



## **BEXAR COUNTY COMMISSIONERS COURT**

**Tuesday, December 16, 2025**

### **Consideration and Appropriate Action Regarding Bexar County Hospital District d/b/a University Health's Consolidated Operating, Debt Service and Capital Budgets for Fiscal Year 2026**

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#### **Key Assumptions**

The 2026 budget was developed using the Triple Aim Plus as our guiding principles. Improving quality, safety and outcomes, improving the patient experience, improving efficiencies, and improving access to care, were all taken into consideration during the budget planning process. The 2026 budget incorporates many known or expected changes for 2026. These include legislative impacts, changes in Medicaid supplemental funding, major projects, and changes in patient volumes. To address these issues, University Health continues to improve operational efficiencies and reduce expenses wherever possible without sacrificing quality of care. At the Commissioners Court meeting, staff will present information on the 2026 Operating, Debt Service, and Capital budgets.

#### **Legislative Impacts**

The One Big Beautiful Bill Act (OBBA), was signed into law on July 4, 2025, it includes an estimated \$1 trillion in cuts to federal healthcare programs over the next ten years. Most of the financial impacts are projected to come in the form of reimbursement cuts and reductions in enrollment due to a variety of administrative restrictions and beneficiary affordability reductions. It's difficult to determine the exact financial impact to University Health due to the passing of the OBBBA. Because Texas did not expand Medicaid the current projected impact is much lower for Texas compared to the 41 states that expanded Medicaid. The negative impacts to healthcare related to the passing of the OBBBA will be phased in over multiple years and will likely be challenged in court and adjusted by future legislative action.

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Not related to the passing of the OBBBA, the enhanced subsidies for the Affordable Care Act (ACA) are scheduled to expire at the end of 2025, unless congress intervenes to extend them. These subsidies, which have been in place since 2021, provide financial relief to ACA marketplace enrollees. If these COVID era enhanced subsidies are not extended it is anticipated that many plan holders will not renew health insurance coverage due to lack of affordability. This will increase the level of uninsured patients negatively impacting University Health.

### **Supplemental Medicaid Funding Programs**

Supplemental Payments are additional Medicaid payments to healthcare providers that are separate from and in addition to “base Medicaid payments”. The payments can be made in lump sum or added to individual claims paid to University Health. Supplemental funding which is included on individual claims is included in the Net Patient Revenue line on the Income Statement, the programs that pay in lump sums are reported as separate income sources. In 2026, University Health estimates total supplemental funding at approximately \$427 million which is \$45.5 million higher than the 2025 projection. Details on the various programs and amounts can be found in the included Attachment 1.

### **Large Projects**

There are a number of large projects with budget implications that staff and leadership will focus on during 2026.

- The Community Hospitals project consisting of two similar facilities one in Northeast Bexar County named University Health Retama and one in South Bexar County named University Health Palo Alto broke ground in 2024. The total estimated project cost is \$1.5 billion. Staff acquired \$300 million of bond funding in September 2022 and \$200 million in August of 2023 to help fund the project. Combined with \$820 million of cash reserves, the project fund has a current funded balance of \$1.3 billion. Additional cash reserves will be allocated to the project over the next few years to fully fund the project.

The new hospitals are planned to open in Spring and Summer of 2027, hiring the management and staff will be done in phases throughout 2026. Approximately 450 staff will be needed for each new location.

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The 2026 operating budget will include \$20 million dollars in additional salary expense related to hiring and training of these new staff members.

- On October 11, 2022, Bexar County Commissioners Court awarded \$40 million in ARPA funding to University Health for the construction of two public health facilities in underserved areas of Bexar County. One facility will be located on the University Health Palo Alto Hospital campus near Texas A&M - San Antonio named the University Health Vida and the other on land at I-10 East and East Houston Street named the University Health Wheatley. The University Health Wheatley clinic opened in October 2025 and the University Health Vida clinic will start seeing patients in late 2025.
- In early 2025 Christus announced the planned closing of its 45.121-acre Christus Health Medical Center Hospital Campus. The expansive campus features a 235,732-square-foot, four-story hospital (previously operating as a Level IV Trauma Center with 24/7 emergency services), a parking garage, two medical/office buildings, and a solar energy farm. The property also features income producing ground leases. After a competitive bidding process, University Health was selected as the most preferred buyer by Christus Health. The Hospital District Board of Managers and the Bexar County Commissioners Court supported the purchase of this new location. After several months of negotiations and due diligence, the purchase closed on October 29, 2025. Because Christus closed the hospital and removed most of the equipment it will take an estimated six to nine months to get the appropriate equipment installed and for the State of Texas to re-license the facility. The current projection is to open the new location in the summer of 2026. University Health plans on naming the new Medical Center location the University Health Specialty Hospital. Shortly after the purchase closed, University Health received a Right of First Offer for the two ground-leased buildings on the campus that were recently placed on the market. University Health is currently negotiating the acquisition of these buildings, with a potential purchase expected early next year.
- Facilities improvements will continue with infrastructure repair and upgrades at existing locations. Expansion and renovation of the University Hospital Lab and Pathology department is in the design phase and planned to start in 2026. This will be a multi-year project expected to cost approximately \$55 million.

**Bexar County Commissioners Court: Consideration and Appropriate Action Regarding the Bexar County Hospital District d/b/a University Health's Consolidated Operating, Debt Service and Capital Budgets for Fiscal Year 2026**

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- The Retail and Specialty Pharmacy programs are budgeted to continue to grow during 2026. The Specialty Pharmacy service provides high cost, specialty drugs to patients experiencing chronic illness. Growth of these programs will increase pharmacy supply expense and staffing costs, offset by additional pharmacy revenue. In late 2025, University Health will open two additional retail pharmacy locations with the openings of the University Health Wheatley and University Health Vida clinics. During 2026 additional moves and buildout of a centralized pharmacy distribution center are planned for the space at the Business Center III (BC3) building which was purchased in 2024.

There are also multiple ongoing operational and quality improvement initiatives that will impact the 2026 budget. While the goal of these projects is to improve quality, access, or patient experience, staff anticipate a positive financial impact on operations due to better throughput, a reduction of expenses or revenue increases exceeding expenses. These initiatives include process improvements in many areas including care transitions, Emergency Department, surgical services and many other clinical and non-clinical areas.

The table below details the summary information for the consolidated 2026 Operating, Debt Service, and Capital Budget for University Health.

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<b>Consolidated</b> (Dollars in Millions)	<b>2025 Projected</b>	<b>2026 Budget</b>	<b>Variance from Projected</b>	<b>% Variance</b>
<b>Total Operating Revenue</b>	\$3,956.5	\$4,272.9	\$316.4	8.0%
<b>Total Operating Expense</b>	\$3,635.5	\$4,112.9	\$477.4	13.1%
<b>Operating Gain</b>	\$321.0	\$160.0	(\$161.0)	(50.2%)
<b>Nonoperating Revenue/(Expense):</b>				
<b>Depreciation/Amortization</b>	(\$156.3)	(\$180.5)	(\$24.2)	(15.5%)
<b>Other Non-operating</b>	\$112.3	\$63.0	(\$49.3)	(43.9%)
<b>Premium Deficiency Reserve</b>	\$2.7	\$0.0	(\$2.7)	(100.0%)
<b>Total Non-Operating Revenue</b>	(\$41.2)	(\$117.5)	(\$76.3)	(185.1%)
<b>Bottom Line excluding Debt Service</b>	<b>\$279.8</b>	<b>\$42.5</b>	<b>(\$237.3)</b>	<b>(84.8%)</b>
<b>Debt Service Expense</b>	\$99.8	\$99.9	\$0.1	0.1%
<b>Capital Requirements</b>	<b>\$46.3</b>	<b>\$46.9</b>	<b>\$0.6</b>	<b>1.3%</b>

**Bexar County Commissioners Court: Consideration and Appropriate Action Regarding the Bexar County Hospital District d/b/a University Health's Consolidated Operating, Debt Service and Capital Budgets for Fiscal Year 2026**

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Additional detail on the budget for University Health less Community First is located in the attached Exhibits listed below:

- Attachment 1 2026 Operating Budget - University Health
- Exhibit 1A 2026 Consolidated University Health - Income Statement
- Exhibit 1B 2026 University Health less Community First - Income Statement
- Exhibit 1C 2026 Community First - Income Statement
- Exhibit 2 2026 Activity and Notes
- Exhibit 3 2026 Budget, Changes to Total Operating Revenue
- Exhibit 4 2026 Budget, Legislative Changes
- Exhibit 5 2026 Budget, Changes to Total Operating Expense
- Exhibit 6 2026 Budget, FTE Changes
- Exhibit 7 2026 Budget, Analysis of Tax Rate
- Exhibit 8 2026 Budget, Detail of Capital Request
- Exhibit 9 Summary of Real Estate Transactions in 2025

**Changes in Utilization:**

Total discharges are projected to grow by 3.0% with both adults and pediatrics expected to grow 3.0%. The primary driver for the increase in discharge volume is related to planned increases in cardiovascular and trauma service over the 2025 baseline. Continued growth in Pediatric Specialty service lines is expected to occur in 2026 as the Women's & Children's Hospital continues to fill available capacity. Outpatient ambulatory clinic volume is budgeted to achieve a 12.8% increase over projected activity in 2025. The outpatient ambulatory volume increase is related to additional providers in University Medicine Associates (UMA) group including the newly employed Interventional Cardiology practice.

**Routine Capital:**

The Capital Committee, working with the area Vice Presidents, prioritized the 2026 capital request. The capital budget for 2026 is recommended at \$46.9 million, which is \$0.6 million higher than the 2025 routine capital budget. In prioritizing the capital needs for 2026, 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 priority category is in the following table:

**Bexar County Commissioners Court: Consideration and Appropriate Action Regarding the Bexar County Hospital District d/b/a University Health's Consolidated Operating, Debt Service and Capital Budgets for Fiscal Year 2026**

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Exhibit 8 includes the detail of capital requests for the Clinical Services Division, a detail of the Community First Capital request of \$995 thousand is on page 31 of Attachment 1.

<b>2026 Routine Capital Requirements</b>					
<b>Priority</b>	<b>Mandated (Regulatory Safety &amp; Required Maintenance)</b>	<b>Replacement</b>	<b>Strategic (New Service / Expansion)</b>	<b>Grand Total</b>	
Essential: Cannot Function Without	\$ 526,859	\$ 11,340,026	\$ 6,771,307	\$ 18,638,192	
Important: Necessary For Improvement	\$ 22,258,170	\$ 355,039	\$ 3,362,387	\$ 25,975,595	
Proactive: Necessary To Avoid Problems	\$ 41,139	\$ 991,932	\$ 260,172	\$ 1,293,243	
<b>Total Clinical Services</b>	<b>\$ 22,826,168</b>	<b>\$ 12,686,996</b>	<b>\$ 10,393,866</b>	<b>\$ 45,907,030</b>	

**Debt Service Requirement:**

The required principal and interest payments on University Health's outstanding bonds due in 2026, is \$99.9 million. This amount is \$0.1 million higher than 2025 debt service due to a small change in the bond payment structure for the additional bonds issued in 2022 and 2023 for the Community Hospitals project. The Commissioners Court approved the tax rate supporting the Debt Service tax levy on September 9, 2025.

<b>Debt Service</b>				
<b>Dollars in millions</b>	<b>2025 Projected</b>	<b>2026 Budget</b>	<b>Variance from Projected</b>	<b>% Variance</b>
<b>Debt Service Payment</b>	\$ 99.8	\$ 99.9	\$ 0.1	0.1%

**Bexar County Commissioners Court: Consideration and Appropriate Action Regarding the  
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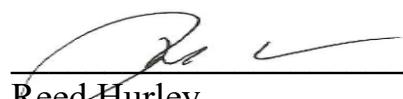
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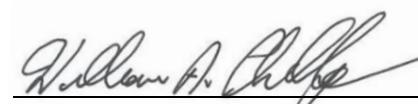
To ensure the ongoing financial strength of University Health, we will focus on the following items:

- Continue to improve operating efficiencies
- Grow activity in strategic service lines
- Control operating expenses
- Improve patient quality and safety scores
- Actively pursue new Federal and State funding sources

**Recommendation:**

The Board of Managers recommends to Bexar County Commissioners' Court approval of the Operating, Debt Service and Capital Budgets for Fiscal Year 2026.

  
Reed Hurley  
Executive Vice President/  
Chief Financial Officer

  
William A. Phillips  
Executive Vice President/  
Chief Operating Officer

  
Edward Banos  
President/Chief Executive Officer



Review and Discussion Regarding  
Bexar County Hospital District d/b/a  
University Health's Consolidated  
Operating, Debt Service and Capital Budgets  
for Fiscal Year 2026

Tuesday, December 16, 2025

*Edward Banos, President/CEO  
Reed Hurley, CFO*



**University Health  
Consolidated Operating,  
Debt Service, and Capital Budgets  
For Fiscal Year 2026**

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## University Health Consolidated 2026 Budget Summary

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### **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 2026 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 Health continues to perform well in consumer preference surveys conducted by third party research groups. This includes unaided brand awareness among potential patients, as well as overall brand image and preference indicators. University Health continues to be the “Most preferred hospital for all health needs” in the highly regarded NRC Market Insights Consumer Study and has the highest “Best image/reputation” score in the market.

### **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 2026 Budget**

- Investments in staff recruitment and retention will continue into the 2026 Budget. Market adjustments for clinical staff, additional enhancements to retention incentives, and education reimbursement programs are necessary to ensure University Health is able to retain top talent that provides care to a growing population. Further funds for market increases are included in the 2026 Operating Budget and will be implemented over the year as needed to recruit and retain staff critical to maintaining high quality clinical care.
- Specialty Pharmacy program, a service that provides high cost, specialty drugs to patients experiencing chronic illness, began in 2021. This program is growing rapidly and with the maturation of the Meds-to-Beds service, Pharmacy supply and staffing expense are growing in Budget 2026. The increased costs will be offset by increased patient revenue from insured populations.
- University Health acquired the former Christus Santa Rosa Hospital in the South Texas Medical Center on October 29, 2025. The new facility will be called the University Health Babcock Hospital and will support the expanding capacity needs for care delivery. The additional hospital location will provide the opportunity to decant volume from the University Hospital Emergency Department, alleviate the inpatient capacity issues, and support expansion of outpatient imaging service in a location that is more convenient for patients.
- University Health is pursuing the potential acquisition of Northwest Towers I and II, totaling 200,833 square feet and located at 2829 and 2833 Babcock Road, San Antonio, Texas 78229. Negotiations are currently underway, with a possible purchase anticipated early next year. Acquiring these properties would enable University Health to consolidate its leased outpatient medical clinics into a single, owned location strategically located on the future University Health Babcock Hospital property. University Health currently leases clinic space1within these buildings.
- Community First Health Plans (Community First) completed its first full year of managing the Star+Plus plan in 2025 and is expecting to increase the total number of enrollees in all plans to 180,000 in Budget 2026. Other programmatic growth includes membership growth in the Medicare Advantage, Medicare D-SNP, Marketplace, and CHIP plans with a diversification strategy expected to result in a 5% increase in membership in Budget 2026. Effective management of these expanded plans will be a significant focus for the Community First team in the upcoming year.

- Resource investment to improve and upgrade existing buildings, equipment, and software will be an ongoing focus in 2026, as University Health continues its pursuit of being the preferred health system in the community.

### Capital Budget Projects

Funded Projects that will impact operations and the 2026 Budget:

- The Community Hospitals project consisting of two similar facilities one in Northeast Bexar County and one in South Bexar County broke ground in 2024 and significant progress is underway with planned openings in 2027. As the timeline for opening nears, staff are investing \$20 million of salary expense in the later part of 2026 Budget to onboard key leadership and train support staff to deliver high-quality care in these new locations.

The total estimated project cost is \$1.58 billion. Staff acquired \$300 million of bond funding in September 2022 and \$200 million in August of 2023 to help fund the project. Combined with \$820 million of cash reserves the project fund has a current balance of \$1.3 billion. Additional cash reserves will be allocated to the project over the next few years during the construction phase.

- On October 11, 2022, Bexar County Commissioners Court awarded \$40 million in ARPA funding for the construction of two public health facilities in underserved areas of Bexar County. The Vida facility will be located on University Health property near Texas A&M - San Antonio and the Wheatley Clinic is constructed on land at I-10 east and East Houston Street. The public health facilities are planned to open in late 2025 and become fully operational with each providing clinic services, imaging, Express Med locations, and a dedicated Retail Pharmacy.
- Facilities improvements will continue with infrastructure repair and upgrades at existing locations and planned opening of additional regional clinic locations. Continued efforts to modernize University Health elevators and the Central Utility Plant will be a focus to improve the patient experience.

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

- Emergency Room throughput and efficiency: Power UP
- Clinical Quality Outcome scores and work to retain Leapfrog A
- Clinical Documentation improvements
- Maintain and improve patient satisfaction
- Length of stay reductions with enhanced Care Coordination and optimization of LeanTaas
- Employee engagement and satisfaction
- Implement strategic tactics to fulfill projected activity by:
  - Focusing on key service lines
    - Cardiovascular
    - Neurosciences
    - Oncology
    - Children's Health
    - Women's Health Services including perinatal
    - Trauma
    - Transplant
  - Enhance marketing, outreach and referral development
  - Executing planned clinical integration and physician alignment initiatives with key service line physicians
- Enhance human capital through recognition, retention, and continuous learning programs
- Produce positive financial results to fund capital improvements

## 2026 Consolidated Budget Summary

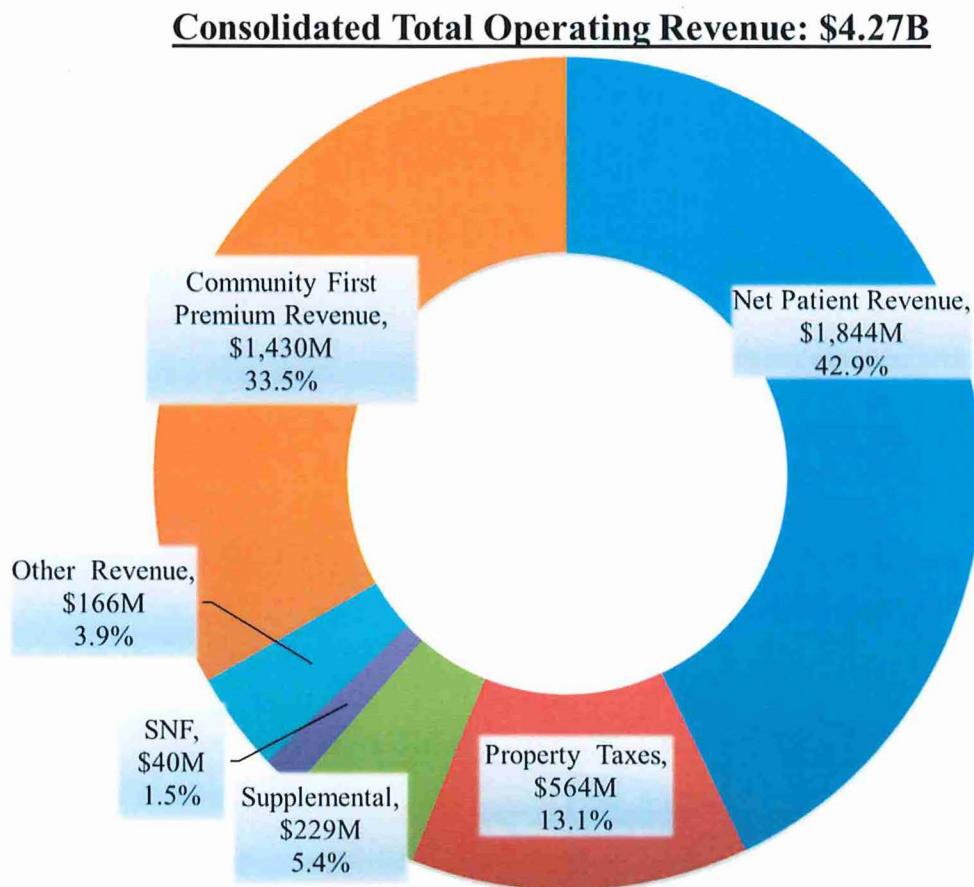
The table below is a summary of the 2026 Consolidated Budget and a comparison to Projected 2025.

