Epic Impact	$3.7	0.7%
Speciality Pharmacy	$2.0	0.4%
Total Change	**$32.1**	**5.9%**
2021 Preliminary Budget	**$580.9**	

The 2021 Budgeted Salary cost of $580.9 million is $32.1 million or 5.9% higher than 2020 projected.

- The staffing budget was built in Premier Budget and Financial Reporting (BFR), University Health'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. For departments without patient driven activity, staff leadership was asked to present justification for each position budgeted in 2020 that was unfilled in late July 2020.

- The 2021 budget reflects an average of 2.0%, or $11 million, for performance based merit increases.

- The combination of increased activity in patient care areas and improved efficiency will increase salary expense by a net impact of $6.3 million.

- A $4.6 million salary investment for competitive pay adjustments is included to address specific job titles or categories that require supplemental pay increase to maintain market competitiveness.

- Additional positions in non-patient care departments will support the improved service delivery of IT communication services, grant management, human resources, billing follow-up, and other miscellaneous support functions will increase salary expense by $4.5 million in 2021.

- University Health implemented EPIC electronic medical records system in July 2020. Prior to implementation, the staff building the application were capitalized within the project. The budgeted 2021 salary expense includes the Epic build and maintenance staff for the full year as operational expense and will increase $3.7 million over the 2020 projection.

- Another major impact, the Specialty Pharmacy program, will increase the salary expense by $2 million in 2021 due to the addition of pharmacists and technicians to compound and distribute drugs under this new, strategic growth initiative. The increase in salaries for this program is fully offset by additional revenue.

Employee Benefits:

Benefits		
(Dollars in Millions)		
2020 Projected	**$126.1**	
Changes		
Net Increase in OPEB	$1.5	1.2%
FICA	$1.1	0.9%
Total Change	**$2.6**	**2.1%**
2021 Preliminary Budget	**$128.7**	

Benefits of $128.7 million are $2.6 million or 2.1% higher than 2020 projected due to an increase in OPEB expense for retirees and payroll taxes directly related to the increase in salary expense.

Medical Services:

Medical Services (Dollars in Millions)		
2020 Projected	**$209.2**	
Changes		
UT Master Services Increase	$4.9	2.3%
Increased Carelink Utilization	$4.9	2.3%
Physician Recruitment Support	$2.1	1.0%
UMA Contracts with UT	$1.8	0.8%
Total Change	**$13.6**	**6.5%**
2021 Preliminary Budget	**$222.8**	

Medical Services expense includes payments to third-party physician partners and other professional providers of service to University Health's patients. The 2021 budgeted expense of $222.8 million reflects an increase of $13.6 million or 6.5% from the projected 2020 amount. The increase is primarily due to the following:

- UT Health's Master Services Agreement, budgeted at $148.8 million in 2021, results in an increase of $4.9 million from 2020 projection due to physician salary increases and additional coverage.

- An expected increase in CareLink's fee-for-service payments to community providers results in increased Medical Service expense by an additional $4.9 million over projected 2020.

- Physician recruitment support of in-demand specialties results in an additional $2.1 million expense in 2021.

- UMA's expanded contract with UT Health to lease providers in order to expand the Pediatric Cardiology program results in increased expense by $1.8 million.

Purchased Services:

Purchased Services (Dollars in Millions)		
2020 Projected	**$273.1**	
Changes		
Management Fees	$7.7	2.8%
Planning, Design & Construction	$4.1	1.5%
Transplant Programs	$3.8	1.4%
Community Support	$1.5	0.5%
Epic Project	$1.3	0.5%
Maintenance Contracts	($3.3)	-1.2%
Net Other Purchased Service	($4.4)	-1.6%
SNF Expense	($17.2)	-6.3%
Total Change	**($6.6)**	**-2.4%**
2021 Preliminary Budget	**$266.5**	

Purchased Services are budgeted overall at $266.5 million, a $6.6 million decrease or 2.4% lower than the 2020 projection. Contributing to this change are the following:

- Management Fee cost increase of $7.7 million is due to contracted services with the following
  - STRAC partnership expense increases by $4 million to include expanded Psychiatric Emergency Services, domestic violence hotline, and behavioral health programs.
  - New Specialty Pharmacy program at $2 million that will be fully offset by increase in revenue.
  - Auditing and Compliance contracts increase by $1.7 million above the 2020 projection to return to the level of service budgeted in 2020.

