



# University Health System

## BEXAR COUNTY HOSPITAL DISTRICT BOARD OF MANAGERS

Tuesday, November 10, 2020  
6:00 p.m.  
Cypress Room, University Hospital  
4502 Medical Drive  
San Antonio, Texas 78229

### MINUTES

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#### **BOARD MEMBERS PRESENT:**

James R. Adams, Chair  
Ira Smith, Vice Chair  
Roberto L. Jimenez, M.D., Immediate Past Chair  
Margaret Kelley, M.D.  
Thomas C. (“TJ”) Mayes, J.D.  
Anita L. Fernandez  
L.P. Buddy Morris

#### **OTHERS PRESENT:**

George B. Hernández, Jr., President/Chief Executive Officer, University Health System  
Bryan J. Alsip, MD, Executive Vice President/Chief Medical Officer, University Health System  
Edward Banos, Executive Vice President/Chief Operating Officer, University Health System  
Rob Hromas, MD, Dean, Long School of Medicine, UT Health San Antonio  
Reed Hurley, Executive Vice President/Chief Financial Officer, University Health System  
Leni Kirkman, Executive Vice President/Chief Marketing, Communications & Corporate Affairs Officer  
& Interim President/University Health System Foundation  
Serina Rivela, Vice President/General Counsel, Legal Services, University Health System  
Travis Smith, Deputy Chief Financial Officer, University Health System  
Rajeev Suri, MD, Professor/Department of Radiology, UT Health; and President/Medical-Dental Staff,  
University Health System  
Laura Garcia, Business Reporter, San Antonio Express-News  
And other attendees.

#### **CALL TO ORDER:**

Mr. Adams called the meeting to order at 6:10 pm.

**INVOCATION AND PLEDGE OF ALLEGIANCE**

In the absence of Ms. Jeanine Atkinson, Mr. Jim Adams provided the invocation and led the pledge of allegiance.

**PUBLIC COMMENT:** None.

**DISCUSSION AND APPROPRIATE ACTION REGARDING BEXAR COUNTY HOSPITAL DISTRICT D/B/A UNIVERSITY HEALTH'S PRELIMINARY OPERATING, DEBT SERVICE AND CAPITAL BUDGETS FOR FISCAL YEAR 2021 — GEORGE B. HERNÁNDEZ, JR./ REED HURLEY**

**SUMMARY:**

Mr. Hernandez welcomed the Board and made some introductory remarks regarding the budget process from the point of Board approval today through approval and acceptance by Bexar County Commissioners Court. He yielded the floor to Mr. Hurley for a detailed presentation on the preliminary 2021 Operating, Debt Service and Capital Budget. The preliminary 2021 budget was developed using the Triple Aim Plus as the 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 planning process. The preliminary 2021 budget incorporates many changes that are known or projected to occur during the coming year. The impact of the COVID-19 pandemic, changes in supplemental funding, optimization of the Epic system, ongoing large capital projects, and many planned operational improvements will impact revenues and expenses in the coming year.

**Operating Revenue – Consolidated Total Operating Revenue: \$2.21 Billion**

- Property Taxes \$426.0 million
- Community First \$611.8 million
- Net Patient Revenue (NPR) \$817.8 million
- Disproportionate Share (DSH) \$26.9 million
- Network Access Improvement Program (NAIP) \$33.1 million
- Uncompensated Care \$86.4 million
- Delivery System Reform Incentive Payment (DSRIP) \$68.1 million
- Skilled Nursing Facilities (SNF) \$33.9 million
- Other Revenue \$103.6 million

**Operating Expense – Consolidated Operating Expenses: \$2.11 Billion**

- Medical Claims \$529.4 million
- Salaries \$609.7 million
- Benefits \$135.3 million
- Medical Services \$222.8 million
- Supplies \$301.4 million
- Purchased Services \$306.6 million

**Clinical Volume by Location**

<u>2020 Projected</u>	<u>2021 Budget</u>	<u>Variance %</u>
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- Primary/Urgent Care  
 375,748 visits      460,219 visits      + 22.5