<b>Consolidated</b> (Dollars in Millions)	<b>2025 Projected</b>	<b>2026 Budget</b>	<b>Variance from Projected</b>	<b>% Variance</b>
<b>Total Operating Revenue</b>	\$3,956.5	\$4,272.9	\$316.4	8.0%
<b>Total Operating Expense</b>	\$3,635.5	\$4,112.9	\$477.4	13.1%
<b>Operating Gain</b>	\$321.0	\$160.0	(\$161.0)	(50.2%)
<b>Nonoperating Revenue/(Expense):</b>				
<b>Depreciation/Amortization</b>	(\$156.3)	(\$180.5)	(\$24.2)	(15.5%)
<b>Other Non-operating</b>	\$112.3	\$63.0	(\$49.3)	(43.9%)
<b>Premium Deficiency Reserve</b>	\$2.7	\$0.0	(\$2.7)	(100.0%)
<b>Total Non-Operating Revenue</b>	(\$41.2)	(\$117.5)	(\$76.3)	(185.1%)
<b>Bottom Line excluding Debt Service</b>	<b>\$279.8</b>	<b>\$42.5</b>	<b>(\$237.3)</b>	<b>(84.8%)</b>
<b>Debt Service Expense</b>	\$99.8	\$99.9	\$0.1	0.1%
<b>Capital Requirements</b>	<b>\$46.3</b>	<b>\$46.9</b>	<b>\$0.6</b>	<b>1.3%</b>

- University Health's Consolidated 2026 Budget (Exhibit 1A) reflects a gain from operations of \$160.0 million and a bottom-line gain of \$46.9 million after including non-operating income/(expense) of (\$117.5) million.
- University Health less Community First, the Clinical Services Division (Exhibit 1B) reflects a \$147.4 million gain from operations and a bottom-line gain of \$24.9 million after including depreciation/amortization expense of \$175.5 million and \$53.0 million of non-operating revenue.
- Community First (Exhibit 1C) reflects a gain from operations of \$12.6 million and a bottom-line gain of \$17.5 million after including depreciation/amortization expense of \$5.1 million and non-operating income of \$10.0 million.
- The budget includes \$99.9 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 2026 is \$0.041547 per \$100 valuation (Exhibit 7).

- University Health's 2026 on-going capital budget for the clinical services includes \$45.9 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. In addition, capital requests for Community First are \$995 thousand.

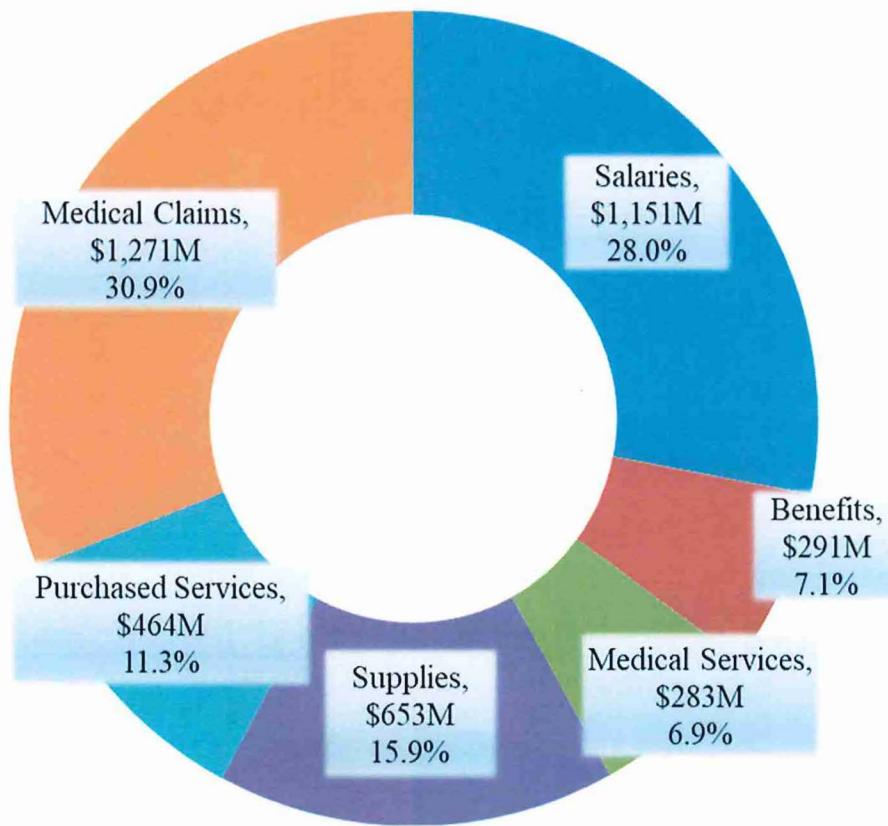
A summary of consolidated sources of funding is as follows:



On a consolidated basis, Total Operating Revenue is \$4.27 billion. Net Patient Revenue (NPR), or collections from third party payers and patients, represents the largest percent at 42.9%. Premium revenue from Community First follows at 33.5%. Property taxes account for 13.1% of total operating revenue, Supplemental Funding accounts for 5.4%, and Other Revenue sources are 5.4% of total operating revenue.

A summary of Consolidated Total Operating Expense is as follows:

**Consolidated Total Operating Expenses: \$4.11B**



On a consolidated basis, Total Operating Expense is \$4.11 billion. Salaries and benefits represent the largest percentage at 35.1% followed by Medical Claims for Community First at 30.9%, Supplies are 15.9%, Purchased Services at 11.3%, and Medical Services are at 6.9%.

**Clinical Services Division (University Health less Community First)  
Operating and Capital Budget for Fiscal Year 2026**

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University Health developed the 2026 Clinical Services Division Budget to incorporate the strategies and initiatives described in the preceding sections. The Clinical Services Division 2026 Budget will produce an operating gain of \$147.4 million and bottom line of \$24.9 million.

Below is a summary of the 2026 Budget and a comparison to Projected 2025:

<b>University Health</b> (Less Community First)	2025 Projected	2026 Budget	Variance from Projected	% Variance
Dollars in Millions				
<b>Total Operating Revenue</b>	\$2,739.0	\$2,842.9	\$103.9	3.8%
<b>Total Operating Expense</b>	\$2,429.8	\$2,695.5	\$265.7	10.9%
<b>Gain/(Loss) from Operations</b>	\$309.2	\$147.4	(\$161.8)	(52.3%)
<b>Depreciation Expense</b>	(\$152.4)	(\$175.5)	(\$23.0)	15.1%
<b>Other Non-Operating</b>	\$96.7	\$53.0	(\$43.7)	(45.2%)
<b>Total Non-Operating Revenue/Expense</b>	(\$55.8)	(\$122.5)	(\$66.7)	(119.6%)
<b>Bottom Line Excluding Debt Service</b>	<b>\$253.5</b>	<b>\$24.9</b>	<b>(\$228.5)</b>	<b>(90.2%)</b>
<b>Debt Service</b>	\$99.8	\$99.9	\$0.1	0.1%
<b>Capital Requirements</b>	<b>\$46.0</b>	<b>\$45.9</b>	<b>(\$0.1)</b>	<b>(0.2%)</b>

- University Health (less Community First), the Clinical Services Division (Exhibit 1) reflects a \$147.4 million gain from operations and a bottom-line gain of \$24.9 million after including depreciation/amortization expense of \$175.5 million and \$53.0 million of non-operating gain from interest income.
- The budget includes \$99.9 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 2026 is \$0.041547 per \$100 valuation (Exhibit 7).
- University Health's 2026 on-going capital budget for Clinical Services includes \$45.9 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. The majority of the capital budget request is comprised of required maintenance at \$22.8 million, replacement equipment and upgrades at \$12.7 million, and \$10.4 million for strategic or new services. Several large capital projects include \$12 million to aged infrastructure and biomedical equipment, in

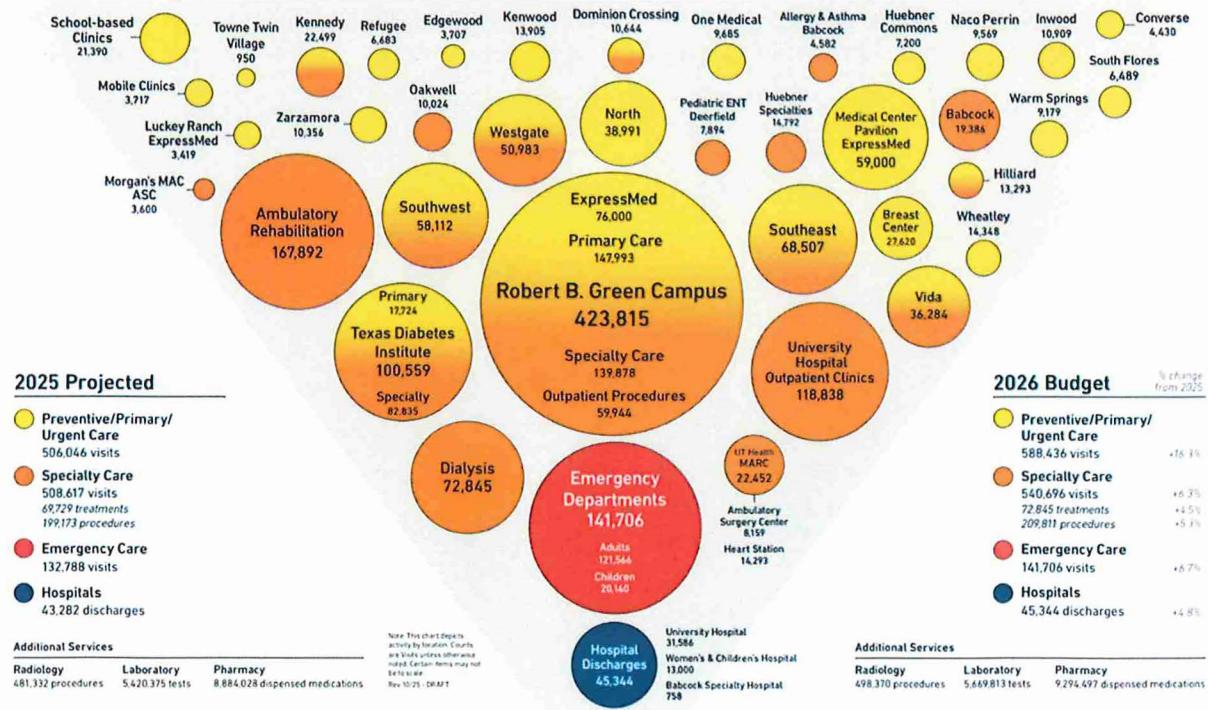
the Sky Tower, \$12.5 million to replace IT network hardware and licenses, \$2.1 million for replacing a ceiling mounted C-arm in the operating room, and \$1.8 million to rebuild the MRI at the RBG campus.

## Clinical Activity (Access) Assumptions

The 2026 budget projects inpatient discharge activity will increase by 3.0% and other activity will increase by 11.3% compared to the volumes projected for 2025. For budgeting purposes, the assumption is that the demand for services will remain strong and inpatient growth is supported by optimization of bed use in the Women's & Children's Hospital and the new Babcock Specialty Hospital. Additional growth opportunities are created by expanded Ambulatory Clinic capacity, including the onboarding of the employed Interventional Cardiology group and further ramp-up of the Morgan's MAC Ambulatory Surgery Center that opened in mid-2025. A detail of Activity in the 2026 Budget can be found in Exhibit 2. The major factors contributing to this growth include:

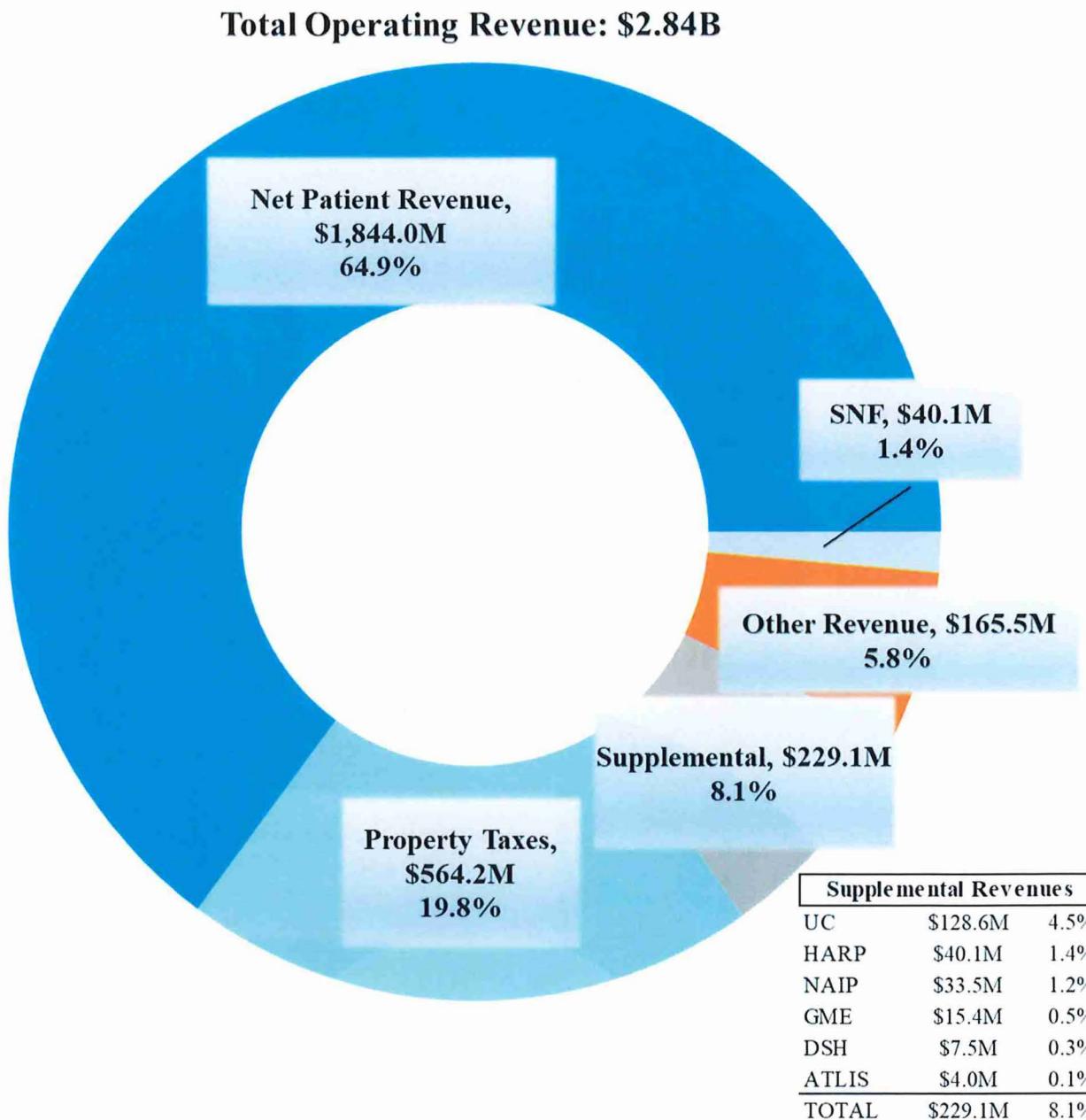
- Assumption that demand for services will remain strong.
- Women's & Children's service line enhancement will drive continued volume increases in both inpatient and outpatient settings.
- Additional ambulatory clinic locations, including the new Wheatley and Vida Public Health Clinics, and optimization of provider schedule templates with increased recruitment of new UMA providers.

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



### **Total Operating Revenue – Clinical Services Division**

2026 Total Operating Revenue is budgeted at \$2.8 billion, which is \$103.9 million or 3.8% higher than the 2025 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)**

2026 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 \$1.84 billion which is an increase of \$96.4 million compared to the 2025 projection. The following is a summary of the key NPR assumptions:

- Actual inpatient payment rates by service line from calendar year 2025 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.
- The Texas Medicaid Comprehensive Hospital Increase Reimbursement Program (CHIRP) will enhance 2026 Medicaid NPR by an estimated \$43.7 million in an effort for Texas Medicaid payment rates to more closely reflect Medicare payment rates.
- Volume increases from Inpatient, Outpatient, and UMA Clinic services are projected to add \$25.6 million to NPR over the projected 2025 run rate.
- Budget 2026 includes an increase in Medicare Disproportionate Share (DSH) payment of \$21 million to increase funding for safety net hospitals. That amount is offset by a 2% increase in Medicare Sequestration and the annual Cost of Living Adjustment (COLA) that is implemented by the Centers for Medicare & Medicaid Services annually in an attempt for Medicare payments to maintain equity with the rise of inflation. The net impact of Medicare rate changes is \$17.2 million increase to NPR in 2026.
- Retail, Specialty, and the Meds-to-Beds Pharmacy program will continue to grow in 2026 Budget by an estimated \$9.5 million in NPR.
- Managed care contract rate improvements will increase NPR by \$3.1 million due to recent contract renegotiations with significant payers whose members choose to receive care at University Health.
- Patients who are on Carelink or who do not have insurance receive a significant discount on the amount owed for services at University Health. In Budget 2026, staff are expecting a \$0.9 million decrease in collections for this patient responsibility due to macroeconomic inflationary pressures impacting the ability to pay.
- The Texas Incentives for Physicians and Professional Services (TIPPS) program is a transition from the DSRIP program to improve health outcomes and better manage the leading drivers of healthcare costs. This program is an enhanced rate program for physician services that is expected to decline by \$1.8 million in Budget 2026 as more participants statewide qualify for a capped resource.

## **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, frequent rule changes, and often have a limited life span. University Health staff utilized the best information available as of October 2025, to prepare the impact of Regulatory and Legislative actions (Exhibit 4). All of the changes in this chart, which reflect a \$45.5 million increase in funding from the 2025 projection, are included in the 2026 budget. Some components of the Regulatory and Legislative actions are included in Net Patient Revenue while others are reported as stand-alone items in the financial reports. The following are the key assumptions relative to legislative impacts on operating revenue:

### **Supplemental Medicaid Funding Programs**

Supplemental Payments are additional Medicaid payments to healthcare providers that are separate from and in addition to “base Medicaid payments”. The payments can be paid as lump sum or included as an increase to individual claims. In 2026, University Health estimates Medicaid supplemental funding as follows:

- **The Texas' Uncompensated Care (UC) fund**

On January 15, 2021, Texas received Federal approval for the Texas Healthcare Transformation and Quality Improvement 1115 Demonstration Waiver through September 30, 2030. The waiver allows the state to expand Medicaid managed care while preserving hospital funding, provides incentive payments for health care improvements and directs more funding to hospitals that serve large numbers of uninsured patients. The source of Texas' Uncompensated Care (UC) funding is the Waiver. The UC funding benefit to University Health for 2026 is estimated at \$128.6 million, a decrease of \$17.8 million from the 2025 funding level. The decrease is related to the additional supplemental payments provided for under the CHIRP program referenced below.

- **The Disproportionate Share Hospital (DSH) Program**

The DSH program provides payments to hospitals that serve a disproportionately large number of Medicaid and low-income patients. The estimated benefit from this program for 2026 is \$7.5 million, which is \$8.3 million less than the 2025 projection. After a substantial program cut in 2025 related to the initial passage of the Affordable Care Act, there are no major changes to the program in 2026. However, the baseline period does include settlement payments related to program years 2018-2021.

- **The Graduate Medical Education Fund (GME)**

Parkland Health, Harris Health and University Health all have significant unfunded costs for Graduate Medical Education (GME). This program allows for partial reimbursement of those costs through the Medicaid program, provided the local public health system, like University Health, agrees to make the intergovernmental transfer (IGT) for the State. This program provided University Health with a net benefit of \$15.4 million in 2025 and is not projected to change in budget 2026. The unreimbursed GME expense for 2026 is \$17 million, after the partial Medicaid GME program reimbursement.

- **The Hospital Augmented Reimbursement Program (HARP)**

HARP is a supplemental program that provides additional funding for public hospitals by supplementing the payments for non-Managed Medicaid patients, sometimes called Fee-For-Service patients. The estimated benefit from this program for 2026 is \$40.1 million, which is \$0.4 million more than the 2025 projection due to the planned growth in Traditional Medicaid volumes.

### **Directed Payment Programs (DPPs)**

Directed Payments are authorized under 42 CFR 438.6(c) which allow states to set parameters for Medicaid managed care spending to assist states in achieving their overall goal of delivery system and payment reform. Specifically, Texas directs Medicaid Managed Care Organizations (MCOs) to make certain payments to healthcare providers, either through an adjustment to the monthly base capitation rates or through a separate payment term. These programs normally have quality metrics as a component of the payment calculation and funding helps offset the cost of treating managed Medicaid patients. In 2026, University Health estimates Medicaid Directed Payment Program funding as follows:

- **The Network Access Improvement Program (NAIP)**

NAIP is a designated pass-through program, which is a lump sum payment that is passed through Managed Medicaid payers to participating providers. The NAIP program is projected to provide \$33.5 million in benefit for 2026, which is \$4.6 million higher than in 2025 due to a reallocation of available funding to this program which favors the University Health quality and payer mix outcomes. This program is scheduled to end in 2027.