- Planning, Design and Construction are budgeted with a $4.1 million dollar increase for Ambulatory repair and renovation at multiple ambulatory locations including South Flores, Naco Perrin, and the Southeast Clinic.

- Transplant Programs increased by $3.8 million in 2021 for organ acquisition charges related to the continued growth in kidney, liver, and lung transplant cases.

- Support for community partners has a net increase of $1.5 million. The increase is to enhance service delivery with Haven for Hope and other community providers.

- Epic EMR operational maintenance costs for 2021 are estimated to increase $1.3 million due to a full year of operational expense where 2020 projection only includes operational expense after the July go-live.

- Maintenance contracts expense is expected to decrease $3.3 million due to a reduction of legacy systems phased out due to the Epic EMR conversion.

- Net Other Purchased Service expense is budgeted to decrease $4.4 million in 2021 due to planned reductions in multiple outsourced services and one-time expenses that occurred in 2020 and will not reoccur in 2021.

- SNF expense is budgeted to decrease by $17.2 million. This decrease is directly offset by a decrease in SNF revenue which was inflated in 2020 due to the COVID-19 pandemic.

Supplies:

Supplies
(Dollars in Millions)

2020 Projected	**$261.6**	
Changes		
Pharmaceuticals	$19.1	7.3%
Pharmaceuticals: Specialty Drugs	$15.0	5.7%
Implant	$11.8	4.5%
Non-Medical Supplies	($3.5)	-1.3%
Medical Supplies	($2.6)	-1.0%
Total Change	**$39.8**	**15.2%**
2021 Preliminary Budget	**$301.4**	

In 2021, supplies are budgeted at $301.4 million which is a $39.8 million or 15.2% increase over projected 2020. Major impacts to the increase in supply cost are due to the following:

- Pharmaceutical expenses are planned to increase by $19.1 million primarily related to increased patient volume, $3.2 million in expected COVID-19 vaccine expense and a 4% pharmaceutical price inflation rate that is derived from industry benchmarking data.

- Establishment of the Specialty Pharmacy Program within our RBG and Hospital Outpatient retail pharmacies will increase pharmaceutical expense by $15 million in 2021. Additional revenue will cover this expense and the program will deliver an improved customer experience through convenient and readily available specialty pharmaceuticals.

- $11.8 million increase in Implants expense is budgeted due to expected surgical volume rebounding from the deflated level of elective surgeries in 2020. 2021 volumes are expected to be slightly higher than 2019 actual performance.

- Non-medical supply expenses are expected to decrease by $3.5 million due to a reduction of one-time expenses of disposable textiles and cleaning supplies utilized during the COVID-19 surge and emergency preparedness.

- $2.6 million or 1.0% decrease in medical supplies is due to a reduction in one-time COVID-19 related expenses such as lab testing materials and personal protective equipment.

<u>Non-Operating Revenue/(Expense Assumptions)</u>:

Non-Operating Revenue/Expense
(Dollars in Millions)

2020 Projected	**($51.8)**	
Changes		
Interest Income	($9.2)	-17.8%
Depreciation	($9.6)	-18.5%
Amortization	($11.5)	-22.2%
Unrealized Gain/Loss	($1.8)	-3.5%
Total Change	**($32.1)**	**-62.0%**
2021 Preliminary Budget	**($83.9)**	

The Non-Operating Revenue/(Expense) budget for 2021 has four primary assumptions driving the $32.1 million increase in this area.

- Interest Income is projected to decrease by $9.2 million due to historically low interest rates.