Clinical Volume by Location

	<u>2020 Projected</u>	<u>2021 Budget</u>	<u>Variance %</u>
○ Specialty Care			
415,590 visits		465,577 visits	+ 12.0
65,480 treatments			+ 9.7
7,556 procedures			+ 82.6
○ Preventive Care/ School-Based Clinics			
41,522 visits		60,708 visits	+ 46.2
○ Mammography			
27,376 procedures		30,488 procedures	+ 11.4
○ UH Emergency Care			
86,377 visits		103,495 visits	+ 17.4
○ University Hospital			
28,128 discharges		31,857 discharges	+13.3

Total discharges are projected to grow by 13.3 percent with 12.6 percent growth in adults and 20.6 percent in pediatrics. Outpatient ambulatory clinic volume is budgeted to achieve a 23.6 percent increase over 2020 projected activity. These volumes are in line with actual volumes achieved during 2019. The budget assumes that in early 2021, the pandemic will end and demand for healthcare services will return to normal levels.

2020 Projects

- Management of COVID Lockdown, Surge, and limited Reopening
- Epic Implementation – July 11 Go-live
- Women’s & Children’s Hospital – On schedule
- Advanced Diagnostics Center – Opening December 2020
- Pharmacy Growth – Retail Pharmacy & Meds to Beds
- Refunding of 2010 Bonds – Completed, Net Present Value savings of \$15 million
- Building Renovation & Repairs – Ambulatory Clinics & Roofs
- Premier Financial Software – January 1 Go-live

2021 Projects

- Grow Patient Volumes to 2019 level
- Optimize Epic
- Continue Women’s & Children’s Hospital Progress
- Expand Pharmacy Services – Retail Pharmacy & Specialty Pharmacy
- Focus on UT Health Partnership – Growth of Strategic Service Lines

- Continue Ambulatory facility repairs/upgrades – South Flores, Naco Perrin, Southeast, and others
- Implement Kronos Labor Management Software
- Address Supplemental Funding Changes

2021 Project: Grow Patient Volume - 2020 Impact vs. 2019 Average

Due to the public’s fear of catching COVID-19, closings of schools and businesses, and State imposed restrictions on performing elective procedures, patient volumes dropped dramatically at University Health, as well as other health care providers across the country. In April, surgical volumes dropped by 50 percent and most other areas were down at least 30 percent. Over the summer and into the fall months, patient volumes have grown but have not fully returned to 2019 levels. For patient care areas, volumes are the main driver of revenue and expense. The preliminary 2021 budget assumes volumes will return to levels similar to those in 2019 with some variations due to known service line changes. The long term medical resource demands and financial impacts related to the COVID-19 pandemic are unknown at this time but are predicted to last several years.

2021 Budgeted COVID-19 Impacts

COVID Initiative	2021 Financial Impact
Revenue	
FMAP Deflation	(21.2) M
Medicare Sequestration	(1.6) M
CARES Payment Decrease	(22.8) M
<u>Total Revenue Impact</u>	<u>\$ (45.6) M</u>
Expense	
COVID Entrance Screeners: 54 FTE	2.1 M
COVID Pre-Procedure Testing: 14 FTE	0.6 M
COVID PPE	2.3 M
Pharmacy: COVID Vaccine	3.2 M
<u>Total Expense Impact</u>	<u>\$ 8.2 M</u>
<b>Total Financial Impact 2021 Budget</b>	<b>\$ (53.8) M</b>

2021 Project: Epic Optimization

The Epic Electronic Health Record went live on July 11, 2020, and has changed work flows in many areas. Optimization of the Epic system will improve many processes during 2021 and beyond. All of the Triple Aim *Plus* goals should improve due to the implementation of the Epic system. Mr. Hurley provided an industry benchmark comparison for a three-month period from July to October 2020. This is an opportunity-focused effort with a performance goal for University Health to be in the top 25 percentile. Many operational and quality improvements will occur as staff, physicians, and patients optimize use of the tool. University Health is on its way to being a top performer in two areas:

	Ours	Median	Top 25%
Pre-Services Collection	32.8	10	20.3
Aged 90+ Accounts	6.9	21.9	17.8

2021 Project: Retail Pharmacy Growth

Since January 2018 thru June 2020, outpatient pharmacy dispense indicates an 85 percent overall growth:

- Improved Management of CareLink/Grant patients
- University Health Prescription Savings Club
- Employee prescription fill growth: \$0 co-pay
- Expand service to insured patients: 300 percent increase

