REGULAR BI-MONTHLY MEETING
OF THE BEXAR COUNTY HOSPITAL DISTRICT
BOARD OF MANAGERS

Tuesday, August 20, 2013
2:00 p.m.
Conference Room A
Corporate Square
4801 NW Loop 410, 10th Floor
San Antonio, Texas 78229-5347

MINUTES

BOARD MEMBERS PRESENT:

James R. Adams, Chair
Rebecca Q. Cedillo, Secretary
Roberto L. Jimenez, M.D., Immediate Past Chair
Robert Engberg
Alex Briseño
Ira Smith

BOARD MEMBERS ABSENT:

Linda Rivas, Vice Chair

OTHERS PRESENT:

George B. Hernández, Jr. President/Chief Executive Officer, University Health System
Bryan Alsip, M.D., Executive Vice President/Chief Medical Officer, University Health System
Ted Day, Vice President, Strategic Planning & Business Development, University Health System
Peggy Deming, Executive Vice President/Chief Financial Officer, University Health System
Don Finley, Senior Writer, Corporate Communications, University Health System
Roe Garrett, Vice President/Controller, University Health System
Michael Hernandez, Vice President/Chief Legal Officer, University Health System
Sherry Johnson, Vice President, Integrity and Regulatory Services, University Health System
Leni Kirkman, Vice President, Strategic Communications & Patient Relations, University Health System
Christann Vasquez, Executive Vice President/Chief Operating Officer, University Health System

MEDIA:

Peggy O’Hare, Staff Writer, San Antonio Express News
CALL TO ORDER AND RECORD OF ATTENDANCE: JIM ADAMS, CHAIR, BOARD OF MANAGERS

Mr. Adams called the meeting to order at 2:06 pm.

INVOCATION AND PLEDGE OF ALLEGIANCE:

Mr. Daniel Aguirre of Oasis of Light Church said the invocation and Mr. Adams led the pledge of allegiance.

NEW BUSINESS AGENDA:

DISCUSSION AND APPROPRIATE ACTION REGARDING THE 2013 BEXAR COUNTY HOSPITAL DISTRICT TAX RATE RECOMMENDATION TO COMMISSIONERS COURT IN SUPPORT OF THE OPERATING, DEBT SERVICE AND CAPITAL BUDGETS FOR 2014 – PEGGY DEMING/GEORGE B. HERNÁNDEZ, JR.

SUMMARY: Staff continues to assess and predict the ways in which healthcare reform and payment reform will affect the delivery system in the coming years and incorporated strategies and initiatives, such as the Triple-Aim plus and Lean Management System, in the Preliminary 2014 Budget presented to the Board today.

The operating margin of $4.2 million and operating margin percent of 0.5, while positive, reflect a decline from projected 2013. The positive impact of the opening of the new trauma tower, continued expansion at the Robert B. Green campus, the growth in strategic service lines and the pediatric transition plan were offset by material reduction in State and Federal reimbursement. Staff reviewed several major internal and external factors that were considered in developing the 2013 projection to year end as well as the preliminary 2014 strategic financial plan used as the basis to set the 2013 property tax rate. Staff anticipates that utilization in the preliminary 2014 strategic financial plan will increase 12.1 percent based on adjusted discharges over levels projected for 2013. Ms. Deming also reviewed an estimated impact of legislative changes and a walk-forward analysis. Based on capital needs over the next four years, a total of $76.6 million has been identified for 2014 consideration, with a recommended capital budget target to be set at $30 million. The required principal and interest payments on the Health System’s outstanding bonds due in 2014 are $42.1 million. Included are the savings from the Build America Bonds subsidy of $8.5 million which is net of a 5 percent sequestration reduction, or $446,000 to the amount previously provided by the federal government. Debt service taxes to levy $4.2 million are being recommended to cover the payment due. The tax roll of existing properties used to calculate the effective tax rate is $107.9 billion. The existing values increased $3.6 billion or 3.42 percent which results in a decrease to the effective operating tax rate compared to the existing tax rate for operations in order to generate the same level of taxes. In addition, new property grew the certified tax roll for the Health System for 2013 to $110.1 billion, a 5.7 billion increase or 5.49 percent higher than the 2012 values. The 2012 average home value of $144,161 increased $2,933 or 2.03 percent to $147,094 based on
the certified 2013 values. The effective operating tax rate is the tax rate that levies the same taxes for operations in 2014 as in 2013. The 2013 published effective operating tax rate is $0.227834 per $100 valuation. The existing tax rate in support of Health System operations in 2013 is $0.234937 per $100 valuation. The effective operating tax rate is $0.07103 or 3.02 percent lower than the existing tax rate. Debt payments by the Health System for 2014 are estimated at $43.1 million. The 2013 debt tax rate is $0.039635 per $100 valuation. This rate is $0.001663 or 4.03 percent less than the existing debt tax rate of $0.0412908. The debt tax rate is slightly lower given the increase in new property values. The required debt payment for 2014 increased $0.8 million from $42.3 million to $43.1 million. The effective total tax rate is the tax rate that imposes the same total tax in 2014 as in 2013 and considers both the debt tax rate and the operating tax. The published effective total tax rate for the Health System for 2014 is $0.268015. Staff recommends a total tax rate of $0.267469 for 2014 to support the required debt service payments in 2014 with a rate of $0.039635 and operations at a rate of $0.227834. The operating tax rate is equal to the published effective operating rate and the required debt serve rate of $0.039563. The recommended total tax rate is lower than the published total effective tax rate of $0.268015 by $0.000546 or 0.20 percent. It is also lower than last year total tax rate of $0.27635 by $0.0008677 or 3.17 percent. The recommended total tax rate for 2014 yields a projected $292.6 million. This is higher than in 2013 by $6.1 million due to the $2.2 billion in new properties added to the tax roll in 2013. Staff is committed to producing a 2013 operating, debt service and capital budget that is balanced given this level of tax support.