- Depreciation expense is budgeted at $89.2 million compared with the 2020 projection of $79.6 million, up $9.6 million. This increase is related to the impact of a full-year of Epic depreciation, the opening of the Advanced Diagnostic Center, and new assets placed in service in late 2020.

- University Health's external auditors have recommended a reclassification of $11.5 million of annual amortization of bond premium received to be recorded in Financing Activities, a reporting category below the bottom line.

- The 2020 projection includes $1.8 million in unrealized gains related to lower interest rates compared to certain long term investments. Unrealized gains and losses are not budgeted, creating a negative variance in 2020 actual to 2021 budget performance.

Debt Service Requirement:

Debt service payments for 2021 are estimated at $73.3 million. The 2020 debt tax rate, which funds payments due in 2021, is $0.039482 per $100 valuation. This rate is $0.000184 or 0.46% lower than the existing debt tax rate of $0.039666. The required debt payment for 2021 increases $3.1 million from $70.2 million projected for 2020.

- A Debt Service tax levy of $73.3 million to cover payments due in 2021 was approved by Commissioners Court on September 1, 2020.

Debt Service

Dollars in millions	2020 Projected	2021 Preliminary Budget	Variance from Projected	% Variance
Debt Service I&S Tax Funds	$ 70.2	$ 73.3	$ 3.1	4.4%
Debt Service Payment	$ 70.2	$ 73.3	$ 3.1	4.4%
Net Debt Service Revenue	$ -	$ -	$ -	0.0%

Ongoing Capital Requirements:

The capital budget for 2021 is recommended to be set at $44.2 million. In prioritizing the capital needs for 2021, 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:

2021 Routine Capital Requirements

Priority	Mandated (Regulatory Safety & Required Maintenance)	Replacement	Strategic (New Service / Expansion)	Grand Total
Essential: Cannot Function Without	$ 1,711,623	$ 10,428,210	$ 1,507,449	$ 13,647,281
Important: Necessary For Improvement	$ 1,248,728	$ 20,349,518	$ 6,922,430	$ 28,520,675
Proactive: Necessary To Avoid Problems	$ 30,660	$ 1,225,070	$ 800,750	$ 2,056,480
Total Clinical Services	**$ 2,991,010**	**$ 32,002,797**	**$ 9,230,628**	**$ 44,224,436**

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 2021

Executive Summary:

Community First Health Plans, Inc.'s (CFHP) preliminary 2021 Operating Budget reflects Net Income of $11,465,642 and Underwriting Income (excludes Investment Income and Premium Deficiency Reserve amortization) of $8,453,148. Appropriate resources have been incorporated into the preliminary 2021 Budget to support the following strategic priorities:

1) Maintain market share in the STAR, CHIP and STAR Kids lines of business as it relates to membership, considering the impact of COVID-19.

2) Go live with Medicare Advantage and D-SNP effective January 1, 2021.

3) Begin implementation of the Health Information Exchange (HIE) in collaboration with CareLink throughout FY 2021, with an anticipated go-live in FY 2022.

4) Go live with the University Health Premier ERP system in January 2021.

5) Continue development and implementation of advanced alternative payment models and expansion of the provider incentive program.

6) Enhance and expand coordination and integration with University Health in support of ongoing evolution towards an industry leading integrated delivery and financing system.

7) Enhance and expand advanced financial and medical economic analytics, including predictive modeling and risk score optimization.

8) Continue to enhance member and provider satisfaction, and quality medical outcome measures.