2021 Project: Specialty Pharmacy Partnership with Shields Pharmacy

- High cost drugs primarily used for Transplant, HIV, and Cystic Fibrosis patients
- Conservative Estimates included in 2021 Budget
- Specialty Pharmacy Revenue \$19.7 million
- Total Expense Impact \$19.3 million
- Total Financial Impact 2021 Budget \$0.4 million

2021 Project: Women's & Children's Hospital

- Groundbreaking 2019
- Significant Progress
- 2021 Campus Traffic Flow Disruptor
- Planned opening early 2023

2020/2021 Project: Ambulatory Facility Upgrade

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

Clinical Services Division – 2021 Revenue Budget

- Total Operating Revenue \$1.6 Billion
- Property Taxes \$426 million
- Net Patient Revenue (NPR) \$817.8 million
- Disproportionate Share (DSH) \$26.9 million
- DSRIP \$68.1 million
- Uncompensated Care (UC) \$86.4 million
- NAIP \$33.1 million
- Skilled Nursing Facilities (SNF) \$33.9 million
- Other Revenue \$100.6 million

2021 University Health less CFHP Revenue Budget

- Mr. Hurley compared revenue sources projected for 2020 and preliminary for 2021 and respective amounts: Net Patient Service Revenue, Property Taxes, DSH, DSRIP, NAIP, SNF, UC, Tobacco Settlement Fund, and Other. Net Patient Services Revenue for 2020 is projected to be \$731,194, while the 2021 preliminary budget amount is \$817,773. Total Operating Revenues for 2020 projected to be \$1,568,943, while 2021 preliminary budget amount is \$1,592,729.

### Volume and Revenue

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

- Assumption that patient volumes will return to 2019 levels.
- Growth in the Orthopedics, Transplant, and Heart/Vascular cases, due to delays in treatment during 2020.
- Women's service line enhancement will drive continued volume increases in both inpatient and outpatient settings.
- Total discharges are projected to grow by 13.3 percent with 12.6 percent growth in adults and 20.6 percent in pediatrics. These volumes are in line with actual volumes achieved during 2019.

### Payer Mix Summary – Patient Revenue

\$.8 Billion Gross Charges, \$818 million Net Patient Revenue (NPR):

- CareLink – 3 percent NPR
- Medicaid – 23 percent of NPR\*
- Commercial – 25 percent of NPR
- Medicare – 43 percent of NPR

*\*Approximately 80 to 85 percent are going to be Obstetrics and Gynecology patients.*

Commercial Insurance Rate Negotiations - Mr. Hurley reviewed negotiated reimbursement adjustments with the various managed care companies for the period 2014 through 2021. The largest increase adjustment across the board of approximately \$10.2 million is for FY 2021.

### Changes in Net Patient Revenue - \$86.6 million and Variance from Projected 2020

- 2020 Projected Net Patient Revenue is \$731.2 million
- Clinical volume increase: \$30.4 million
- Pharmacy volume increase: \$23.5 million
- Medicare rate improvement: \$19.1 million
- Managed Care Rate Improvement: \$10.2 million
- Cost Report: \$3.4 million\*
- 2021 Net Patient Revenue Budget: \$817.8 million

*\*The Medicare cost report is a financial report that is filed annually with CMS which identifies the cost and charges related to healthcare activities, and impacts reimbursement, much like a tax return.*

### 2021 Project: Supplemental Funding Programs Budget: \$206 Million

- \$54 million lower than the 2020 projection
- Major Program Changes
- Medicaid UC Decrease - \$15.5 million – Lower FMAP
- DSRIP Decrease - \$17.1 million

(Program ends September 2021)

- DSH Decrease - \$17.3 million – Scheduled DSH cuts
- NAIP Decrease - \$1.6 million Lower FMAP

Clinical Services Division – 2021 Expense Budget

Total Operating Expense: \$1.58 Billion

- Skilled Nursing Facilities - \$33.1 million
- Salaries - \$580.9 million
- Benefits - \$128.7 million
- Medical Services - \$222.8 million
- Supplies - \$301.4 million
- Purchased Services - \$233.4 million