- **The Comprehensive Hospital Increase Reimbursement Program (CHIRP):**  
CHIRP replaced the Uniform Hospital Rate Increase Program beginning September 1, 2021. CHIRP provides increased Medicaid payments to hospitals for inpatient and outpatient services provided to persons enrolled in STAR and STAR+PLUS. CHIRP funds are paid through two components of the managed care capitation rates. University Health qualifies for the Uniform Hospital Rate Increase Payment component that provides a uniform rate increase payment which is based on a percentage of the Medicare gap (the difference between what Medicare is estimated to pay for the services and what Medicaid actually paid for the same services). The estimated benefit from this program for 2026 is \$113.4 million, which is \$43.7 million more than the 2025 projection. These payments are added on to each qualifying Managed Medicaid payment and are included in Net Patient Revenue.
- **The Texas Incentives for Physicians and Professional Services (TIPPS):**  
TIPPS increases the payments for physician services provided to Managed Medicaid patients. The estimated benefit from this program for 2026 is \$15.9 million, which is \$1.8 million less than the 2025 projection. The expected decrease is due to more physicians statewide who are expected to qualify for the program, thus diluting the impact per participant for University Health.
- **Aligning Technology by Linking Interoperable Systems (ATLIS):**  
ATLIS is a Texas Medicaid Quality Outcome program that began in State Fiscal Year 2025 for participants to implement the structures, processes, and use of client data transmitted electronically between MCOs and providers. The intent is to improve client outcome measures and to implement, evaluate, improve, and mature alternative payment models (APMs) for Medicaid beneficiaries. The benefit to University Health in 2026 is expected to be \$4.0 million, a \$3.8 million improvement over the 2025 projection.

## Property Tax M&O

Bexar County Certified Assessed Values increased to \$315 billion, a 3.4% increase over 2024 valuations. After applying exemptions, including the maximum 20% homestead exemption and a \$30,000 exemption for those over age 65, the Total 2025 Taxable Value is \$246 billion, a 2.7% increase over prior year. On September 9, 2025, the Bexar County Commissioners Court approved the existing tax rate of \$0.276235 per \$100 of taxable value, with the M&O tax revenue expected to result in \$564.1 million, a 2.8% increase over prior year. Excluding Community First, property taxes for operations, as a percent of Total Operating Revenue, decreased from 20.0% in 2025 projection to 19.8% in Budget 2026.

A summary of the property taxes reflected is as follows:

**2026 Budget: Analysis of Tax Rate**

Dollars in Thousands	2024 Tax Rate	2025 Tax Rate	Tax Rate Change from Existing Rate	% Change from Existing Tax Rate	2025 Estimated Taxes <sup>1</sup>	2026 Estimated Taxes <sup>2</sup>	Proposed Net Change From Prior Year	% Change
Operating Rate	0.233700	0.234688	0.000988	0.42%	\$548,596	\$564,195	\$15,598	2.84%
Debt Rate	0.042535	0.041547	-0.000988	(2.32%)	\$99,848	\$99,880	\$32	0.03%
Total Tax Rate	0.276235	0.276235	0.000000	0.00%	\$648,444	\$664,075	\$15,630	2.41%

<sup>1</sup> 2025 Estimated Tax revenue calculated on 2024 property values as of 10/01/24 and 2024 Tax Rate

<sup>2</sup> 2026 Estimated Tax revenue calculated on 2025 property values certified on 07/19/2025 and 2025 Tax Rate with an assumed collection rate of 97.74%

Exhibit 7 reflects the tax rate calculation.

**Other Revenue**

<b>Other Revenue</b>		
(Dollars in Millions)		
<b>2025 Projected</b>	<b>\$142.5</b>	
<b>Changes</b>		
Foundation Revenue	\$9.0	6.3%
<b>Total Change</b>	<b>\$9.0</b>	<b>6.3%</b>
<b>2026 Budget</b>	<b>\$151.5</b>	

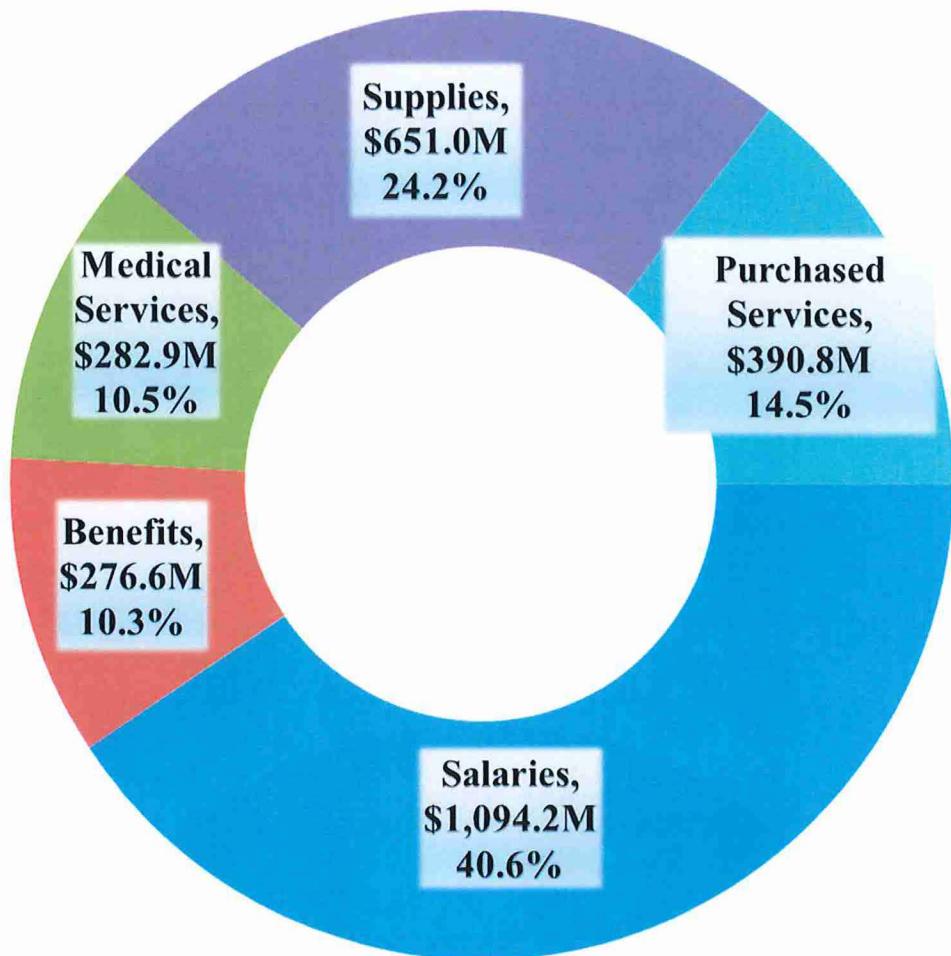
Other Revenue of \$151.5 million includes reimbursement for residents that work in non-University Health sites, Grants, Foundation revenue, cafeteria revenue for visitors and staff, catering revenue, sundry revenue from parking, disposal of assets, clinical research studies, UT leased space at University Hospital and the Texas Diabetes Institute, pharmacy rebates, vendor rebates, medical records copies, lease payments, and other miscellaneous items.

- Foundation revenue is projected to increase \$9.0 million from 2025 projection as staff build momentum of the Rooted Campaign and new initiatives focused on expansion of Community Hospitals.
- No other significant changes to revenue sources are expected in this category during 2026.

## Total Operating Expense

Total Operating Expense for 2026 is budgeted at \$2.70 billion, a \$265.7 million or 10.9% increase over the 2025 projected total. For the Clinical Services Division (University Health less Community First) salaries and benefits make up 50.9% of operating expense. Medical Services, Supplies, and Purchased Services make up 10.5%, 24.2%, and 14.5%, respectively. A chart summarizing the changes in expense category and the drivers that impact the changes is provided in Exhibit 5.

### Total Operating Expenses: \$2.7B



**Salaries**

<b>Salaries</b>			
(Dollars in Millions)			
<b>2025 Projected</b>			<b>\$981.8</b>
<b>Changes</b>			
Volume Impact	\$29.5	3.0%	
Retention Incentive and Market Adjustment	\$27.6	2.8%	
Onboarding for Retama and Palo Alto Hospitals	\$20.0	2.0%	
Additional UMA Providers & Support	\$18.2	1.9%	
Various Staffing Investments	\$7.3	0.7%	
Fill 2025 Vacant Positions	\$6.1	0.6%	
Retail & Specialty Pharmacy	\$3.8	0.4%	
<b>Total Change</b>	<b>\$112.4</b>	<b>11.5%</b>	
<b>2026 Budget</b>			<b>\$1,094.2</b>

The 2026 Budgeted Salary cost of \$1,094.2 million is \$112.4 million or 11.5% higher than 2025 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 requested to be budgeted in 2026 that was unfilled as of July 2025.
- The increased activity in patient care areas across the hospital and ambulatory clinic locations will require additional variable staffing to provide patient care. Management activities to improve staffing efficiency in these areas partially offset the volume-driven increases resulting in a net increase of salary expense by \$29.5 million.
- The 2026 budget reflects a significant investment in University Health staff to recruit and retain top talent in a highly competitive marketplace. Substantial efforts to recruit and retain employed staff are reflected in the 2025 salary dollars with a budgeted increase of \$27.6 million for market adjustments and retention incentives to support these efforts. These increases address specific job titles or categories that require supplemental pay increase to maintain market competitiveness.
- The planned 2027 opening of the Retama and Palo Alto Community Hospitals will require staff to be hired and trained during the latter part of 2026. The 2026 budget includes \$20.0 million allocated to the planned recruitment and training periods.

- University Medicine Associates (UMA) is substantially growing its employed physician practice in 2026 with the recruitment of new primary care and various specialists to address patient demand. The additional investment of these provider salaries and the corresponding staff to support the operation of their clinics will result in an additional \$18.2 million in 2026.
- Investment in additional positions to serve Detention Health, Care Coordination, and other support services will result in a salary increase of \$7.3 million and result in improved patient experience and outcomes.
- Compared to the Projected 2025 amount, \$7.3 million of salary is included in Budget 2026 to accommodate for a full year of positions and their salaries that were budgeted and needed in 2025 but were unfilled through a portion of the year. Budget 2026 expectation is these positions will be occupied throughout the year.
- Additional staff to support the growing retail and specialty pharmacy services, including new pharmacies at the Wheatley and Vida Public Health clinics, will result in \$3.8 million of additional expense in 2026.

## Employee Benefits

Benefits		
(Dollars in Millions)		
<b>2025 Projected</b>	<b>\$223.3</b>	
<b>Changes</b>		
OPEB Liability	\$24.0	10.7%
Health Benefit	\$12.9	5.8%
FICA & Employee Retirement Match	\$10.8	3.3%
Pension Liability	\$5.6	2.5%
<b>Total Change</b>	<b>\$53.3</b>	<b>23.9%</b>
<b>2026 Budget</b>	<b>\$276.6</b>	

Benefits of \$276.6 million are \$53.3 million or 23.9% higher than 2025 projected primarily driven by a combination of an increase in Other Post Employment Benefit (OPEB) expense, an increase in Pension liability expense, employee and dependent Health Benefit expense, payroll tax, and employee retirement match on behalf of our employees. Both the OPEB and Pension plans are impacted by a one-time third-party actuarial valuations and accounting guidance that define the expected contributions for University Health to support former employees and their dependents. The increase in Health Benefit expense is driven by the growth in staff opting into the University Health benefit program.

## Medical Services

<b>Medical Services</b>		
(Dollars in Millions)		
<b>2025 Projected</b>	<b>\$283.6</b>	
<b>Changes</b>		
UT Master Services Agreement	(\$0.8)	-0.3%
<b>Total Change</b>	<b><u>(\$0.8)</u></b>	<b><u>-0.3%</u></b>
<b>2026 Budget</b>	<b>\$282.9</b>	

Medical Services expense includes payments to third-party physician partners and other professional providers of service to University Health's patients. The 2026 budgeted expense of \$282.9 million reflects a decrease of \$0.8 million or 0.3% from the projected 2025 amount. The increase is primarily due to the following:

- UT Health's Master Services Agreement (MSA), budgeted at \$165.9 million in 2026, results in a decrease of \$0.8 million from the current projection due to a conversion of some former UT physicians to an employment agreement with UMA. Key service agreements remain in-place for the majority of the MSA agreement.
- Carelink payments to community providers and other components of the Medical Services expense are not expected to materially change in 2026.

## Purchased Services

<b>Purchased Services</b>		
(Dollars in Millions)		
<b>2025 Projected</b>	<b>\$353.1</b>	
<b>Changes</b>		
Information Technology & Biomedical	\$16.2	4.6%
Transplant Programs	\$6.2	1.8%
Utilities and Maintenance	\$4.2	1.2%
Aged Building Repair & Maintenance	\$4.0	1.1%
Recruitment Efforts	\$3.7	1.0%
Specialty Pharmacy	\$3.4	1.0%
<b>Total Change</b>	<b><u>\$37.7</u></b>	<b><u>10.7%</u></b>
<b>2026 Budget</b>	<b>\$390.8</b>	

Purchased Services are budgeted overall at \$390.8 million, a \$37.7 million increase or 10.7% higher than the 2025 projection. Contributing to this change are the following:

- University Health is a proud award-winning system that deeply invests in supportive technology and has earned designation as Level 10 Most Wired by CHiME, one of fifteen hospitals to earn Epic's three diamond distinction, and HIMMS Level 7, among others. Investment in technology drives efficiency in operational performance, reduction in unnecessary care variation, and enhancement in revenue. These investments continue in Budget 2026 with a planned \$16.2 million increase of IT license maintenance and service expense with the majority of that related to Epic volume-driven maintenance and hosting expenses.
- Transplant Programs expense increased by \$6.2 million in 2026 for organ acquisition and the corresponding cost of timely travel and support of those organs due to an expanded organ procurement service area in support of transplant cases, specifically the liver and lung transplant programs.
- The expanded care locations for University Health, including the opening of the Babcock Specialty Hospital and new Public Health clinic locations comes with additional expenses for utility costs to support the additional square footage. In addition, staff expected a 3% inflation on these utilities costs in Budget 2026 resulting in additional Purchased Service expense of \$4.2 million.
- Clinical buildings and related infrastructure in some locations of University Health are significantly aged and require additional resources to modernize and maintain the use of these locations. Budget 2026 includes an additional \$4.0 million of investment to improve the timeliness and reliability of the elevator service through a comprehensive modernization effort, refresh of Central Utility Plant components, and repair of various other infrastructure at University Health locations.
- The opening of Babcock Specialty Hospital and the planned opening of two additional Community Hospitals in 2027 will require additional recruitment efforts in 2026 to ensure continued high-quality care. Human Resource recruitment and related efforts will increase the purchased service expense by \$3.7 million in 2026 Budget.
- Continued expansion of the Specialty Pharmacy program includes a renewed contract to support the optimization and service for these patients with chronic conditions. The planned increase in cost related to the Specialty Pharmacy program for Budget 2026 is \$3.4 million.

**Supplies**

<b>Supplies</b>		
(Dollars in Millions)		
<b>2025 Projected</b>		<b>\$587.9</b>
<b>Changes</b>		
Pharmaceutical: Retail Pharmacy	\$29.8	5.1%
Medical Supplies: Inpatient & Ambulatory Growth	\$17.0	2.9%
OR & Procedural Supply Cost	\$16.2	2.8%
<b>Total Change</b>	<b>\$63.1</b>	<b>10.7%</b>
<b>2026 Budget</b>		<b>\$651.0</b>

In 2026, Supplies are budgeted at \$651.0 million, which is a \$63.1 million or 10.7% increase over projected 2025. Major impacts to the increase in supply cost are due to the following:

- Pharmaceutical expenses are planned to increase by \$29.8 million primarily related to continued growth in the Meds-to-Beds, Retail Pharmacy, and Specialty Pharmacy volumes which generate additional pharmacy revenue to cover the expense increase.
- Routine Medical Supply use driven by growth in volume at University Hospital, Ambulatory Surgical Centers, and Ambulatory Clinic locations are expected to increase by \$17.0 million in Budget 2026. The budget plan for these variable expenses is generated using metric driven analytics that hold the medical supply expense per unit of service at, or below, historical performance levels.
- Operating Room and advanced procedures are expected to use an additional \$16.2 million in supplies during Budget 2026. The increase is due to additional procedural volume as University Health continues to optimize room utilization and perform more advanced procedures that frequently require high-cost implantable devices to improve health outcomes for the most complex patient care. The additional procedural supply expense will generate additional net patient revenue to offset the expense.

**Non-Operating Revenue/(Expense Assumptions)**

<b>Non-Operating Revenue/Expense</b>			
(Dollars in Millions)			
<b>2025 Projected</b>			<b>(\$55.8)</b>
<b>Changes</b>			
Depreciation		(\$23.0)	-41.3%
Unrealized Gain/Loss		(\$25.6)	-45.9%
Interest Income		(\$18.1)	-32.5%
<b>Total Change</b>		<b>(\$66.7)</b>	<b>-119.6%</b>
<b>2026 Budget</b>			<b>(\$122.5)</b>

The Non-Operating Revenue/(Expense) budget for 2026 has three primary assumptions driving the \$66.7 million increase of expense in this area.

- The acquisition of Babcock Specialty Hospital and new Public Health buildings in late 2025 will result in additional depreciation expense of \$23.0 million in Budget 2026.
- The 2025 projection includes \$25.6 million in unrealized gain related to the current weighting of University Health investment rates being higher than current market yields. In 2026 Budget, we are expecting continued volatility in interest rates but due to the uncertainty of rate direction, will not budget any unrealized gain or loss.
- Interest Income is projected to decrease by \$18.1 million due to a lower interest rate environment and lower investable balances due to the continued investment in the Community Hospitals projects.

**Debt Service Requirement**

Debt service payments for 2026 are estimated at \$99.9 million. The 2025 debt tax rate, which funds payments due in 2026, is \$0.041547 per \$100 valuation. The required debt payment for 2026 increases by \$0.1 million. The Commissioners Court approved the Debt Service tax levy of \$99.9 million on September 9, 2025.

<b>Debt Service</b>				
Dollars in millions	2025 Projected	2026 Budget	Variance from Projected	% Variance
<b>Debt Service Payment</b>	\$ 99.8	\$ 99.9	\$ 0.1	0.1%

## Ongoing Capital Requirements

The capital budget for 2026 Clinical Services is recommended to be set at \$45.9 million. In prioritizing the capital needs for 2026, 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:

2026 Routine Capital Requirements					
Priority	Mandated (Regulatory Safety & Required Maintenance)	Replacement	Strategic (New Service / Expansion)	Grand Total	
Essential: Cannot Function Without	\$ 526,859	\$ 11,340,026	\$ 6,771,307	\$ 18,638,192	
Important: Necessary For Improvement	\$ 22,258,170	\$ 355,039	\$ 3,362,387	\$ 25,975,595	
Proactive: Necessary To Avoid Problems	\$ 41,139	\$ 991,932	\$ 260,172	\$ 1,293,243	
<b>Total Clinical Services</b>	<b>\$ 22,826,168</b>	<b>\$ 12,686,996</b>	<b>\$ 10,393,866</b>	<b>\$ 45,907,030</b>	

A detailed listing of capital requests is displayed on **Exhibit 8**.

## **Community First Health Plans Operating and Capital Budget for Fiscal Year 2026**

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### **Executive Summary**

Community First Health Plans, Inc. (Community First) was established in 1995 to begin providing health care coverage to the residents of Bexar and its seven surrounding counties. Our commitment to our members is to provide excellent healthcare benefits and services with quality outcomes. Our goal is to ensure that the community we serve has access to healthcare for all stages of life and the assurance of care when most needed.

Throughout Fiscal Year 2026, Community First will manage the healthcare needs for an expected average consolidated membership of 180,903 members while delivering a budgeted net income of \$17,549,046. The budgeted underwriting income (excluding Investment Income, Premium Deficiency Reserve, and Federal Income Tax) is budgeted to be a gain of \$8,082,663.

The Executive Management team has considered and incorporated into the FY 2026 Budget all necessary resources that will enable Community First to achieve its financial targets while still delivering operational excellence and providing quality care. The goals and strategic priorities include:

- 1) Increase market share as it relates to membership in the STAR, STAR Kids, STAR+PLUS, and CHIP lines of business.
- 2) Increase membership in Medicare Advantage, Medicare Dual Special Needs Plan (D-SNP), and Marketplace.
- 3) Evaluate and assess the performance of the STAR+PLUS line of business.
- 4) Continue the development and implementation of advanced alternative payment models and expansion of the provider incentive program.
- 5) Enhance and expand coordination and integration with University Health in support of ongoing evolution towards an industry-leading integrated delivery system.
- 6) Enhance and expand advanced financial and medical economic analytics, including predictive modeling and risk score optimization.
- 7) Continue to improve and refine member and provider satisfaction, and quality medical outcome measures.