A summary of the preliminary CFHP 2021 operating and capital budgets, which were reviewed and approved by the CFHP Board of Directors on October 23, 2020, follows:

2021 Budget
ALL LOB

	2020 Budget	2020 Outlook	2021 Budget	$ Variance 2021 vs 2020	% Variance 2021 vs 2020
Member Months	1,821,745	1,930,316	1,861,249	(69,067)	-3.6
Revenue					
Premium Revenue	$ 567,831,885	$ 635,804,198	$ 597,237,474	$ (38,566,724)	-6.1
Experience Rebate	-	(6,717,784)	(2,831,868)	3,885,916	-57.8
NAIP	19,936,295	21,876,375	20,432,146	(1,444,229)	-6.6
Total Revenue	587,768,180	650,962,789	614,837,752	(36,125,037)	-5.5
Medical Expense					
Medical Expense	498,724,827	505,997,279	509,433,167	3,435,888	0.7
NAIP	19,545,387	21,329,412	19,921,342	(1,408,070)	-6.6
Total Medical Expense	518,270,214	527,326,691	529,354,509	2,027,818	0.4
Administrative Expense					
Salaries	25,114,603	26,124,964	28,565,135	2,440,171	9.3
Benefits	6,434,996	6,246,712	6,801,129	554,417	8.9
Consultants	2,525,320	3,206,534	4,383,304	1,176,770	36.7
Computer Licensing	7,052,958	6,132,571	7,364,270	1,231,699	20.1
Depreciation	1,600,223	1,691,492	1,513,245	(178,247)	-10.5
Marketing	2,974,630	2,237,667	3,497,440	1,259,773	56.3
Minor Equipment	605,213	697,534	637,304	(60,230)	-8.6
Premise Repair & Maintenance	461,136	333,600	427,168	93,568	28.0
Premium Tax	9,881,828	10,796,427	13,555,404	2,758,977	25.6
Provider Incentives	3,199,992	2,151,981	3,910,000	1,758,019	81.7
Postage and Printing	1,226,442	1,744,119	1,969,885	225,766	12.9
Rent	1,416,613	1,399,178	1,453,196	54,018	3.9
Temporary Labor	50,400	896,350	84,000	(812,350)	-90.6
Liquidated Damages	0	7,749,676	200,000	(7,549,676)	-97.4
All Other	3,593,612	2,416,367	2,668,615	252,248	10.4
Total Administrative Expense	66,137,966	73,825,171	77,030,095	3,204,924	4.3
Underwriting Income (Loss)	**3,360,000**	**49,810,927**	**8,453,148**	**(41,357,779)**	**-83.0**
Investment Income	2,700,000	1,406,442	1,612,370	205,928	14.6
Premium Deficiency Reserve	1,200,000	668,793	1,400,124	731,331	109.4
Net Income (Loss)	**$ 7,260,000**	**$ 51,886,162**	**$ 11,465,642**	**$ (40,420,520)**	**-77.9**
Admin Ratio	11.6%	11.7%	13.0%		
Medical Loss Ratio	88.2%	81.0%	86.1%		
FTEs	414	414	424		
Capital Investments	$ 284,844	$ 284,844	$ 202,003		

Membership:

Overall membership is budgeted to decline slightly, consistent with recent actual enrollment experience and HHSC projections. Total 2021 CFHP membership is projected to be approximately 155,000 vs approximately 161,000 in 2020.

Revenue:

Total Revenue is budgeted at $614.8 million, a decrease of 5.6% over the 2020 Outlook. 2021 Premiums are negatively impacted by the projected decrease in membership and by HHSC State Fiscal Year 2021 anticipated mid-year (March 2021) rate reduction and an additional rate reduction in September 2021 due to expected favorable financial performance of CFHP in SFY 2020 for the Medicaid/CHIP products.

2021 NAIP revenues were developed based on HHSC actual formulas.

Medical Expense:

Total Medical Expense is budgeted at $529.4 million, an increase of 0.4% over the 2020 Outlook, and represents a Medical Loss Ratio of 86.1%. Medical and pharmacy expenses are budgeted to increase by 3.0% and 7.0% respectively. These trends correspond to the analysis provided by Milliman Actuaries for the SFY2021 Medical Expense Budget Assumptions. Also factored into the medical expenses was an increase in utilization as the impact of COVID-19 begins to soften.

2021 NAIP expenses were developed based on HHSC actual formulas.

Administrative Expense:

Total Administrative Expense is budgeted at $77.0 million, an increase of 4.3% over the 2020 Outlook, and represents a fully loaded Admin Ratio of 12.5%.