Operating Expense

2020 Projected Total Operating Expense: \$1,418.7 million/% Variance

- Salaries: \$32.1 million/5.0
- Benefits: \$2.7 million/2.1
- Medical Services: \$13.6 million/6.5
- Purchased Services -\$6.6 million/-2.4
- Supplies: \$39.8/15.2
- Changes to Total Operating Expense: \$81.7 million/5.8
- 2021 Preliminary Budget Total Operating Expense: \$1,500.4 million

Employee Compensation

2020 Projected Employee Compensation: \$674.8 million\*

- Merit Increase and Market Adjustment \$15.6 million
- Volume Impact \$6.3 million
- New Programs \$4.5 million
- Epic Impact \$3.7 million
- Specialty Pharmacy \$2.0 million
- Benefits \$2.7 million
- Changes to Employee Compensation Expense \$34.8 million
- Variance from Projected 2020 5.2%
- Total Employee Compensation Expense \$709.6 million

*\*Drivers for each item provided in written report.*

Medical Services

2020 Projected Medical Services - \$209.2 million\*

- UT Master Services Increase: \$4.9 million
- Increased CareLink Utilization: \$4.9 million
- Physician Recruitment Support: \$2.1 million
- UMA Contracts with UT Health: \$1.8 million
- Changes to Medical Service Expense: \$13.6 million, or 6.5% variance

*\*Drivers for each item provided in written report.*

Purchased Services - 2020 Projected Purchased Service Expense: \$273.1 million

- Comprised management fees, planning, design and construction, transplant programs, community support, Epic project, maintenance contracts, net other purchased services, SNF

expense. Changes to purchased service expense is -\$6.6 million, or -2% variance. Total purchase service expense is \$266.5 million. Drivers for each item provided in written report.

Supply Expense – 2020 Projected Supply Expense: \$261.6 million

- o Comprised of pharmaceuticals, specialty pharmaceutical drugs, implants, medical supplies, and non-medical supplies. Changes to Supply Expense: \$39.8 million, or 15.2% variance. Total Supply Expense: \$301.4 million.

University Health less CFHP:

	<u>2020 Projected</u>	<u>2021 Preliminary</u>	<u>Variance</u>
o Bottom Line	\$98.5 million	\$8.4 million	-91.5%

Property Tax Revenue - (\$0.276235 of \$100 valuation) x \$181 billion in property values

- o For 2021 this produces \$499 million in total assessments
- o The \$0.27 rate covers M&O (operations) and I&S (debt service)
- o 2021 total rate is projected to produce \$14.7 million more than 2020
- o 2021 M&O Tax Revenue = \$426 million up \$11.6 million
- o 2021 I&S Tax Revenue = \$73 million up \$3.1 million

Bond Debt

Debt on Sky Tower/RBG	\$518,625,000
Certificates of Obligation, Series 2018 & Series 2020	
<u>And Women’s and Children’s Hospital</u>	<u>\$413,405,000</u>
Total Balance of Debt at Par	\$932,030,000

<u>Debt Service</u>	<u>2020 Projected</u>	<u>2021 Preliminary</u>	<u>Variance</u>	<u>%</u>
Debt Service I&S	\$70.2 million	\$73.3 million	3.1	4.4
<u>Debt Service Payment</u>	<u>\$70.2 million</u>	<u>\$73.3 million</u>	<u>3.1</u>	<u>4.4</u>
Net Debt Service Revenue	-	-	-	0.0

Capital Asset Value - Assets in Service: \$1,962 million

- o Land & Improvements: \$21million, Less Depreciation -\$10 million  
Asset Book Value: \$11 million
- o Buildings: \$1,277 million, Less Depreciation -\$381million  
Asset Book Value: \$897 million
- o Equipment: \$663 million, Less Depreciation -\$465 million  
Asset Book Value: \$198 million

Aged Capital Equipment – Replacement Plan by Year

- o Detailed review of aged medical equipment & expected useful life
- o Implemented replacement plan to smooth spikes
- o Aged Medical Equipment = \$3 million



<u>2021 Routine Capital Requirements</u>	<u>Grand Total</u>
Essential: Cannot Function Without:	\$13,647,281 million
Important: Necessary for Improvement	\$28,520,675 million
Proactive: Necessary to avoid Problems	\$2,056,480 million
Total Clinical Services – Mandated:	\$2,991,010 million
Total Clinical Services – Replacement:	\$32,002,797 million
<u>Total Clinical Services – New</u>	<u>\$9,230,628 million</u>
Grand Total:	\$44,224,436 million