The remainder of this report provides insight into the development of the FY 2026 budget for review and consideration:

## Membership:

Throughout FY 2026, Community First will manage the health care services for an expected average consolidated membership of 180,903 members. This represents an overall increase of 8,687 members, which is a 5.0% change when compared to FY 2025 Outlook.

Product	FY 2025 Outlook Membership	FY 2026 Budget Membership	Inc / (Dec)	% Change
STAR	115,444	117,463	2,019	1.7%
STAR KIDS	6,005	5,894	(111)	-1.8%
STAR+PLUS	15,166	15,700	534	3.5%
CHIP	7,385	7,890	505	6.8%
CHIP PERINATE	535	613	78	14.6%
MEDICARE ADVANTAGE	168	425	257	153.0%
MEDICARE DSNP	177	2,000	1,823	1029.9%
MARKET PLACE	3,089	4,432	1,343	43.5%
COMMERCIAL	1	1	-	0.0%
ASO	24,246	26,485	2,239	9.2%
<b>TOTAL</b>	<b>172,216</b>	<b>180,903</b>	<b>8,687</b>	<b>5.0%</b>

The expected change in membership is primarily due to the continuation of our diversification strategy to further expand Medicare Advantage, Medicare D-SNP, STAR+PLUS, Marketplace, and CHIP.

## Revenue:

Total Revenue for FY 2026 is budgeted at \$1.4B. This represents an increase of 17.5% over the FY 2025 Outlook.

The table below represents the change in revenue per member per month (PMPM) between the FY 2026 Budget and FY 2025 Outlook.

Product	FY 2025 Outlook Revenue - PMPM	FY 2026 Budget Revenue - PMPM	Inc / (Dec)	% Change
STAR	391.55	440.02	48.47	12.4%
STAR KIDS	2,614.82	3,128.25	513.43	19.6%
STAR+PLUS	2,318.55	2,417.84	99.29	4.3%
CHIP	163.16	175.91	12.76	7.8%
CHIP PERINATE	471.69	447.83	(23.85)	-5.1%
MEDICARE ADVANTAGE	1,268.81	1,233.62	(35.19)	-2.8%
MEDICARE DSNP	2,105.16	2,164.07	58.91	2.8%
MARKETPLACE	848.65	850.85	2.20	0.3%
COMMERCIAL	995.01	995.01	0.00	0.0%
ASO	30.00	30.00	-	0.0%

FY 2026 revenues are based on rate information provided by the Health and Human Service Commission (HHSC) for STAR, STAR Kids, STAR+PLUS, and CHIP. Medicare and Marketplace rates are based on rates calculated by Community First external actuaries and approved by the Centers for Medicare & Medicaid Services (CMS) and the Texas Department of Insurance (TDI), respectively.

### **Medical Expense:**

The total Medical Expense for FY 2026 is budgeted at \$1.2B. This represents an increase of 16.9% over the FY 2025 Outlook. The projected Medical Loss Ratio (MLR) for FY 2026 is 88.9%. Factored into medical expenses was an increase in utilization, additional medical expenses at risk, and operation of STAR+PLUS.

The FY 2026 medical expenses were developed by line of business based on trends, underlying utilization and costs, then separated by medical service category, i.e., Inpatient, Outpatient, Physician, Ancillary, and Pharmacy.

Product	FY 2025 Outlook Medical - PMPM	FY 2026 Budget Medical - PMPM	Inc / (Dec)	% Change
STAR	361.30	400.40	39.10	10.8%
STAR KIDS	2,295.35	2,710.06	414.71	18.1%
STAR+PLUS	2,035.51	2,185.35	149.84	7.4%
CHIP	142.59	151.77	9.18	6.4%
CHIP PERINATE	390.59	383.68	(6.91)	-1.8%
MEDICARE ADVANTAGE	1,603.65	1,057.03	(546.62)	-34.1%
MEDICARE DSNP	1,747.58	1,855.03	107.45	6.1%
MARKET PLACE	790.86	680.59	(110.26)	-13.9%
COMMERCIAL	157.84	846.30	688.46	436.2%
ASO	-	-	-	0.0%

### **Administrative Expense:**

The total Administrative Expense for FY 2026 is budgeted at \$150.8M, an increase of 23.4% over FY 2025 Outlook, and represents a fully loaded administrative expense ratio of 10.5% when compared to total revenue.

The FY 2026 administrative expense budget includes a total of 658 FTEs. This includes an increase of 21 FTEs over FY 2025. The following table identifies these incremental positions and their expected hire date:

Dept Code	Department Name	Job Title	FTE Count	Start Date
2535	COMPUTER OPERATIONS	Cyber Security Analyst	1	1/1/2026
2535	COMPUTER OPERATIONS	Electronic Data Interchange (EDI) Specialist	1	1/1/2026
2535	COMPUTER OPERATIONS	Health Data Analyst	1	1/1/2026
2730	PLAN REIMBURSEMENT & DATA MANAGEMENT	Provider Pricing Analyst	1	4/1/2026
2740	MEMBER SERVICES	Enrollment Quality Assurance/Training Specialist	1	3/1/2026
2785	PHM-SERVICE COORDINATION	Service Coordinator (Non-Clinical)	1	1/1/2026
2785	PHM-SERVICE COORDINATION	Senior Manager STAR Kids	1	1/1/2026
2795	PHM POPULATION HEALTH MANAGEMENT	Health Educator	1	1/1/2026
2795	PHM POPULATION HEALTH MANAGEMENT	Intake Representative	1	1/1/2026
2795	PHM POPULATION HEALTH MANAGEMENT	Pharmacy Technician	1	7/1/2026
2795	PHM POPULATION HEALTH MANAGEMENT	Community Health Worker	1	1/1/2026
2795	PHM POPULATION HEALTH MANAGEMENT	Community Health Worker	1	1/1/2026
2795	PHM POPULATION HEALTH MANAGEMENT	Pharmacy Case Manager	1	7/1/2026
2795	PHM POPULATION HEALTH MANAGEMENT	Behavioral Health Coordinator	2	1/1/2026
2800	CLAIMS	Claims Analyst	1	1/1/2026
2800	CLAIMS	Claims Analyst	1	1/1/2026
2800	CLAIMS	Senior Claims Analyst II	1	1/1/2026
2805	NETWORK MANAGEMENT	Manager, Network Management	1	1/1/2026
2810	QUALITY MANAGEMENT	Manager, Medicare Clinical Quality	1	7/1/2026
2825	GOVERNMENT PROGRAMS	Analyst, Government Programs-Medicare	1	4/1/2026

The FY 2026 budgeted salaries reflect an average merit increase of 3.0% that is dependent on the employee's annual performance evaluation.

Changes in the FY 2026 Administrative Expense budget compared to the FY 2025 Outlook include:

- 1) Salaries and Benefits increased approximately \$10.7M due to:
  - a. Additional FTEs
  - b. Market Adjustments
  - c. Operation of the STAR+PLUS line of business
- 2) Marketing (market outreach, advertising, agency, sponsorships, etc.) increased by approximately \$238K due to enhanced marketing strategies for STAR+PLUS, Medicare Advantage, D-SNP, and Marketplace.
- 3) Computer licensing and maintenance increased by approximately \$1.7M due to the continued enhancement of the application systems, equipment upgrades, and updated security technologies.
- 4) Postage and Supplies increased by approximately \$508K due to enhanced marketing and outreach initiatives.
- 5) Consulting Services increased approximately \$6.0M due to departmental support in Executive, Information Systems, Government Programs, and Business Development for enhancements and implementation of services.
- 6) Insurance & Taxes increased approximately \$4.8M due to the increase in membership and premium revenue.

HHSC utilizes defined formulas in their rate development process to determine the percentage of premium allocated for administrative expense spending. The Community First FY 2026 administrative expense budget of \$136.0M for STAR, STAR Kids, STAR+PLUS, and CHIP is compliant with these regulatory formulas.

**Investment Income:**

Investment Income for FY 2026 is budgeted at \$10.0M and is based on projected assets and yields consistent with the Community First investment policy.

**Capital:**

The Community First FY 2026 Capital Budget is \$995K, consisting of both Information Services and routine Facilities projects. Community First adheres to the University Health capitalization policy threshold of \$5,000 per unit cost.

Item	Asset Type	Amount
HVAC - Heating Ventilation Air Conditioning	Furniture & Equipment	\$ 65,000.00
DELL Servers	Computer Hardware and Equipment	\$ 750,000.00
Rubrik - Care Link	Computer Hardware and Equipment	\$ 50,000.00
Rubrik- Computer Solutions	Computer Hardware and Equipment	\$ 130,000.00
	<b>Total</b>	<b>\$ 995,000.00</b>

# EXHIBITS

- Exhibit 1A 2026 Consolidated University Health – Income Statement
- Exhibit 1B 2026 University Health less Community First –  
Income Statement
- Exhibit 1C 2026 Community First Health Plans – Income Statement
- Exhibit 2 2026 Activity and Notes
- Exhibit 3 2026 Budget, Changes to Total Operating Revenue
- Exhibit 4 2026 Budget, Legislative Changes
- Exhibit 5 2026 Budget, Changes to Total Operating Expense
- Exhibit 6 2026 Budget, FTE Changes
- Exhibit 7 2026 Budget, Analysis of Tax Rate
- Exhibit 8 2026 Budget, Detail of Capital Request, UH less CFHP
- Exhibit 9 Summary of Real Estate Transactions in 2025



## Income Statement

Consolidated (Dollars are in Thousands)	2025 Projected	2026 Budget	Variance from Projected	% Variance
<b>Revenues</b>				
Net Patient Service Revenue	\$1,747,581	\$1,843,959	\$96,379	5.5%
Property Taxes M & O	\$548,914	\$564,195	\$15,281	2.8%
Supplemental Revenue	\$246,484	\$229,143	(\$17,341)	(7.0%)
SNF Revenue	\$40,085	\$40,085	\$0	0.0%
CFHP Premium Revenue	\$1,217,525	\$1,429,987	\$212,461	17.5%
Other Revenue	<u>\$155,934</u>	<u>\$165,529</u>	<u>\$9,595</u>	<u>6.2%</u>
<b>Total Operating Revenues</b>	<b>\$3,956,523</b>	<b>\$4,272,898</b>	<b>\$316,375</b>	<b>8.0%</b>
<b>Expenses</b>				
Salaries	\$1,031,094	\$1,150,973	(\$119,879)	(11.6%)
Benefits	\$234,528	\$291,215	(\$56,687)	(24.2%)
Medical Services	\$283,609	\$282,851	\$758	0.3%
Purchased Services	\$408,551	\$464,021	(\$55,469)	(13.6%)
Supplies	\$589,960	\$652,745	(\$62,785)	(10.6%)
Medical Claims Expense	<u>\$1,087,780</u>	<u>\$1,271,099</u>	<u>(\$183,319)</u>	<u>(16.9%)</u>
<b>Total Operating Expenses</b>	<b><u>\$3,635,522</u></b>	<b><u>\$4,112,904</u></b>	<b><u>(\$477,382)</u></b>	<b><u>(13.1%)</u></b>
<b>Gain (Loss) from Operations</b>	<b>\$321,002</b>	<b>\$159,994</b>	<b>(\$161,008)</b>	<b>(50.2%)</b>
<b>Non-operating Revenue/(Expense):</b>				
Depreciation and Amortization	(\$156,267)	(\$180,513)	(\$24,246)	(15.5%)
Other Non-operating	\$112,335	\$63,015	(\$49,320)	(43.9%)
Premium Deficiency Reserve	<u>\$2,718</u>	<u>\$0</u>	<u>(\$2,718)</u>	<u>(100.0%)</u>
<b>Total Non-operating Revenue/Expense</b>	<b><u>(\$41,215)</u></b>	<b><u>(\$117,498)</u></b>	<b><u>(\$76,283)</u></b>	<b><u>(185.1%)</u></b>
<b>Bottom Line Excluding Debt Service</b>	<b>\$279,787</b>	<b>\$42,496</b>	<b>(\$237,291)</b>	<b>(84.8%)</b>
<b>Debt Service</b>				
Debt Service Expense	(\$99,848)	(\$99,880)	(\$33)	0.0%
<b>Ongoing Capital Requirements</b>	<b>\$46,321</b>	<b>\$46,902</b>	<b>\$581</b>	<b>1.3%</b>



**Income Statement**

<b>University Health less Community First</b> (Dollars are in Thousands)	<b>2025 Projected</b>	<b>2026 Budget</b>	<b>Variance from Projected</b>	<b>% Variance</b>
<b>Revenues</b>				
Net Patient Service Revenue	\$1,747,581	\$1,843,959	\$96,379	5.5%
Property Taxes M & O	\$548,914	\$564,195	\$15,281	2.8%
Supplemental Revenue	\$246,484	\$229,143	(\$17,341)	(7.0%)
SNF Revenue	\$40,085	\$40,085	\$0	0.0%
Other Revenue	\$155,934	\$165,529	\$9,595	6.2%
<b>Total Operating Revenues</b>	<b>\$2,738,998</b>	<b>\$2,842,911</b>	<b>\$103,913</b>	<b>3.8%</b>
<b>Expenses</b>				
Salaries	\$981,814	\$1,094,248	\$112,434	11.5%
Benefits	\$223,310	\$276,585	\$53,275	23.9%
Medical Services	\$283,609	\$282,851	(\$758)	(0.3%)
Purchased Services	\$353,141	\$390,826	\$37,685	10.7%
Supplies	\$587,909	\$650,986	\$63,077	10.7%
<b>Total Operating Expenses</b>	<b>\$2,429,783</b>	<b>\$2,695,497</b>	<b>\$265,714</b>	<b>10.9%</b>
<b>Gain (Loss) from Operations</b>	<b>\$309,215</b>	<b>\$147,415</b>	<b>(\$161,801)</b>	<b>(52.3%)</b>
<b>Non-operating Revenue/(Expense):</b>				
Depreciation and Amortization	(\$152,444)	(\$175,463)	(\$23,019)	15.1%
Other Non-operating	\$96,679	\$52,995	(\$43,684)	(45.2%)
<b>Total Non-operating Revenue/(Expense)</b>	<b>(\$55,765)</b>	<b>(\$122,468)</b>	<b>(\$66,703)</b>	<b>(119.6%)</b>
<b>Bottom Line Excluding Debt Service</b>	<b>\$253,450</b>	<b>\$24,947</b>	<b>(\$228,503)</b>	<b>(90.2%)</b>
<b>Debt Service</b>				
Debt Service Expense	(\$99,848)	(\$99,880)	(\$33)	(0.0%)
<b>Ongoing Capital Requirements</b>	<b>\$46,013</b>	<b>\$45,907</b>	<b>(\$106)</b>	<b>(0.2%)</b>



### Income Statement

Community First (Dollars are in Thousands)	2025 Projected	2026 Budget	Variance from Projected	% Variance
<b>Revenues</b>				
CFHP Premium Revenue	\$1,217,525	\$1,429,987	\$212,461	17.5%
<b>Total Operating Revenues</b>	<b>\$1,217,525</b>	<b>\$1,429,987</b>	<b>\$212,461</b>	<b>17.5%</b>
<b>Expenses</b>				
Salaries	\$49,280	\$56,725	\$7,445	15.1%
Benefits	\$11,218	\$14,630	\$3,412	30.4%
Purchased Services	\$55,410	\$73,194	\$17,784	32.1%
Supplies	\$2,051	\$1,759	(\$292)	(14.2%)
Medical Claims Expense	<u>\$1,087,780</u>	<u>\$1,271,099</u>	<u>\$183,319</u>	<u>16.9%</u>
<b>Total Operating Expenses</b>	<b><u>\$1,205,739</u></b>	<b><u>\$1,417,407</u></b>	<b><u>\$211,669</u></b>	<b><u>17.6%</u></b>
<b>Gain (Loss) from Operations</b>	<b>\$11,787</b>	<b>\$12,579</b>	<b>\$793</b>	<b>6.7%</b>
<b>Non-operating Revenue/(Expense):</b>				
Depreciation and Amortization	(\$3,823)	(\$5,050)	(\$1,227)	32.1%
Other Non-operating	\$15,655	\$10,020	(\$5,636)	(36.0%)
Premium Deficiency Reserve	<u>\$2,718</u>	<u>\$0</u>	<u>(\$2,718)</u>	<u>(100.0%)</u>
<b>Total Non-operating Revenue/Expense</b>	<b><u>\$14,550</u></b>	<b><u>\$4,970</u></b>	<b><u>(\$9,581)</u></b>	<b><u>(65.8%)</u></b>
<b>Bottom Line</b>	<b>\$26,337</b>	<b>\$17,549</b>	<b>\$8,788</b>	<b>33.4%</b>
<b>Ongoing Capital Requirements</b>	<b>\$308</b>	<b>\$995</b>	<b>\$687</b>	<b>223.4%</b>

**Exhibit 2**

INPATIENT ACTIVITY	2025 Projected	2026 Budget	Var. Bud 2026 to Projected	Var %
<b>In-Patient Activity</b>				
Heart Vascular <sup>1</sup>	2,864	2,963	100	3.5%
Women Services	5,511	5,594	83	1.5%
Neonates <sup>2</sup>	4,805	4,771	(34)	-0.7%
Neurology <sup>3</sup>	2,754	2,892	138	5.0%
Oncology	1,901	1,921	21	1.1%
Orthopedics	2,655	2,737	82	3.1%
Trauma <sup>4</sup>	1,482	1,520	38	2.6%
All Other	18,753	19,553	800	4.3%
<b>Sub-Total: Adult Discharges</b>	<b>40,724</b>	<b>41,951</b>	<b>1,228</b>	<b>3.0%</b>
Heart Vascular <sup>1</sup>	123	144	21	17.1%
Neurology <sup>3</sup>	366	351	(15)	-4.1%
Oncology	209	208	(1)	-0.2%
Orthopedics	140	158	19	13.3%
Trauma <sup>4</sup>	152	189	38	24.8%
All Other	1,569	1,585	16	1.0%
<b>Sub-Total: Pedi Discharges</b>	<b>2,558</b>	<b>2,635</b>	<b>78</b>	<b>3.0%</b>
<b>Total Discharges</b>	<b>43,281</b>	<b>44,586</b>	<b>1,305</b>	<b>3.0%</b>
Heart Vascular	18,635	19,155	521	2.8%
Women Services	15,836	16,079	244	1.5%
Neonates	30,227	30,528	301	1.0%
Neurology	20,538	21,220	682	3.3%
Oncology	14,111	14,282	172	1.2%
Orthopedics	20,568	20,255	(313)	-1.5%
Trauma	10,830	11,101	271	2.5%
All Other	134,613	137,887	3,274	2.4%
<b>Sub-Total: Adult Days</b>	<b>265,356</b>	<b>270,506</b>	<b>5,150</b>	<b>1.9%</b>
<b>Sub-Total: Adult ADC</b>	<b>727.0</b>	<b>741.1</b>	<b>14.1</b>	<b>1.9%</b>
Heart Vascular	794	936	143	18.0%
Neurology	2,192	2,076	(116)	-5.3%
Oncology	1,109	1,110	1	0.1%
Orthopedics	603	679	76	12.6%
Trauma	1,155	1,355	200	17.3%
All Other	10,416	10,469	53	0.5%
<b>Sub-Total: Pedi Days</b>	<b>16,268</b>	<b>16,624</b>	<b>356</b>	<b>2.2%</b>
<b>Sub-Total: Pedi ADC</b>	<b>44.6</b>	<b>45.5</b>	<b>1.0</b>	<b>2.2%</b>
<b>Total: Days</b>	<b>281,624</b>	<b>287,130</b>	<b>5,506</b>	<b>2.0%</b>
<b>Total: ADC</b>	<b>771.6</b>	<b>786.7</b>	<b>15.1</b>	<b>2.0%</b>
Births <sup>5</sup>	5,163	5,217	54	1.0%