The 2021 Administrative Expense budget incorporates 424 FTEs (374 Active, 34 Vacant, 16 New), an increase of 16 over the 2020 Outlook (Executive +1, Member Services +2, STAR Kids +2, Population Health Management +1, Network Management +1, Information Systems +7, and Business Development +2).

2021 Salaries reflect a merit increase of 3.0%.

Significant changes in the 2021 Administrative Expense budget vs the 2020 Outlook include:

1) Salaries increased approximately $2.4 million due to:
    a. Additional FTEs
    b. Merit increases occurring throughout the year

2) Employee Benefits increased approximately $0.5 million due to the increase in staff and post-employment benefit allocations from University Health.
3) Marketing (market outreach, advertising, agency, sponsorships, value adds, etc.) increased approximately $1.3 million due to enhanced marketing strategies as well as Medicare Advantage/D-SNP effective January 1, 2021.
4) Computer licensing increased approximately $1.2 million due to QNXT enhancements and other required application systems.
5) Minor Equipment and Premise Repair and Maintenance remained relatively flat between the two periods.

HHSC utilizes defined formulas in their rate development process to determine what portion of premium is allocable for administrative expense spending. The CFHP 2021 administrative expense budget of $77.0 million is compliant with these regulatory formulas.

Investment Income:

Investment Income for 2021 is budgeted at $1.6 million and is based on projected investable assets and yields consistent with the CFHP investment policy.

Premium Deficiency Reserve:

The FY 2021 Premium Deficiency Reserve (PDR) was determined by the external certifying actuary (Milliman) and pertains to both the Medicare Advantage/D-SNP and Commercial lines of business. A PDR of $1.4 million will be recorded as of year-end FY 2020 for both products. The Medicare Advantage/D-SNP product(s) will be amortized from January 2021 through December 2021 and the Commercial product PDR will be amortized from September 2020 through August 2021 relating to the conclusion of the ERS commercial contract period. No additional Premium Deficiency Reserves were incorporated into the FY 2021 budget that relates to State Fiscal Year 2022 which commences September 2021.

<u>Capital</u>:

The CFHP 2021 Capital Budget is $202,003. The capital budget consist of IS investments of $174,003 and improvements and maintenance of the CFHP offices of $28,000. CFHP utilizes to the UHS capitalization policy threshold of $5,000.

FY 2021		
Item	**Description**	**Amount**
Palo Alto	Upgrade Palo Alto - Firewall Software	$ 47,805
VDI Host	VDI Remote Desktop (Increase Work from Home Capacity)	$ 93,500
SQL Enterprise License	Increase SQL Software Licenses	$ 32,698
Exterior Signage Revised	Exterior CFHP Signage - Revised Logo	$ 8,000
Pod 1 & 2 Door Relocation / Glass Additions	Building Improvements	$ 10,000
A/C Rooftop	Five ton Roof Top A/C replacement	$ 10,000
	Total	**$ 202,003**

EXHIBITS

Exhibit 1A	Preliminary 2021 Consolidated Statement of Revenues and Expenses
Exhibit 1B	Preliminary 2021 UHS less CFHP Statement of Revenues and Expenses
Exhibit 1C	Preliminary 2021 CFHP Statement of Revenues and Expenses
Exhibit 2	Preliminary 2021 Activity and Notes
Exhibit 3	Preliminary 2021 Budget, Changes to Total Operating Revenue
Exhibit 4	Preliminary 2021 Budget, Legislative Changes
Exhibit 5	Preliminary 2021 Budget, Changes to Total Operating Expense
Exhibit 6	Preliminary 2021 Budget, FTE Changes
Exhibit 7	Preliminary 2021 Budget, Analysis of Tax Rate
Exhibit 8	Preliminary 2021 Budget, Detail of Capital Request, UHS less CFHP
Exhibit 9	Annual Report on Learning and Development