Grand total includes:

- Radiology Equipment Replacement = \$5.7M
- Rio and Horizon Fire Alarm Replacement = \$5.0M
- Facilities = \$3.6M
- Aged Medical Equipment = \$3M
- DaVinci Robot = \$2.3M

Consolidation of 2021 Budget

- o CFHP Budget Approved by CFHP Board 10/23
- o Presentation to University Health Board 10/27
- o University Health less CFHP

	<u>2020</u>	<u>2021</u>
	<u>Projected</u>	<u>Preliminary/Variance</u>
Total Operating Revenue	\$2,187.6 million	\$2,207.6 million/0.9%
Total Operating Expense	\$1,985.9 million	\$2,105.3 million/6.0%
Bottom Line		
Excluding Debt Service	\$149.8 million	\$19.9 million/86.8%
Debt Service	\$70.2 million	\$73.3 million/4.4%
Capital Requirements	\$44.1 million	\$44.4 million/0.7%

RECOMMENDATION:

Staff recommends Board of Managers’ approval of the proposed Operating, Debt Service and Capital Budgets for Fiscal Year 2021, and endorsement to forward to Bexar County Commissioners Court for their final approval on December 1, 2020.

ACTION:

A **MOTION** to approve staff’s recommendation was made by Dr. Kelley, **SECONDED** by Mr. Morris, and **PASSED UNANIMOUSLY**.

EVALUATION:

Throughout the presentation, Board members engaged the staff in dialogue regarding staffing, absences related to COVID-19, and University Health’s paid time off policy. University Health is well prepared to onboard additional nurses and/or providers should there be another surge of COVID-19 in the city. Frontline workers and providers who get sick are encouraged to stay home. A temporary change to the PTO policy allows for a negative balance up to 80 hours to avoid burnout of clinicians. The number of 2020 Projected FTE positions is 8,403. The preliminary 2021 budget indicates a total paid FTE count of 8,976.4, an FTE variance of 573.4; FTE growth of 6.8 percent, and Mr. Hurley referenced Exhibit 6 (2021 Budget FTE Change). Also discussed were the 2020 savings due to the delay of the Epic implementation, the improved impact on patient outcomes due to Epic, and availability of data from Epic. It was noted that the Epic system has eliminated approximately 90 subsystems, and University Health now has a seamless integration with UT Health. Savings in 2020 were due to cancelled travel and remote training during COVID-19. Dr. Jimenez asked about the interpretation of medical data and the diagnosing of patients when so many symptoms are alike, and intuition and experience play a major role.

He asked if University Health has analytics experts available to interpret the data and what will University Health do with all the data that is collected. University Health has many reporting requirements with national and state registries, for specific data, and Epic will be very helpful in this regard. Currently, there is a group working on dashboards, which can be customized and put into a work flow so that providers are reminded daily. Prior to Epic, data was manually pulled by report writers, whereas now Epic can provide almost 100 percent of that data. The staff is currently working on data validation which will take a period of time to ensure all of the fields are correct to produce solid data. All agreed that the implication of data is for teaching, research, and particularly important, are the social determinants of disease. In addition, Epic has a national interface that allows any other healthcare organizations in the country that uses Epic to access a patient's medical record and vice versa. Epic will also help to quantify the savings produced by having a large ambulatory network, to include improving the health of the community and the avoidance of emergency room visits. The Baptist Health System is the other healthcare organization in town that has implemented Epic. Mr. Ted Day is working with the Federally Qualified Health Centers in town to enroll them in Epic. In addition, Mr. Hernandez provided background information on the bond debt service and recalled that the Board made a \$120 million cash contribution towards the Sky Tower from its Reserves Account. The 340B Drug Pricing Program, the establishment of a Geriatrics service line, hospital capacity, Medicare, Medicaid, and the CareLink financial assistance program were also discussed in great detail.

FOLLOW UP:

Mr. Morris requested historical income statement information going back five years. Mr. Adams suggested this information be shared with all the Board members.

**ADJOURNMENT:**

There being no further business, Mr. Adams adjourned the meeting at 8:11 pm.

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James R. Adams  
Chair, Board of Managers

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George B. Hernández, Jr.  
Acting Secretary, Board of Managers

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Sandra D. Garcia, Recording Secretary