Mr. Hernandez informed the Board that Health System leadership continues to execute the major tasks of the pediatric service line transition including staffing, construction, and provision of equipment to ensure that pediatric services are provided at the highest level of quality. UTHSCSA continues to explore options following the collapse of the plan for a standalone children’s hospital by Vanguard/CHOP/and UTHSCSA. Given the significant role of Methodist/HCA in pediatric care today, discussions are focusing on how some comprehensive venture might be implemented with UT Medicine and the Health System that would be most advantageous for the community’s children and fit in with the plans already underway by the respective organizations. Staff is mindful of the business plan for pediatric transition of care implemented to assist UT Medicine in February of 2013. Accordingly, in any proposed UT Medicine arrangement with a third-party, staff will assure that the revenue steam supporting that business plan is maintained. Staff reported previously on the detail of the anticipated transition schedule (Pediatric Services Matrix attached to the Terms of Agreement dated February 26, 2013). The major components of this schedule are still valid. Some items that have changed since it was presented earlier include the following:

- The Liver Transplant program is anticipated to start on January 1, 2014 (assuming approval by the United Network for Organ Sharing, UNOS, in December, 2013).
- School-Based Clinics start this month, August, 2013.
- The Congenital Heart Program will transition over the month of October, 2013.
• Specific dates for the transition of the Orthopedics and Hematology-Oncology programs in 2014 are being determined.

The previous activity has been anticipated in the development of the 2014 Tax Rate Budget. For example, the difference in the initial timing of changes in service line transition timing against that projected in the original pediatric services business plan has been accounted for and was detailed in that June memo. Potential, minor adjustments could be applied in the finalization of the 2014 Operating Budget as the start dates on services slated to transition in 2014 are finalized over the next few weeks.

**RECOMMENDATION:** Staff recommends approval of a 2013 total tax rate in support of the Health System’s operating, debt service and capital requirements for 2014 at $0.267469 per $100 property valuation.

**ACTION:** None.

**EVALUATION:** Mr. Briseno expressed concerns regarding staff’s recommendation. He directed the Board’s attention to the bar graph comparing historical and the proposed tax rates for the years 2005 to 2013. He noted that, although the graph does not reflect property values and revenues during that same time period, the Health System’s tax rate was maintained at 23.4 cents from 2008 to 2012, despite fluctuations in property values, when revenues decreased for the Health System. Now that property values have increased by a small amount, he feels it is worth considering keeping the rate the same in order to prepare to invest in future programs, particularly with all of the uncertainties the Health System is facing. For example, the Health System is investing up front in Delivery System Reform Incentive Payment (DSRIP) projects with a potential revenue stream that we may or may not receive in the future. The staff is very confident that the Health System will receive that revenue, and he emphasized that the Board would hold the staff accountable for that. In addition, not taken in to consideration is the potential impact of the Affordable Care Act. The staff is predicting an increase of 12 percent in net patient revenue from $364,224 million for 2013 to $407,843 million in 2014. But, the Affordable Care Act states the cost of health care is going to decrease. Is staff certain that there will be a 12 percent increase in net patient revenue? An increase smaller than 12 percent, or any decrease will directly impact potential expenditures.