**Exhibit 2**

OTHER ACTIVITY	2025 Projected	2026 Budget	Var. Bud 2026 to Projected	Var %
Adult Emergency Center (IP & OP)	85,744	86,888	1,144	1.3%
OB GYN Emergency Center (IP & OP)	20,471	20,773	302	1.5%
Pedi Emergency Center (IP & OP)	19,362	20,140	779	4.0%
Trauma Emergency Center (IP & OP) <sup>4</sup>	8,651	8,850	199	2.3%
<b>Total: Emergency Center Visits</b>	<b>134,228</b>	<b>136,651</b>	<b>2,424</b>	<b>1.8%</b>
University Hospital Adult Surgery	20,993	21,246	253	1.2%
University Hospital Pedi Surgery	3,852	3,896	43	1.1%
<b>Total: University Hospital Surgery</b>	<b>24,845</b>	<b>25,142</b>	<b>297</b>	<b>1.2%</b>
Obs Days: University Hospital	7,030	7,039	9	0.1%
Obs Days: Babcock Specialty Hospital <sup>6</sup>	0	185	185	100.0%
<b>Total Other Vol: (Emergency Center, Surg, &amp; Obs)</b>	<b>166,103</b>	<b>169,017</b>	<b>2,914</b>	<b>1.8%</b>
<b>Ambulatory Surgery Center Volume and other Outpatient Visits (includes PHC's)</b>				
RBG ASC (Surgery & Endoscopy)	7,915	8,376	461	5.8%
MARC ASC (Surgery & Endoscopy)	7,785	8,142	357	4.6%
MAC ASC (Surgery) <sup>7</sup>	626	3,600	2,975	475.5%
Babcock Specialty Hospital (Surgery) <sup>6</sup>	0	2,500	2,500	100.0%
Clinics (University Hospital - Adult) <sup>8</sup>	83,093	94,178	11,086	13.3%
Clinics (ExpressMed) <sup>9</sup>	154,674	167,115	12,441	8.0%
Dialysis (Adult)	67,322	70,845	3,524	5.2%
Clinics Ambulatory Ops (Adult)	550,718	630,029	79,312	14.4%
Clinics (Womens Services) <sup>5</sup>	76,161	94,134	17,973	23.6%
<b>Sub-Total: OP Services -Adult</b>	<b>948,292</b>	<b>1,078,919</b>	<b>130,627</b>	<b>13.8%</b>
Clinics (University Hospital - Pedi)	15,213	16,174	961	6.3%
Clinics (Pavilion - Pedi) <sup>10</sup>	6,299	5,170	(1,129)	-17.9%
Dialysis (Pedi) <sup>11</sup>	2,408	2,000	(408)	-16.9%
Clinics Ambulatory Ops (Pedi)	71,048	74,718	3,671	5.2%
<b>Sub-Total: OP Clinics - Pedi</b>	<b>94,967</b>	<b>98,062</b>	<b>3,096</b>	<b>3.3%</b>
<b>Total Other Vol: (OP ASCs, OP Clinics, PHCs)</b>	<b>1,043,259</b>	<b>1,176,981</b>	<b>133,723</b>	<b>12.8%</b>
<b>Total Outpatient Volume</b>	<b>1,209,361</b>	<b>1,345,998</b>	<b>136,637</b>	<b>11.3%</b>

## 2026 Budget, Activity Notes

Service Line	Activity Note
<b>Inpatient Services</b>	
1. Adult Heart & Vascular	Revamp of the Interventional Cardiology team expected to drive improved volumes and complexity of performed cases.
2. Neonatal Services	Peak volume periods in early 2025 expected to not reoccur at the same levels in 2026.
3. Adult Neurology Services	Growth of the Stroke program and expansion of clinic services are expected to increase discharge volume with improved length of stay.
4. Trauma Services	Emergent Trauma visits have trended lower in 2025 across Bexar County. Expecting 2026 visits to rebound to the historical baseline for Adult & Pediatric.
5. Newborn Births	Constrained capacity at the Kenwood & Zarzamora Clinics during construction refresh resulted in a lower W&C birth volume. Expect 2026 to improve as a result of construction completion.
<b>Babcock Specialty Hospital Volume</b>	
6. Reopening 2026	Planning to reopen the former Christus Santa Rosa Hospital as University Health Babcock Specialty Hospital in July 2026 with a gradual ramp up of Emergency visits driving an inpatient census. Additional procedural cases (Surgical, Cardiovascular, etc) will be performed at this location.
<b>Ambulatory Surgery Centers (ASCs)</b>	
7. MAC ASC	University Health newest surgical center location at Morgan's Multi-Assistance Center opened in mid-2025 and will continue to increase surgical and procedural volume into 2026 by delivering centralized care to the special needs patient population.
<b>Outpatient Clinics</b>	
8. University Hospital Adult Clinics	Acute Clinic services (Interventional Cardiology, Women's Heart, and Neurology) are expected to increase in 2026 as University Health onboards additional practitioners to provide additional capacity.
9. Express Med Clinics	Mid-2025 experienced a slow down in volumes as respiratory season was delayed. Expecting to return to baseline volumes for urgent care ExpressMed locations with additional walk-in capacity.
10. Pavilion Pedi Clinics	Newborn Follow-up Clinics adjusting provider location to cohort with Women's Services at Westgate.
11. Pediatric Dialysis	Two recent Pediatric Kidney transplants results in a lower active census planned for 2026.

## 2026 Budget, Changes to Total Operating Revenue

Dollars in Millions	Variance from Projected 2025	% Variance	Driver
<b>2025 Projected Total Operating Revenue</b>	<b>\$2,739.0</b>		
<b>Net Patient Revenue</b>	<b>\$96.4</b>	<b>5.5%</b>	
CHIRP/UHRIP Payment Enhancement	\$43.7		Texas Medicaid payment enhancement to a more commercially equivalent rate. The increased amount is net after the IGT expense.
Medicare rate adjustment	\$17.2		Increased Medicare DSH \$21M due to increased funding for safety net hospitals. Offset by Medicare market basket changes and an increase in sequestration to fund Federal program changes.
Inpatient Volume	\$9.9		Increased Capacity in 2026 with a full year of Sky Tower and 12 W&C opening. Additional capacity in late 2026 as Babcock Specialty Hospital reopens. Decreased length-of-stay.
OP Pharmacy Retail & Specialty Programs	\$9.5		Continued maturation of Specialty Pharmacy program primarily for High Cost Drug Regimens; ie, Transplant and HIV and expansion of service to the new Wheatley & Vida clinic locations.
Outpatient Volume	\$7.9		Outpatient ancillary volume growth related to UMA provider expansion and optimized performance of Procedural areas.
UMA Volume	\$7.8		Improved efficiency and growth of UMA providers.
Commercial Rate Improvement	\$3.1		Renegotiated managed care agreements for major insurance plans.
Decreased SelfPay & Carelink Collectable	(\$0.9)		Inflationary pressure on low income households is decreasing collectability of out of pocket patient responsibilities.
TIPPS Payment Enhancement	(\$1.8)		The TIPPS program enhances Medicaid physician payments for core service delivery. The overall 2026 payment is expected to slightly decrease as more participants statewide qualify for a capped resource amount.
<b>Other Operating Revenue</b>	<b>\$2.6</b>	<b>0.8%</b>	
Property Taxes	\$15.3		Maintain existing tax rate and growth of property tax revenue is primarily attributed to new Bexar County property.
Disproportionate Share Funding	(\$8.3)		No major changes to the 2026 DSH program but the 2025 baseline period included settlements from program years 2018, 2019, 2020, 2021.
Uncompensated Care (UC)	(\$17.8)		A change in the payment methodology for SFY 2026 results in lower UC funding but offset by an increase in CHIRP payments (NPR).
NAIP	\$4.6		Due to a larger pool of available funding that favors University Health's quality and payer mix, NAIP revenue is expected to grow in 2026.
HARP Revenue	\$0.4		Payment program for Traditional Medicaid patients to offset the shortfall in Medicaid. Expected 2026 payments are slightly increased due to expected growth in Medicaid volumes.
ATLIS Revenue	\$3.8		Expanded program to reward high quality Managed Medicaid outcomes in the Bexar SDA.
Other Revenue	\$4.6		Increase primarily driven by higher expected Foundation Revenues.
<b>Changes to Total Operating Revenue</b>	<b>\$98.9</b>	<b>3.6%</b>	
<b>Total Operating Revenue</b>	<b>\$2,842.9</b>		

\*Positive numbers indicate an increase in Operating Revenue

## 2026 Budget, Financial Impact of Legislative Changes

Dollars in millions	2025 Projected	2026 Budget	Variance from Projected	Notes
State Uncompensated Care (UC) for Hospital and UMA	\$146.4	\$128.6	(\$17.8)	Funding program to offset losses from uninsured patients in the Uncompensated Care Pool. SFY 2026 funding shortfalls in the UC program are supplemented by the CHIRP program.
Comprehensive Hospital Increase Reimbursement Program (CHIRP), net of IGT	\$69.7	\$113.4	\$43.7	Adjustment of Managed Medicaid payments to better reflect commercial payment rates for similar services. Amount is recognized as a component of Net Patient Revenue. Program resources increased 2.6B for SFY 2026.
Medicare DSH	\$45.1	\$66.1	\$21.0	The MC DSH pool increase by \$2 billion for FFY 2026. This is part of Net Patient Revenue and not separately reported.
Hospital Augmented Reimbursement Program (HARP)	\$39.7	\$40.1	\$0.4	HARP is a supplemental program that provides additional funding for public hospitals by supplementing payments for non-Managed Medicaid patients.
Network Access Improvement Program (NAIP)	\$28.9	\$33.5	\$4.6	Variance due to enhancement of the program's available funding dollars of which University Health will retain an allocated portion.
Texas Incentives for Physicians and Professional Services	\$17.7	\$15.9	(\$1.8)	TIPPS is paid as an enhancement to Managed Medicaid payments and as a quality component. Included in Net Patient Revenue
Graduate Medical Education Revenue (GME)	\$15.4	\$15.4	\$0.0	State funding to support GME is expected to remain flat in 2026 as compared to the 2025 baseline. The overall unreimbursed GME expense for 2025 is \$15 million.
Disproportionate Share (DSH)	\$15.8	\$7.5	(\$8.3)	No major changes for program year 2026. The 2025 Projected includes prior year settlements (Program years 2018, 2019, 2020, 2021) that inflated the baseline period.
ATLIS Program	\$0.2	\$4.0	\$3.8	Texas Medicaid quality outcomes program expanded for State Fiscal Year 2026.
Nursing Home Quality Incentive Payment Program (QIPP)	\$2.4	\$2.3	(\$0.1)	Nursing Home quality performance program, benefits are shared with Touchstone.
MC Other Rate Changes	\$92.7	\$91.3	(\$1.4)	CMS increased prospective payment rates by a net of 2.6% less the expected \$3.9 million impact of sequestration increase to fund federal programs.

## 2026 Budget, Changes to the Total Operating Expense

Dollars in Millions	Variance from Projected 2025	% Variance	Driver
<b>2025 Projected Total Operating Expense</b>	<b>\$2,429.8</b>		
Salaries	\$112.4	11.5%	Variable staffing related to the additional capacity driving a 3% inpatient discharge increase and growth in ambulatory clinic volume expectations.
Volume Impact	\$29.5		Reflects \$13 million for anticipated market adjustments, \$11 million for clinical staff retention, and \$3 million for student loan repayment program to minimize turnover and ensure competitiveness for high-demand positions.
Retention Incentive and Market Adjustment	\$27.6		Onboarding of positions due to orientation and training related to the planned opening in early 2027.
Onboarding for Retama and Palo Alto Hospitals	\$20.0		Employment of additional UMA providers and staff to support clinic operations results in additional Salary & Benefit expense.
Additional UMA Providers & Support	\$18.2		Investment in Detention Health, Care Coordination, and support services to improve the efficiency and patient experience for those receiving care in 2026.
Various Staffing Investments	\$7.3		Budgeting to fill the vacant 2025 positions in Budget 2026.
Fill 2025 Vacant Positions	\$6.1		Growth in positions to support new and expanding pharmacy programs, including at the new Wheatley & Vida clinics.
<b>Benefits</b>	<b>\$53.3</b>	<b>23.9%</b>	
OPEB Liability	\$24.0		Increased health benefit cost for retirees and dependents due to a onetime actuarial adjustment to liability and expense based on projected premiums for retirees. University Health has implemented a strategic decision to limit premium increases in future years.
Health Benefit	\$12.9		Higher cost of health benefits primarily related to new employees to address growth of services and onboarding for new hospital locations. Expense if offset by a reduction in pharmaceutical costs of GLP-1 related to plan changes.
FICA & Employee Retirement Match	\$10.8		Federal Tax increase due to higher base wage increase as the result of labor market disruption.
Pension Liability	\$5.6		Increased expense due to a funding policy change and the amortization of impact related to the number of active new entrants to the plan in 2025.

## 2026 Budget, Changes to the Total Operating Expense

Dollars in Millions	Variance from Projected 2025	% Variance	Driver
<b>Medical Services</b>	<b>(\$0.8)</b>	<b>(0.3%)</b>	
UT Master Services Agreement	(\$0.8)		Conversion of some staff from the MSA to employed model.
<b>Purchased Services</b>	<b>\$37.7</b>	<b>10.7%</b>	
Information Technology & Biomedical	\$16.2		Epic and supporting programs increase their maintenance and support expenses based on volume of equipment, user counts, and patient activity. The increase for 2026 is reflective of the expected growth for each of these. Additional support of physical and cyber-security software to protect from a growing effort to penetrate University Health's resources and ensure the safety of our staff and guests.
Transplant Programs	\$6.2		Increase in Organ acquisition and transportation cost related to the expanded geographical area in which organs are shared.
Utilities and Maintenance	\$4.2		Increase in utility and maintenance cost associated with the operation of Babcock Hospital.
Aged Building Repair & Maintenance	\$4.0		Investment to modernize aged clinical buildings is expected to continue into 2026 with further efforts to improve the patient experience and ensure elevators and operational efficiency of infrastructure.
Recruitment Efforts	\$3.7		Increased recruitment and related efforts to ensure onboarding of staff for Community Hospitals expansion.
Specialty Pharmacy	\$3.4		Continued expansion of Specialty Pharmacy partnership to improve clinical outcomes for patients with chronic disease management.

**Exhibit 5**
**2026 Budget, Changes to the Total Operating Expense**

Dollars in Millions	Variance from Projected 2025	% Variance	Driver
<b>Supplies</b>	<b>\$63.1</b>	<b>10.7%</b>	
Pharmaceutical: Retail Pharmacy	\$29.8		Continued increase of the retail and specialty pharmacy programs that enhance patient experience and improve medication compliance along with a corresponding increase of net patient revenue. Additional 4% increase of pharmaceutical inflation is expected in 2026 due to manufacturer backlog and shortages across key suppliers.
Medical Supplies: Inpatient & Ambulatory Growth	\$17.0		Expected 3% growth in 2026 will drive variable medical supply increase due to the additional capacity resulting from Babcock Hospital the growth of Ambulatory practice.
OR & Procedural Supply Cost	\$16.2		Expected procedural volume increase in 2026 as capacity grows with Babcock Hospital and the continued ramp-up of the MAC ASC. Concentrated efforts to optimize reimbursement of these high cost procedural areas will offset the increase in supply cost.
Changes to Total Operating Expense	<b>\$265.7</b>	<b>10.9%</b>	
<b>2026 Budget</b>			
<b>Total Operating Expense</b>	<b>\$2,695.5</b>		

## Exhibit 6

### 2026 Budget, FTE Change

Service Line	Variance from Projected 2025
<b>2025 Projected FTE</b>	<b>11,437</b>
Community Hospital Onboarding <sup>1</sup>	233
UMA/Ambulatory Clinic Growth <sup>2</sup>	147
Volume Growth <sup>3</sup>	104
Babcock Hospital <sup>4</sup>	86
Other Vacancy Replacement <sup>5</sup>	71
Retail Pharmacy Service <sup>6</sup>	38
Detention Services <sup>7</sup>	24
<b>2026 Budget, Total Paid FTE</b>	<b>12,140</b>
<b>FTE Variance</b>	<b>703</b>
<b>FTE % Growth</b>	<b>6.1%</b>
<b>Driver of FTE Increase</b>	

<sup>1</sup> The Retama & Palo Alto Hospitals are planned to open in early 2027. Recruitment of key positions has begun and will ramp up in 2026 to ensure proper training and culture orientation.

<sup>2</sup> Ambulatory Clinic volumes are expected to grow 15% by expansion of clinical service locations, onboarding of new physician specialties, and improvement of provider efficiency. The growth of patient volume requires additional support staff to ensure efficient throughput in ambulatory clinics.

<sup>3</sup> Additional planned volume growth throughout University Health will require variable support staff to ensure demand is met with high quality clinical outcomes.

<sup>4</sup> The former Christus Santa Rosa Hospital in the South Texas Medical Center is pending acquisition. Planned to reopen as Babcock Hospital in mid-2026 as a full service acute care hospital.

<sup>5</sup> Budgeting to fill positions that were previously approved and validated but were vacant during 2025. Budget 2026 includes the full-year of position occupancy.

<sup>6</sup> The Specialty & Retail Pharmacy service continues to expand service in each of the six pharmacy outposts. The growth of service ensures an improved adherence to post-acute discharge instructions, lower readmissions, and a positive patient experience for University Health patients.

<sup>7</sup> Broader support of care at Detention Center locations requires additional clinical and technical staff to maintain the high quality outcomes for these patients.

## 2026 Budget: Analysis of Tax Rate

Dollars in Thousands	2024 Tax Rate	2025 Tax Rate	Tax Rate Change from Existing Rate	% Change from Existing Tax Rate	2025 Estimated Taxes <sup>1</sup>	2026 Estimated Taxes <sup>2</sup>	Proposed Net Change From Prior Year	% Change
Operating Rate	0.233700	0.234688	0.000988	0.42%	\$548,596	\$564,195	\$15,598	2.84%
Debt Rate	0.042535	0.041547	-0.000988	(2.32%)	\$99,848	\$99,880	\$32	0.03%
Total Tax Rate	0.276235	0.276235	0.000000	0.00%	\$648,444	\$664,075	\$15,630	2.41%

<sup>1</sup> 2025 Estimated Tax revenue calculated on 2024 property values as of 10/01/24 and 2024 Tax Rate

<sup>2</sup> 2026 Estimated Tax revenue calculated on 2025 property values certified on 07/19/2025 and 2025 Tax Rate with an assumed collection rate of 97.74%

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
BIOMEDICAL ENGINEERING	Aged BioMed Equipment	6,000,000	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
FACILITIES MANAGEMENT	Aged Facilities Infrastructure	6,000,000	Essential: Cannot Function Without	Required Maintenance	Replacement	Construction/Renovation
TECHNICAL SERVICES	IT License True-Up	3,000,000	Essential: Cannot Function Without	Safety Mandated	Strategic (New Service/Expansion)	Information Systems
TECHNICAL SERVICES	Network DC Core Equipment	2,984,575	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
BIOMEDICAL ENGINEERING	Linet Bed replacement	2,577,700	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
TECHNICAL SERVICES	Data Center Servers and Storage	2,464,000	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
EPIC EMR PROJECT - OPERATIONS	Epic Tier Licensing	2,444,900	Essential: Cannot Function Without	Required Maintenance	Strategic (New Service/Expansion)	Information Systems
UH ST OPERATING ROOM	ARTIS Pheno ceiling mounted Hybrid C-Arm	2,121,162	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
BIOMEDICAL ENGINEERING	Philips Patient Monitors	1,981,143	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
RBG MRI	Upgrade current system to 3T Canon Galan	1,786,129	Important: Necessary for Improvement	New Technology	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
TECHNICAL SERVICES	Network Edge Equipment	1,600,000	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
EPIC EMR PROJECT - OPERATIONS	RTLS Infrastructure for RBG	1,512,886	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
BIOMEDICAL ENGINEERING	Mac VU360 EKG Units	1,207,716	Important: Necessary for Improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
UH INTERVENTIONAL RADIOLOGY	Anesthesia Equipment	561,400	Essential: Cannot Function Without	New Service	Strategic (New Service/Expansion)	Clinical Equipment
UH RADIOLOGY XRAY	C-Arms for the OR	500,000	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
UH ADULT RESP THERAPY VR	V800 Critical Care Ventilator	480,565	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
TDI DIALYSIS	Fresenius 2008T	464,800	Essential: Cannot Function Without	Regulatory Mandated	Replacement	Clinical Equipment
UH ULTRASOUND	Philips Epiq Elite	399,420	Essential: Cannot Function Without	New Service	Strategic (New Service/Expansion)	Clinical Equipment
EPIC EMR PROJECT - OPERATIONS	Cloverleaf Interface Engine Upgrade	350,000	Essential: Cannot Function Without	Required Maintenance	Replacement	Information Systems
UH RT 2 ENDOSCOPY	Arrieta 850 AT EUS Processor	315,000	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
IT IMAGING SERVICES	Additional Agfa licenses for volume growth	313,693	Essential: Cannot Function Without	Required Maintenance	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
UH ST OPERATING ROOM	Zeiss Lumera 7 Microscope	267,862	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
FACILITIES MANAGEMENT	Fire alarm replacement-TDI	264,000	Essential: Cannot Function Without	Safety Mandated	Replacement	Construction/Renovation
UH MICROBIOLOGICAL PATHOLOGY	Vitek MS Prime (MALDI-TOF)	263,794	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
EPIC EMR PROJECT - OPERATIONS	Epic Welcome Kiosks	250,000	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Information Systems
UH DIAGNOSTIC CARDIOLOGY	Echo Ultrasound Machine	248,000	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
RBG DIAGNOSTIC CARDIOLOGY	Echo Ultrasound Machine	248,000	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
UMA - DIGESTIVE SPECIALTY	FibroScan Machine	191,997	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
UH CATH LAB	WorkMate Claris Recording System 120/EP-4 Stim	180,000	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
FLEET SERVICES	Ford Explorer	174,000	Proactive: Necessary To Avoid Problems	Required Maintenance	Replacement	Administrative Equipment
STERILE PROCESSING	Stryker PI drive motor 2	160,837	Proactive: Necessary To Avoid Problems	Required Maintenance	Replacement	Clinical Equipment
UH ANATOMICAL PATHOLOGY	Tissue Processor	157,080	Essential: Cannot Function Without	Staff Request	Strategic (New Service/Expansion)	Clinical Equipment
EPIC EMR PROJECT - OPERATIONS	Epic Rover Devices	150,000	Proactive: Necessary To Avoid Problems	New Technology	Replacement	Information Systems