Further, the gain from operations is projected at $14,300 million for 2013 and the staff is recommending that amount be reduced to $4,245 million in 2014. Mr. Briseno referred to Exhibit 2 of the Board materials, Income Statement and Summary from 2011 to 2014 for a historical review of Gains and Losses from Operations. In 2011, the Health System had a $5,078 million gain, in 2012 the gain was $45,219 million, and the projection for 2013 is a $14,000 million gain. However, staff is recommending only a $4 million gain for 2014. By keeping the existing tax rate, the Health System has an opportunity to maintain the historical gain from operations and rebuild the Health System’s cash that was lost when property values were down.

At the present time, resources are being invested in a pediatrics transition plan, which may or may not allow the Health System to participate with other entities.
in terms of returning that investment in the future. And, just like the Health System was able to invest $120 million cash towards the $900 million Capital Improvement Program, he sees an opportunity to build up some cash now to invest towards the uncertainties and potential impacts of the Affordable Healthcare Act and DSRIP projects. Mr. Briseno also noted that other tax supported entities are consistently keeping their tax rates the same, e.g., Bexar County, the City of San Antonio, as well as the various school districts, due to the decrease in property values and lost revenues over the recent years.

If Bexar County Commissioners Court adopts the existing tax rate for the Health System, gains will go up by $7.6 million for operations and $1.8 million for debt service. The amount received for the debt rate will more than cover the Health System’s payment for 2014. Revenue from the existing tax rate would increase the fund balance and improve the Health System’s bond rating in the future if other investments are to be made. Part of improving an organization’s bond rating comes from having higher reserves and better coverage, and also by meeting and exceeding its minimum commitment. At the present time the Health System can cover more than one time its minimum commitment.

The tax rate decision, however, is ultimately the Bexar County Commissioners Court and any tax rate increase recommendation (above 3 and below 8) will require two public hearings. The Health System has a great story to share with the public, as anyone in the downtown area can see by the investment in the Robert B. Green campus, and the fact that 98 percent of the public’s bond money was invested in the local economy is part of that story.

Mr. Adams agreed with Mr. Briseno’s perspective and feels that given the Health System’s reputation there would not be much objection to keeping the existing tax rate. He noted two areas of focus for the Health System that are of interest to the public and dear to this community: the ambulatory care network, which is the more costly piece of the operation, and the school-based clinics. The building up of cash might be an application to such things that are important to the general public. Adopting the existing tax rate would improve the bottom line from $4 million to $12 million in 2014; however, he would like specify how those funds will be used. Mr. Smith would also like to specify the use of the additional revenue.

Ms. Cedillo expressed appreciation for Mr. Briseno’s perspective and agreed that if the tax rate remains the same, it will be best for the community in the long run, not only in the pediatrics arena, but for the entire ambulatory network. Mr. Engberg described the services offered by the Health System as good and successful for the community and expressed support for maintaining a positive operating margin as proposed by Mr. Briseno.

Mr. Hernandez agreed that this proposal will give the Health System a bit of a cushion in light of all the uncertainties. He expressed his commitment to improve efficiencies, quality and patient satisfaction with only 25 percent of revenue coming from property taxes, The Health System has maintained its bond rating in large part because this portfolio has been managed efficiently. In reply to Mr. Smith’s inquiry about a Board strategic planning session that ties into this
year’s budget process, Mr. Hernandez informed the Board that the staff would be proposing an RFP in September for a community health assessment.

**FOLLOW UP:** Staff will return to the Board in one week with a recommendation and plan for use of the additional revenue that will come from maintaining the existing tax rate, as well as an outline of risks and potential risks that that the Health System will be able to recover, plus the impact this recommendation will have in terms of timing, public hearings and deadlines required by Commissioners Court.

Mr. Engberg asked Mr. Hernandez to consider a Board report regarding the predicted growth of 12.1 percent for improving access to care and the team’s ability to manage that growth.

Mr. Adams requested a report from Dr. Alsip regarding hospital inpatient performance metrics.

**ADJOURNMENT:**

There being no further business, Mr. Adams adjourned the public meeting at 4:15 pm.

Jim Adams  
Chair, Board of Managers

Rebecca Q. Cedillo  
Secretary, Board of Managers

Sandra D. Garcia, Recording Secretary