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
UH ANATOMICAL PATHOLOGY	Slide stainer	142,957	Essential: Cannot Function Without	Required Maintenance	Strategic (New Service/Expansion)	Clinical Equipment
FLEET SERVICES	Ford F250 Transit Van	131,476	Proactive: Necessary To Avoid Problems	Required Maintenance	Replacement	Administrative Equipment
UH MAMMOGRAPHY	CEM Injector and software	130,000	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
EPIC EMR PROJECT - OPERATIONS	Server resources - server blade	120,000	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Information Systems
UH CORE LAB	Scopio X100	120,000	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
UH ANATOMICAL PATHOLOGY	Microtomes	119,901	Essential: Cannot Function Without	Staff Request	Replacement	Clinical Equipment
UH WC 3 ED OB/GYN	Avalon fm50 fetal monitor	119,656	Important: Necessary for Improvement	Staff Request	Strategic (New Service/Expansion)	Clinical Equipment
RBG ENT CLINIC	5 FlexibleVideo Scopes	116,350	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
AMB SLEEP LAB	Amplifier	106,679	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
UH RT 2 ENDOSCOPY	EN-840T HD Video Double Balloon Enteroscope	106,000	Important: Necessary for Improvement	Physician Request	Replacement	Clinical Equipment
DIABETES RESEARCH CENTER	Beckman Coulter - Optima XPN	100,509	Proactive: Necessary To Avoid Problems	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
DETENTION HEALTH CARE - ADULT	PI Drive 2 Plus Motor Drill Set	100,291	Essential: Cannot Function Without	New Technology	Replacement	Clinical Equipment
RBG CT SCAN	MX-450 Vitals Monitor	100,000	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
EPIC EMR PROJECT - OPERATIONS	Nebula license 101-H	100,000	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Information Systems
UH ST OPERATING ROOM	OR Slush Machine: Hush Slush Unit	99,990	Proactive: Necessary To Avoid Problems	Regulatory Mandated	Replacement	Clinical Equipment
FLEET SERVICES	Ford Escape	98,730	Proactive: Necessary To Avoid Problems	Required Maintenance	Replacement	Administrative Equipment

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
UH RT 2 ENDOSCOPY	GF-UCT180 Curvilinear EUS Scope, 3.7mm	97,000	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
RBG ENT CLINIC	Exam Chairs	89,868	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
UH RT 2 NEURODIAGNOSTICS	Portable EEG Machines	88,252	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
PROTECTIVE SERVICES-UH	First Responder/Public Safety Portable Radio L3Harris Portable XL-200	86,498	Essential: Cannot Function Without	Regulatory Mandated	Mandated (Regulatory Safety & Required Maintenance)	Administrative Equipment
UH MICROBIOLOGICAL PATHOLOGY	Safety Hoods	71,302	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
UH RT SL IP PHARMACY	Oral Syringe Packaging Robot	70,200	Important: Necessary for Improvement	Required Maintenance	Strategic (New Service/Expansion)	Clinical Equipment
UH DIAGNOSTIC CARDIOLOGY	TEE Probe	66,000	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
STERILE PROCESSING	Minop Scope	61,161	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
UH WC 3 LABOR DELIVERY	Cysto Machine (4K upgrade)	60,627	Important: Necessary for Improvement	New Technology	Replacement	Clinical Equipment
EPIC EMR PROJECT - OPERATIONS	Alara Translation Software eCQM	60,000	Important: Necessary for Improvement	Regulatory Mandated	Mandated (Regulatory Safety & Required Maintenance)	Information Systems
UH MICROBIOLOGICAL PATHOLOGY	BIOMIC	56,900	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
UH BLOOD BANK	Sterile Welder	52,850	Proactive: Necessary To Avoid Problems	Safety Mandated	Replacement	Clinical Equipment
UH ADULT RESP THERAPY VR	IPV 2C - Airway Clearance Device	50,808	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
UH RT 2 ENDOSCOPY	EG-840TP Slim Therapeutic Gastroscope	48,000	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
UH WC 10 PEDIATRIC ICU	MRI Infusion Sys & Pole	46,496	Important: Necessary for Improvement	Physician Request	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
RBG ASC OR	Olympus 4K Monitors	45,559	Important: Necessary for Improvement	New Technology	Replacement	Clinical Equipment

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
UH ECMO ADV TECHNOLOGY VR	Cardioquip MCH-1000(m) with cart	45,000	Essential: Cannot Function Without	Staff Request	Strategic (New Service/Expansion)	Clinical Equipment
RBG ASC OR	Linet Sprint 200 Stretcher	44,288	Important: Necessary for Improvement	Staff Request	Replacement	Clinical Equipment
UH ST G TRAUMA RESUSCITATION UNIT	Stryker Prime X X-Ray Stretcher	43,679	Important: Necessary for Improvement	New Technology	Replacement	Clinical Equipment
UH WC 3 LABOR DELIVERY	Camera Control Unit CCU	43,133	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
RBG ASC OR	Koelis TP Probe/Bed Support	42,745	Important: Necessary for Improvement	Staff Request	Strategic (New Service/Expansion)	Clinical Equipment
UH RT SL IP PHARMACY	Medication Refrigerator	42,120	Essential: Cannot Function Without	Regulatory Mandated	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
RBG OP PHARMACY	Medication Refrigerator	42,120	Essential: Cannot Function Without	Regulatory Mandated	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
UH ST OPERATING ROOM	New DML Trays	41,451	Proactive: Necessary To Avoid Problems	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
UH PEDI RESP THERAPY VR	Pediatric MRI Compatible Transport Ventilator	41,139	Proactive: Necessary To Avoid Problems	Physician Request	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
UH CATH LAB	X5-1 Probe for Philips CVXi	40,000	Essential: Cannot Function Without	Physician Request	Replacement	Clinical Equipment
UH WC 3 LABOR DELIVERY	LED Light Source with AIM	38,265	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
UH ST G ADULT ED	Power Cot	37,421	Essential: Cannot Function Without	Safety Mandated	Replacement	Clinical Equipment
UH WC 3 LABOR DELIVERY	Pneumoclear CO2 Conditioning Insufflator Kit	36,632	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
UMA - CARDIOLOGY CLINIC	Powered Exam Tables	36,489	Essential: Cannot Function Without	Safety Mandated	Replacement	Clinical Equipment
RBG ASC OR	Philips MX750 Monitor	36,332	Proactive: Necessary To Avoid Problems	Staff Request	Strategic (New Service/Expansion)	Clinical Equipment
DIABETES RESEARCH CENTER	Calorimetry	35,500	Essential: Cannot Function Without	New Technology	Replacement	Clinical Equipment

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
UMA - CARDIOLOGY CLINIC	Powered Exam Tables	33,216	Essential: Cannot Function Without	Safety Mandated	Replacement	Clinical Equipment
MAC ASC	Cyclo G6 Infrared laser 810	32,500	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
UH DIAGNOSTIC CARDIOLOGY	Stress CASE System	32,000	Proactive: Necessary To Avoid Problems	New Service	Strategic (New Service/Expansion)	Clinical Equipment
UH RT 2 ENDOSCOPY	EG-840T Therapeutic Gastroscope	32,000	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
RBG LABORATORY CLINIC	MES SQA (sperm analyzer)	31,995	Proactive: Necessary To Avoid Problems	Staff Request	Replacement	Clinical Equipment
RADIOLOGY SUPPORT	Zoll R series Defibrillator	30,000	Important: Necessary for improvement	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
UMA - SE CLINIC	High-Low Exam Tables	29,040	Proactive: Necessary To Avoid Problems	Required Maintenance	Replacement	Clinical Equipment
UH OP PHARMACY	Medication Refrigerator	28,080	Essential: Cannot Function Without	Regulatory Mandated	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
UMA - UH WOMENS HEART CENTER	Powered Exam Tables	27,367	Essential: Cannot Function Without	Safety Mandated	Replacement	Clinical Equipment
UMA - RBG EXPRESS MED	EKG VU360	26,472	Essential: Cannot Function Without	Physician Request	Replacement	Clinical Equipment
UMA - RBG EXPRESS MED	EKG VU360	26,472	Essential: Cannot Function Without	Physician Request	Replacement	Clinical Equipment
AMB SLEEP LAB	Transcutaneous Monitor	24,550	Essential: Cannot Function Without	Required Maintenance	Replacement	Clinical Equipment
UH DIAGNOSTIC CARDIOLOGY	Stress Echo Table	24,000	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
UMA - HUEBNER HEARING & BALANCE	FLEX VRA Systems (x2)	22,925	Essential: Cannot Function Without	New Technology	Replacement	Clinical Equipment
RBG ASC OR	Olympus Monitor Installation	22,845	Important: Necessary for Improvement	New Technology	Replacement	Clinical Equipment
DETENTION HEALTH CARE-JUVENILE	Office Furniture-Cubicles	21,815	Important: Necessary for Improvement	Staff Request	Replacement	Administrative Equipment

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
UMA - UH WOMENS HEART CENTER	EKG Machine For One Medical	21,188	Proactive: Necessary To Avoid Problems	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
UMA - RBG PRIMARY CARE CLINIC	EKG	21,188	Essential: Cannot Function Without	Physician Request	Replacement	Clinical Equipment
UMA - TDI PRIMARY CARE CLINIC	EKG	21,188	Essential: Cannot Function Without	Physician Request	Replacement	Clinical Equipment
UMA - RBG WOMEN'S CLINIC	Exam Chairs	20,550	Essential: Cannot Function Without	New Service	Strategic (New Service/Expansion)	Clinical Equipment
UH MAMMOGRAPHY	Exam Table 450 lb capacity	20,000	Proactive: Necessary To Avoid Problems	Safety Mandated	Replacement	Clinical Equipment
UH MAMMOGRAPHY	Patient Procedure chair	20,000	Proactive: Necessary To Avoid Problems	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
UH CORE LAB	Aerospray	18,877	Proactive: Necessary To Avoid Problems	Required Maintenance	Replacement	Clinical Equipment
UH ST OPERATING ROOM	Intuitive DV5 NIR Handheld Camera and Accessories	17,314	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
UMA - UHS WOUND CARE	2 EPITECH 1002 Epidermal Harvesting Starter System	17,000	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
RBG ASC OR	Oakworks CFPM300 Pain Management Imaging Table	15,819	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
MARC ASC	Cooper Surgical Ally Uterine Positioning System 2	15,499	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
UH WC 10 PCCU	Dual Chamber Temporary Pacemaker	14,349	Essential: Cannot Function Without	Safety Mandated	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
UH WC 3 LABOR DELIVERY	Pro Nox-Nitrous Oxide Machine	13,918	Important: Necessary for Improvement	Physician Request	Strategic (New Service/Expansion)	Clinical Equipment
RBG ASC OR	Civco Astra VR Probe Washer	13,360	Important: Necessary for Improvement	Staff Request	Strategic (New Service/Expansion)	Clinical Equipment
DIABETES RESEARCH CENTER	Avanti	13,137	Proactive: Necessary To Avoid Problems	New Technology	Replacement	Clinical Equipment
UH MAMMOGRAPHY	Exam Table 700 lb capacity	11,000	Proactive: Necessary To Avoid Problems	Safety Mandated	Replacement	Clinical Equipment

**2026 Budget, Capital Requests**  
**University Health less Community First**

Dept. Name	Request Name	2026 Amount	Priority	Reason	Class	Category
UH NON-INVASIVE VASCULAR	Ritter 224 Barrier-Free Exam tables	10,226	Important: Necessary for Improvement	Physician Request	Replacement	Clinical Equipment
UMA - HUEBNER HEARING & BALANCE	AudX Immitance Bridge	9,554	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
RBG ASC OR	Olympus UCR w/flushing pump	8,692	Proactive: Necessary To Avoid Problems	Staff Request	Strategic (New Service/Expansion)	Clinical Equipment
UH HEMATOLOGY CLINIC	Blanket Warmer	8,611	Important: Necessary for Improvement	New Service	Strategic (New Service/Expansion)	Clinical Equipment
RBG ASC OR	Medtronic Bravo Recorder	7,525	Important: Necessary for Improvement	Physician Request	Mandated (Regulatory Safety & Required Maintenance)	Clinical Equipment
UMA - RBG GEN PEDI CLINIC	AccuVein	5,950	Important: Necessary for Improvement	New Technology	Strategic (New Service/Expansion)	Clinical Equipment
UMA - SW CLINIC	Ice and Drinking Water Machine	5,778	Important: Necessary for Improvement	Staff Request	Strategic (New Service/Expansion)	Administrative Equipment

Total 2026 Amount	45,907,030
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# Property Acquisitions/Dispositions

Description	Address	Status	Building / Space Sqft
<b>New Facility Acquisitions</b>			
<b>Babcock Hospital</b>	<b>2827 Babcock Road, San Antonio, Texas 78229</b>	<b>Acquired 11/29/2025</b>	<b>235,732 sq.ft./45.121 acres</b>
Acquisition of the CHRISTUS Health Medical Center Hospital Campus featuring a 235,732-square-foot, four-story hospital (formerly known as the Christus Santa Rosa Hospital ), a parking garage, two medical/office buildings, a solar energy farm and 4 income producing ground leases including Northwest Towers I and II, two outpatient buildings totalling 200,833 square feet located at 2829 and 2833 Babcock Road, San Antonio Texas (Northwest Towers). Negotiations are underway for the purchase of			
<b>New Real Estate</b>			
<b>Asthma and Allergy Clinic</b>	<b>2833 Babcock Rd., Suite 304 &amp; 306, San Antonio, Texas 78229</b>	<b>Executed</b>	<b>2,300 sf / 2,500 sf</b>
<b>Pecan Valley Dialysis Clinic</b>	<b>4243 East Southcross Blvd., San Antonio, Texas 78222</b>	<b>Executed</b>	<b>16,378 sf</b>
<b>Facility Dispositions</b>			
N/A			



# Consolidated Operating, Debt Service, & Capital Budget for FY 2026

December 16, 2025

Edward Banos  
President/Chief Executive Officer

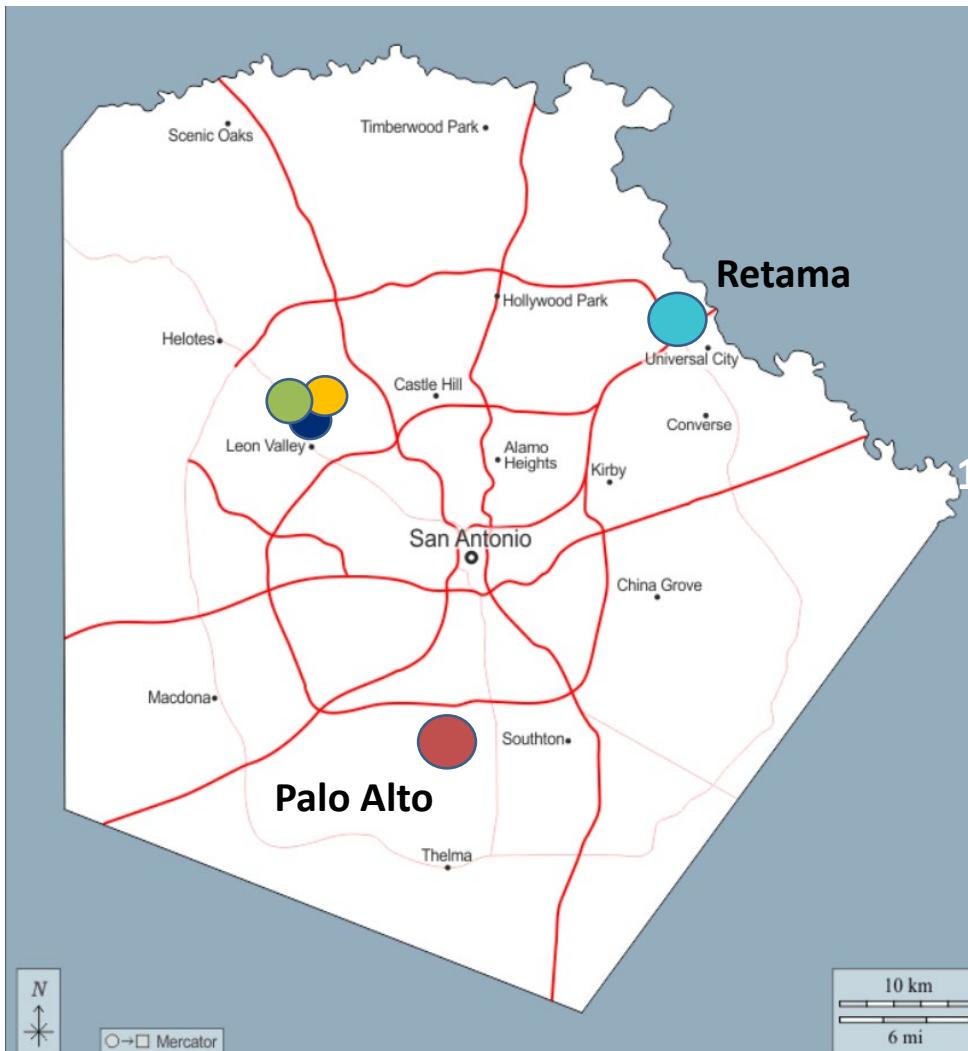
# Guiding Principles – Triple Aim Plus



- Improving Quality, Safety and Outcomes
- Improving the Patient Experience
- Improving Efficiencies
- Improving Access

# Overview of Capital Projects

# University Health – Hospital Plan



## University Hospital

- Level I trauma center for adults and children
- Transplant Institute
- Highest level of medical/surgical care

## University Health- Women's & Children's Hospital

- Opened December 2023
- 298 beds

## University Health- Babcock Specialty Hospital

- Opening with 40 beds (2026)

## University Health- Retama Hospital

- Opening with 146 beds (2027)
- Designed for 286 beds
- Includes a 100,000 sf MOB

## University Health- Palo Alto Hospital

- Opening with 166 beds (2027)
- Designed for 286 beds
- Includes a 100,000 sf MOB

# Palo Alto Hospital



# Palo Alto Hospital



79% local; 41% small

# Retama Hospital



# Retama Hospital



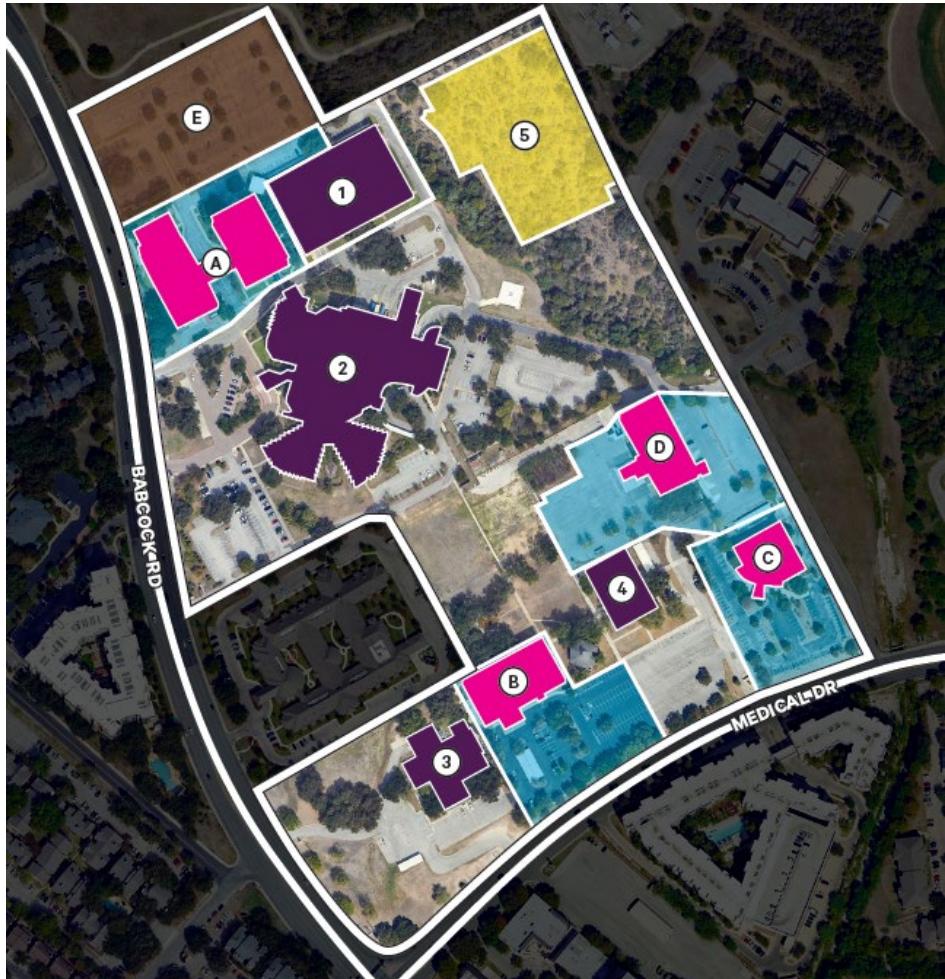
74% local; 36% small

# Acquisition of Christus Medical Center Hospital



- University Health Babcock Specialty Hospital
- 45.121-acre property
- Hospital, 4 stories, 235,732 sf
- 4-level Parking Garage, 665 spaces
- Tentative opening Summer 2026

# Babcock Specialty Hospital Campus Layout



- 1 – Parking Garage (1.7981 acres)
- 2 – Hospital (236K sf/26.6333\* acres)
- 3 – Medical Bldg (20K sf/4.81 acres)
- 4 – Admin Bldg\* (15K sf)
- 5 – Solar Farm\*

- A – 2829/2833 Babcock (3.063 acres)
  - E – parking lot
- B – 5131 Medical (2.701 acres)
- C – 5107 Medical (2.69 acres)
- D - 5109 Medical (3.426 acres)

*\* Hospital acreage includes Solar Farm and Admin Building*

# University Health Wheatley – Opened October 2025



73% local; 30% small

# University Health Wheatley



# University Health Vida - Opened November 2025



87% local; 20% small

# University Health Vida

2<sup>nd</sup> floor public health offices



2<sup>nd</sup> floor community partners space

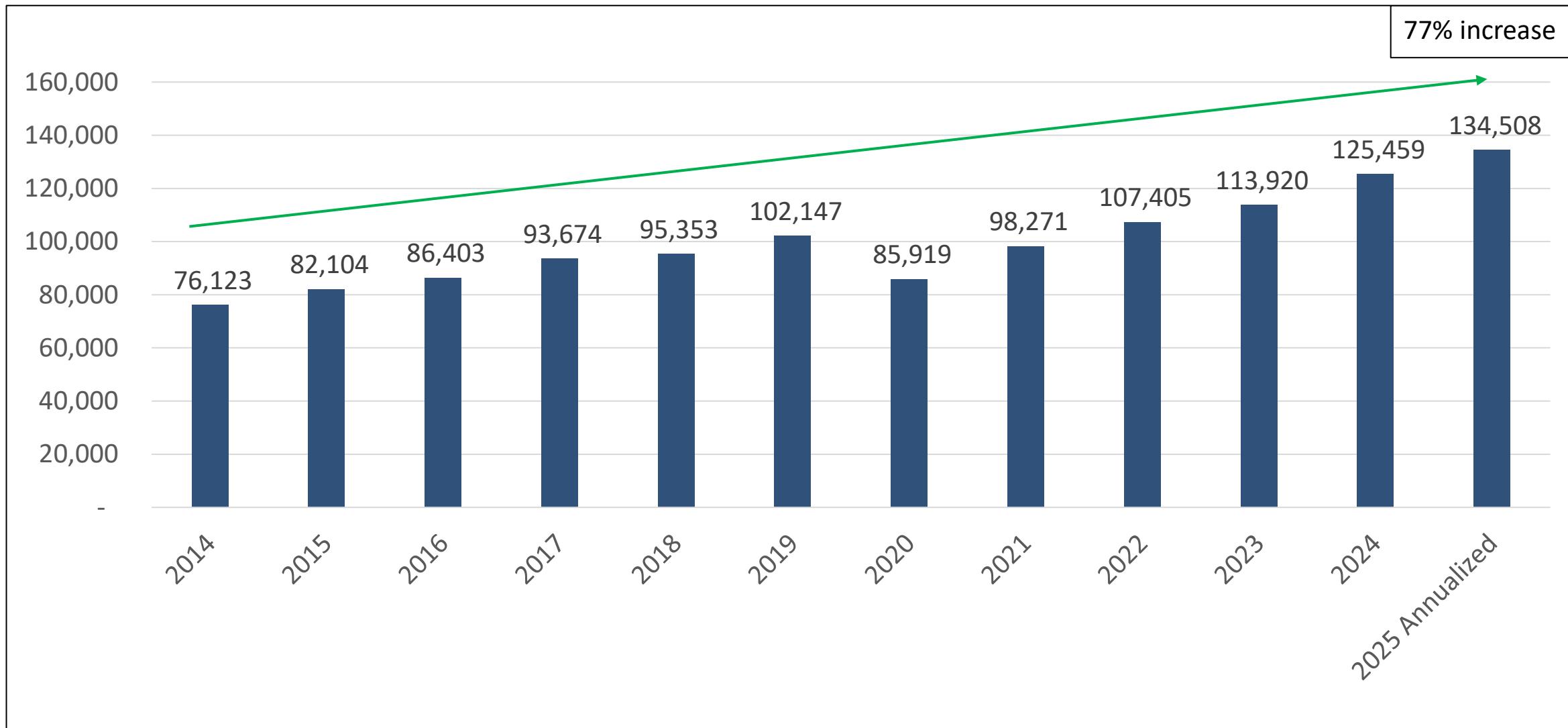
# Surgery Center at Morgan's Mac – opened August 2025



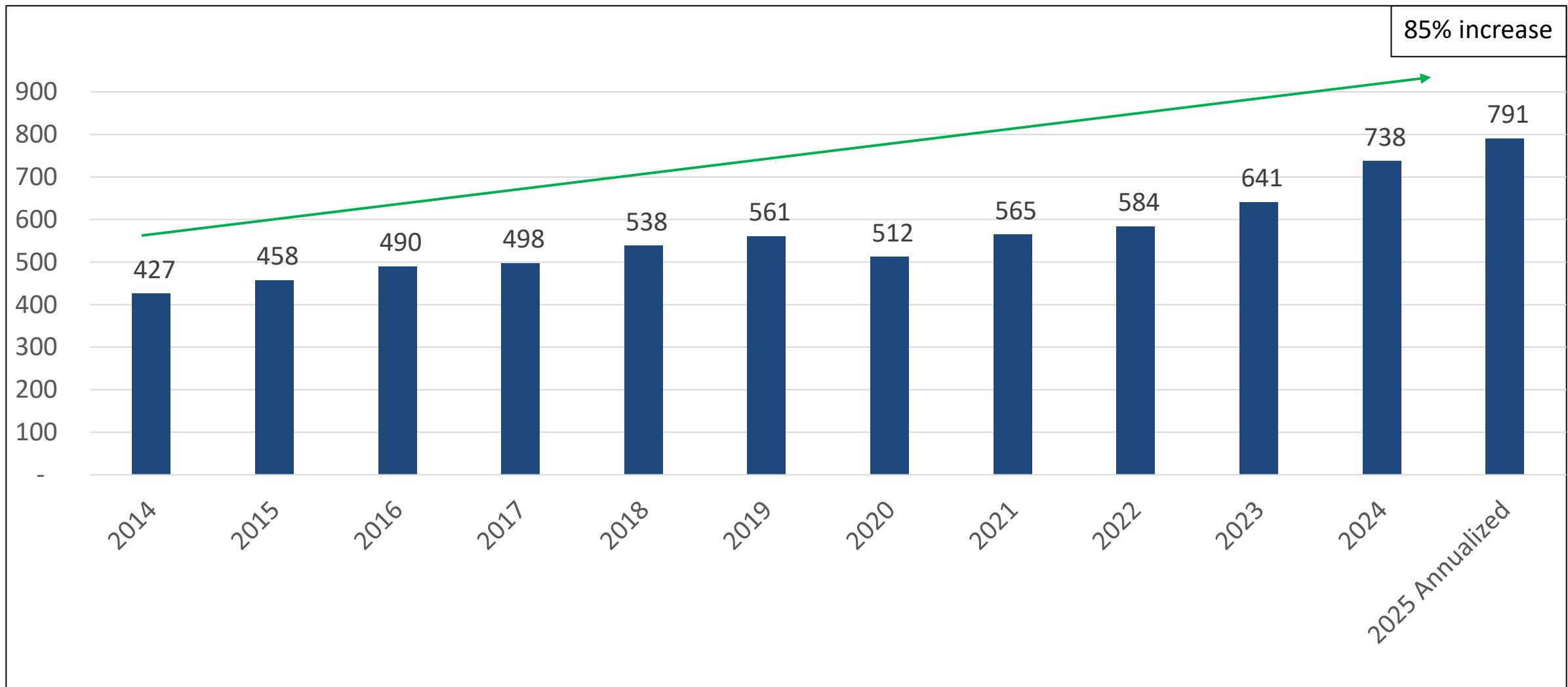
- Inclusive experience for patients with special needs
- 5 operating rooms (general surgery, orthopedics, ENT, ophthalmology, dentistry)

# Operational Performance

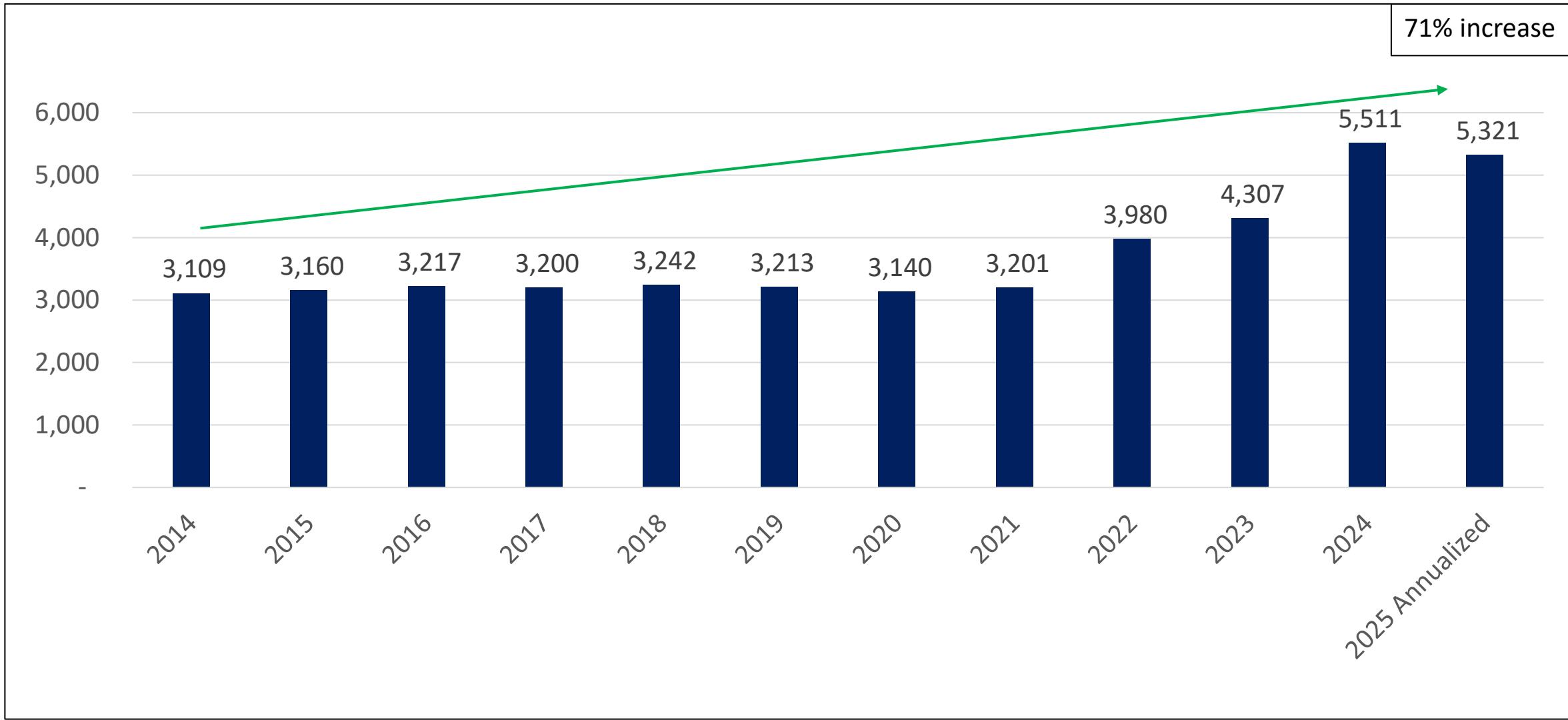
# Total Emergency Room Visits



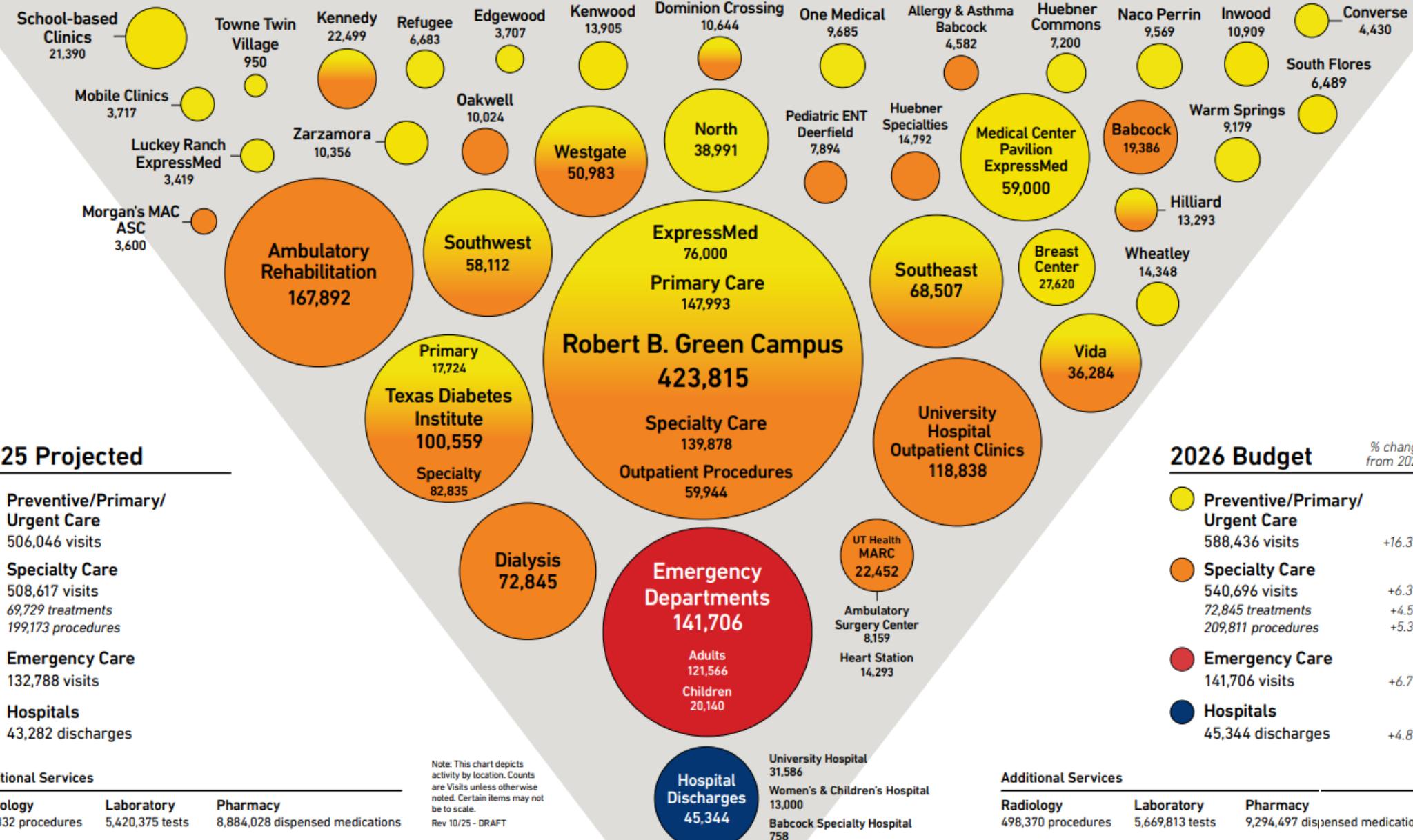
# Average Daily Census (ADC)



# Births



# 2025 Projected & 2026 Budgeted Activity



# Transfer Center Report

## Total Calls

10,385

## Accepted Calls

6,143

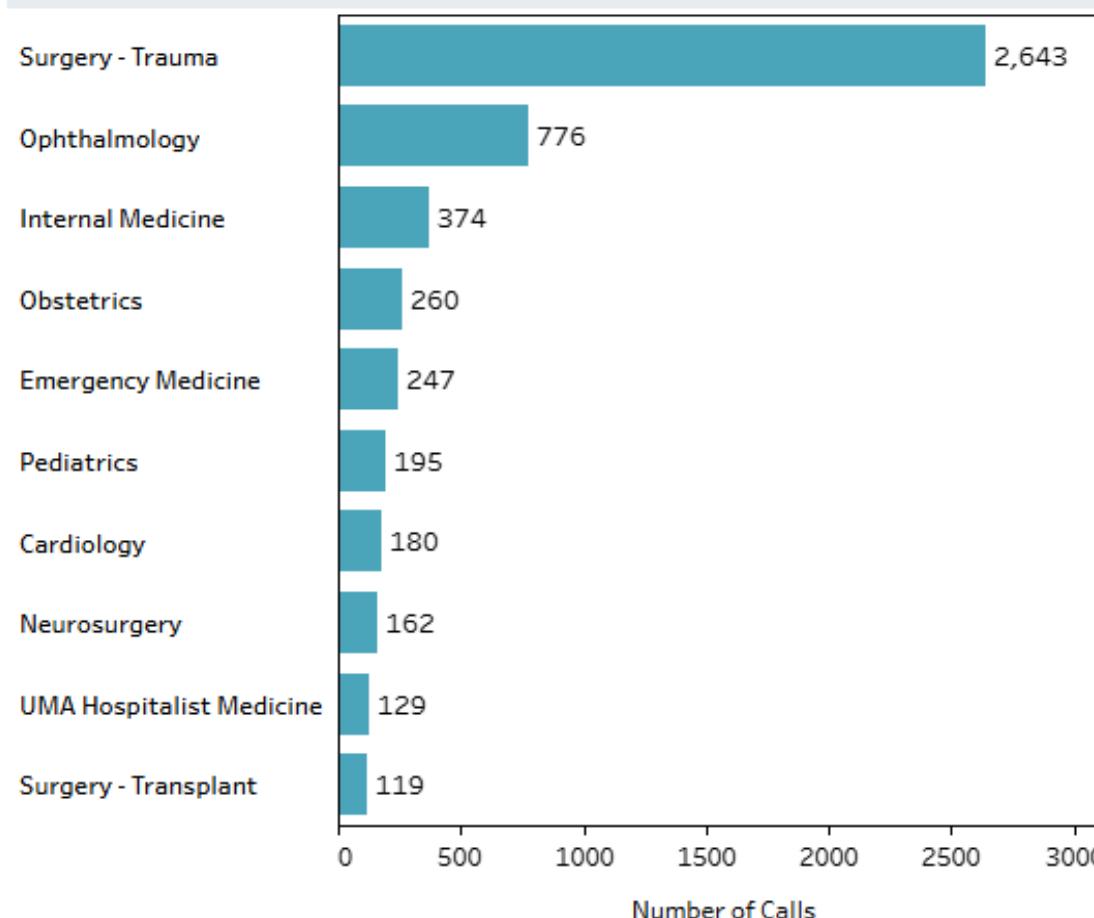
## Acceptance Rate

59.2%

## Canceled/Denied Calls

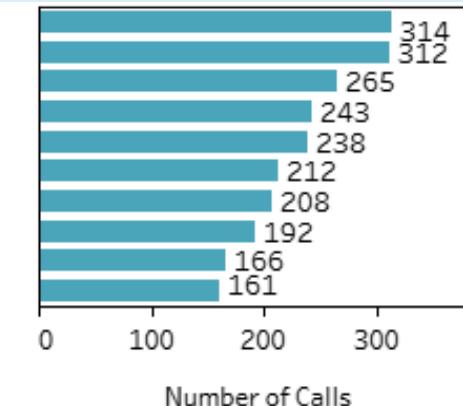
4,242

### Top 10 Requested Service - Accepted Calls

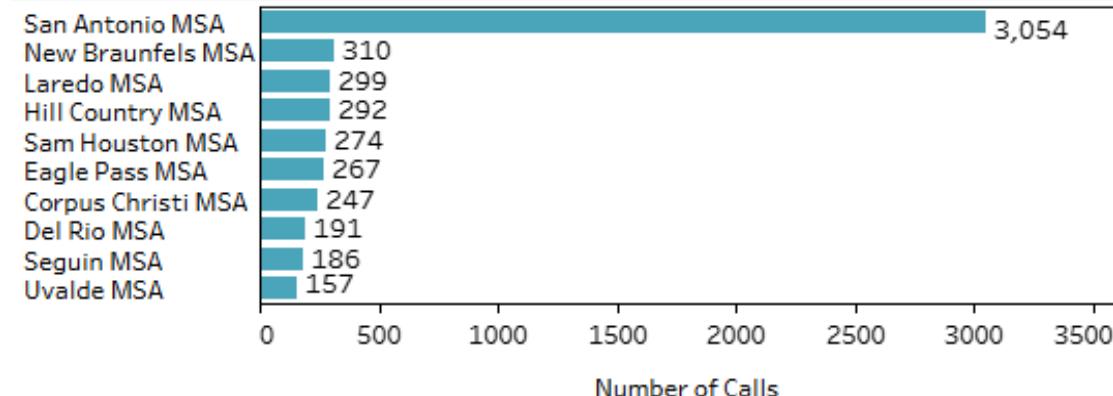


### Top 10 Bexar County Referring Systems

EXT Mission Trail Baptist Hospital  
 EXT Christus Santa Rosa Hospital - Westover Hills  
 EXT Methodist Hospital - Medical Center  
 EXT Metropolitan Methodist Hospital  
 EXT Baptist Medical Center  
 EXT Northeast Methodist Hospital  
 EXT Baptist Neighborhood Hospital - Zarzamora  
 EXT Methodist Hospital - Stone Oak  
 EXT Baptist Neighborhood Hospital - Kelly  
 EXT Northeast Baptist Hospital

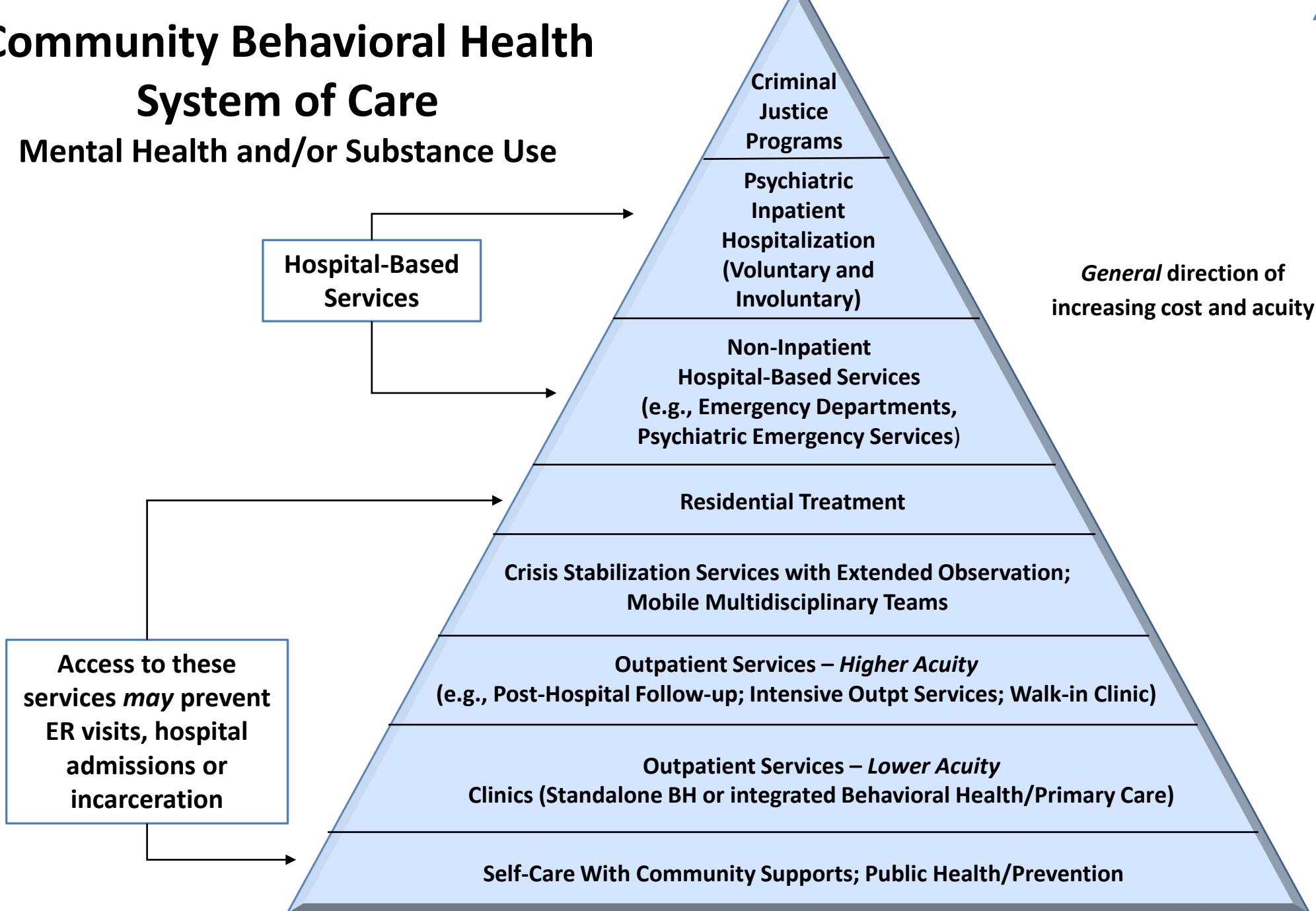


### Top 10 MSAs - Accepted Calls



# Community Behavioral Health System of Care

## Mental Health and/or Substance Use



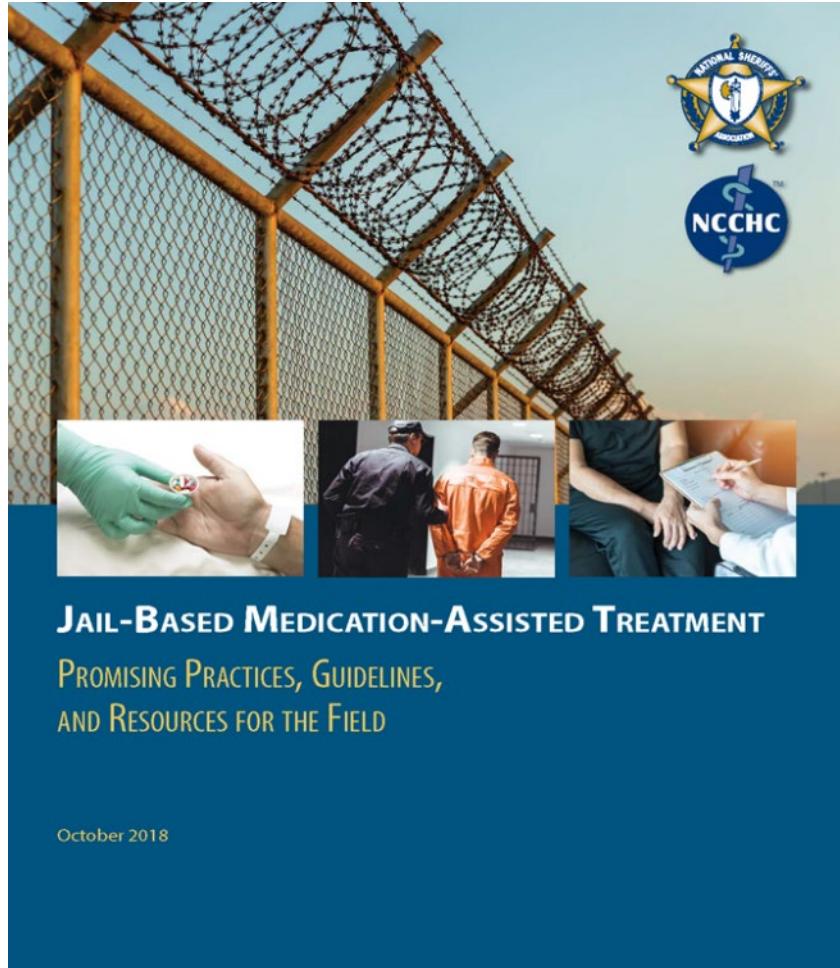
# Medication-Assisted Opioid Treatment

## Bexar County Adult Detention Center

### Benefits:

- Improves overall health outcomes for patients
- Improves behavior and reduced incidents within the jail facility
- Cost-effective for the community by addressing addiction during the incarceration
- Opioid disorder treatment breaks the cycle of addiction-related criminal behavior
- 182 patients are currently enrolled in treatment; the program started in 2024

# National Commission in Correctional Healthcare Accreditation Review December 3 - 5



## Surveyor findings:

- Communication with Sheriff's Office and University Health is “incredible, well coordinated, best practice”
- Access to medical care is “great, quality of care excellent, patients very happy”
- Number of grievances are significantly below national averages
- University Health mental health services exceeding expectations

# Key 2025 Accreditations & Recognition

- **4th Magnet Designation**
  - 68 hospitals in Texas have achieved Magnet designation
  - 20 hospitals in Texas have achieved Magnet designation 4 or more times
- **Trauma-Informed Care Certification**
  - First health system in San Antonio
- **Top Work Places**
  - San Antonio Express News
  - USA Today
- **America's Best-in-State Hospitals for 2026**
  - Recognized by Newsweek and rankings are based of four data sources:
    - Quality metric data from CMS
    - Hospital reputation
    - Patient experience
    - Statista Patient Reported Outcome measure (PROMs)



# Leapfrog Fall 2025 Report

- University Health earned an “A” Hospital Safety Grade for the 5th period in a row! We are the only “Straight A” hospital in San Antonio



1	Baylor University Medical Center Dallas, TX
2	Memorial Hermann - Texas Medical Center Houston, TX
3	University Health San Antonio, TX
4	Baylor Scott & White Medical Center - Temple Temple, TX
5	William P. Clements Jr. University Hospital Dallas, TX
6	University Medical Center Lubbock, TX
7	John Peter Smith Hospital Fort Worth, TX
8	DHR Health Edinburg, TX
9	Baylor St. Luke's Medical Center Houston, TX
10	Houston Methodist Hospital Houston, TX

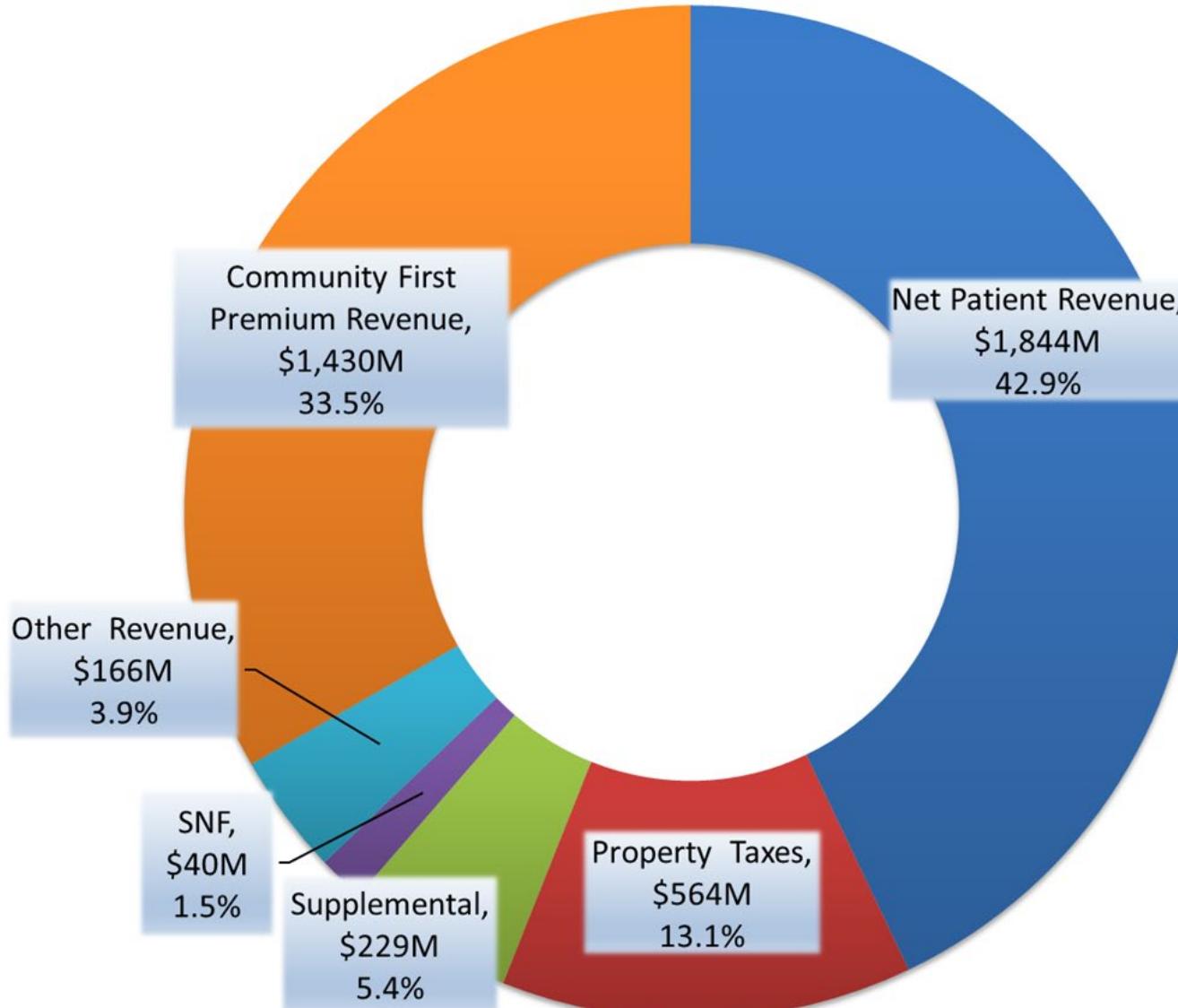
## University Health Lown Institute Rankings 2025

- **Health Equity Grade: A**
- **Patient Outcomes Grade: A**
- **Clinical Outcomes Grade: A**
- **Patient Safety Grade: A**
- **Community Benefit Grade: A**
- **Inclusivity Grade: A**
- **Top 5 in Texas for Community Benefit**

# University Health 2026 Budget

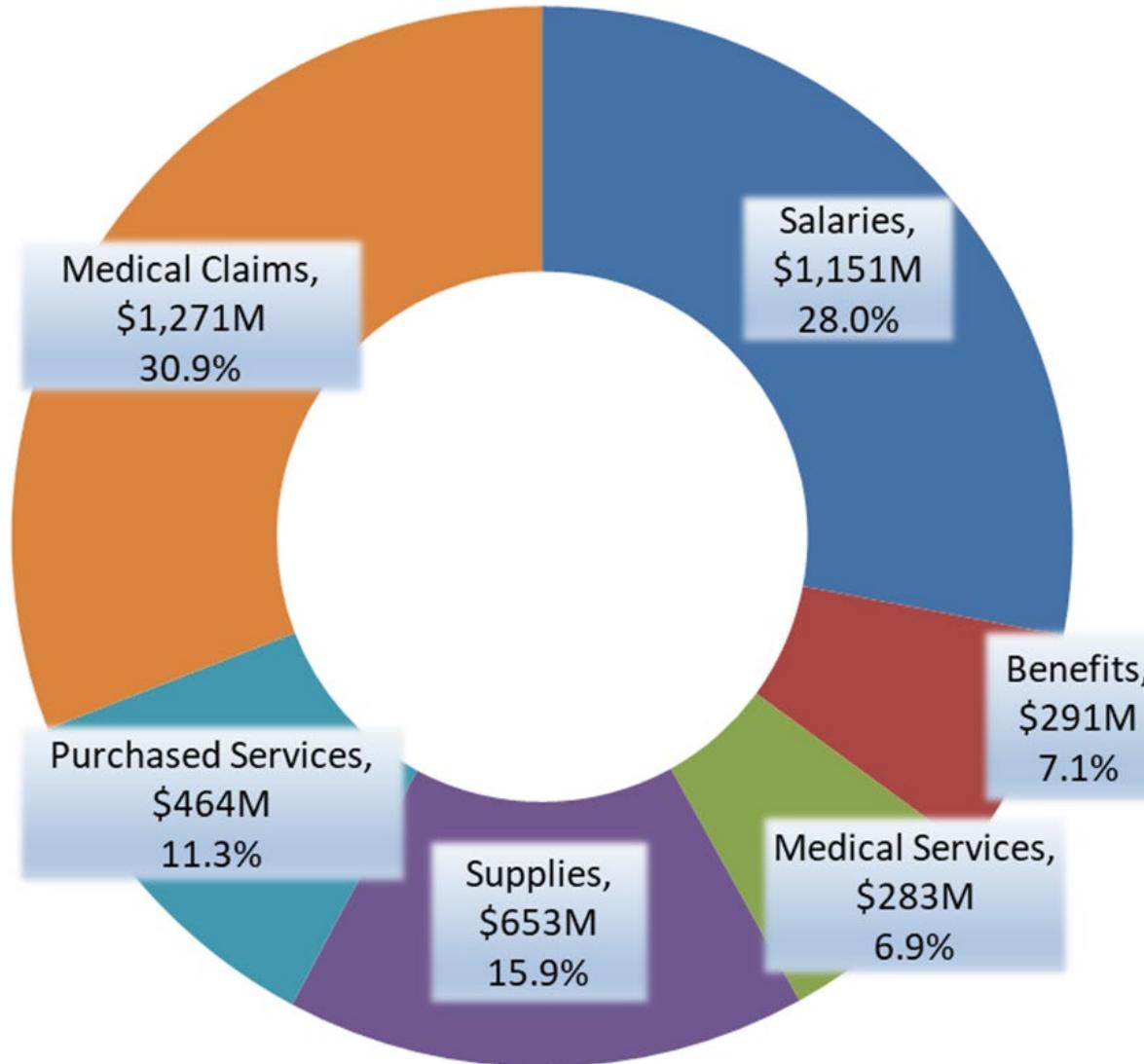
# Consolidated 2026 Revenue Budget

**Consolidated Total Operating Revenue: \$4.27B**



# Consolidated 2026 Expense Budget

**Consolidated Total Operating Expense: \$4.11B**



# Significant Costs

- Detention Center staff: \$32 million
- Detention Center care at University Health facilities: \$21 million
- Uninsured cost at University Health facilities: \$361 million
- Out of Bexar County uninsured medical care: \$30 million
- University Health support to UT to provide care to uninsured and medical education: \$261 million
- Medicare short fall for Graduate Medical Education: \$17 million
- **Total unfunded cost of uninsured and medical education: \$692 million**

# Consolidated 2026 Budget

<b>Consolidated</b> (Dollars in Millions)	<b>2025 Projected</b>	<b>2026 Budget</b>	<b>Variance from Projected</b>	<b>% Variance</b>
<b>Total Operating Revenue</b>	\$3,956.5	\$4,272.9	\$316.4	8.0%
<b>Total Operating Expense</b>	\$3,635.5	\$4,112.9	\$477.4	13.1%
<b>Operating Gain</b>	\$321.0	\$160.0	(\$161.0)	(50.2%)
<b>Nonoperating Revenue/(Expense):</b>				
<b>Depreciation/Amortization</b>	(\$156.3)	(\$180.5)	(\$24.2)	(15.5%)
<b>Other Non-operating</b>	\$112.3	\$63.0	(\$49.3)	(43.9%)
<b>Premium Deficiency Reserve</b>	\$2.7	\$0.0	(\$2.7)	(100.0%)
<b>Total Non-Operating Revenue</b>	(\$41.2)	(\$117.5)	(\$76.3)	(185.1%)
<b>Bottom Line excluding Debt Service</b>	<b>\$279.8</b>	<b>\$42.5</b>	<b>(\$237.3)</b>	<b>(84.8%)</b>
<b>Debt Service Expense</b>	\$99.8	\$99.9	\$0.1	0.1%
<b>Capital Requirements</b>	<b>\$46.3</b>	<b>\$46.9</b>	<b>\$0.6</b>	<b>1.3%</b>

# Recommended Motion

The Bexar County Hospital District Board of Managers recommends  
the Bexar County Commissioners Court  
approves the proposed Fiscal Year 2026 Operating,  
Debt Service and Capital Budgets for University Health