SPECIAL MEETING
OF THE BEXAR COUNTY HOSPITAL DISTRICT
BOARD OF MANAGERS

Tuesday, November 3, 2015
2:00 p.m.
Cypress Room, University Hospital
4502 Medical Drive
San Antonio, Texas 78229-4493

MINUTES

BOARD MEMBERS PRESENT:

James R. Adams, Chair
Ira Smith, Vice Chair
Dianna M. Burns, M.D., Secretary
Roberto L. Jimenez, M.D., Immediate Past Chair
Robert Engberg
James C. Hasslocher
Janie Barrera

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
Edward Banos, Executive Vice President/Chief Operating Officer, University Health System
Ted Day, Senior Vice President/Strategic Planning & Business Development, University Health System
Theresa De La Haya, Senior Vice President/Health Promotion, Clinical Prevention, University Health System - Texas Diabetes Institute
Sergio Farrell, Senior Vice President/Ambulatory Services, University Health System – Robert B. Green Campus
Donald 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
Reed Hurley, Executive Vice President/Chief Financial Officer, University Health System
Leni Kirkman, Vice President, Strategic Communications and Marketing, University Health System
Bill Phillips, Senior Vice President/Chief Operating Officer, University Health System
Nancy Ray, Senior Vice President/Chief Nurse Executive, University Health System
Michelle Ryerson, DNP, RN, NEA-BC, Senior Vice President, Chief Nursing Officer/Chief Operating Office, Pediatric Clinical Services
And other attendees.
CALL TO ORDER AND RECORD OF ATTENDANCE: JIM ADAMS, CHAIR, BOARD OF MANAGERS:

Mr. Adams called the meeting to order at 2:05 p.m.

INVOCATION AND PLEDGE OF ALLEGIANCE: JIM ADAMS, CHAIR, BOARD OF MANAGERS:

Mr. Adams yielded the floor to Mr. Smith for the invocation, and he led the pledge of allegiance.

REVIEW AND DISCUSSION REGARDING BEXAR COUNTY HOSPITAL DISTRICT D/B/A UNIVERSITY HEALTH SYSTEM’S PRELIMINARY OPERATING, DEBT SERVICE AND CAPITAL BUDGETS FOR FY 2016—GEORGE B. HERNÁNDEZ, JR./REED HURLEY

SUMMARY: Mr. Adams welcomed the Board members and informed them that today’s meeting and the few Board sessions that follow will focus on the 2016 budget. Each Board member should feel very comfortable raising questions about any aspect of the budget and/or questioning any of the priorities. One of the things Mr. Adams look forward to is reviewing service line data, which will be very helpful to the Board. He thanked the staff for performing the necessary work to get to this point; the documents he has reviewed thus far are very impressive. Mr. Adams yielded the floor to Mr. Hernandez for some brief remarks and review of the preliminary budget document. The preliminary budget incorporates many changes that are projected to occur during 2016 including the expiration of the current 1115 waiver funding, continued growth of pediatric services, the new affiliation agreement with UT, and several other new programs. Mr. Banos stressed that to ensure the ongoing financial health of the System, staff’s focus is on the following for 2016:

• Grow activity in strategic service lines
• Control operating expenses
• Continue to improve operating efficiencies

The floor was yielded to Mr. Hurley who reported that although the majority of the budget is complete, the finance team is still working on details that will impact some of the numbers provided. Guidance from the Board of Managers may create changes as well to the final budget which will be presented to the Board of Managers for approval at the November 17, 2015 meeting. He presented a series of Exhibits (A-G) for review and discussion, as follows:

Exhibit A is a high level preliminary 2016 budgeted operating income statement that lists the actual results for 2014, budget for 2015, the projected year end for 2015, and the preliminary budgeted numbers for 2016. The last column has a variance and percent variance comparing the projected 2015 numbers to the preliminary 2016 budget. The remaining Exhibits provide additional information on the changes and major drivers. A few of the major items that were taken into consideration while preparing the budget include:
The Texas 1115 Waiver is scheduled to expire on September 30, 2016. The Health System receives roughly $200 million a year in funding related to 1115 Waiver programs. The current belief is that the Waiver will be renewed in its current form for one or two years to provide CMS and the State time to negotiate and develop a new funding system. At this time we do not know if the Waiver will be renewed and at what value. In the preliminary 2016 budget staff has budgeted half of the current Waiver funding for the last three months of the year. This is a reduction of approximately $25 million in funding. There are many other changes to the various Waiver programs and one new large non-Waiver program, NAIP, which is helping to offset some of the reduction.

Continued expansion of Pediatric services will impact revenue and expense. Like many businesses during the ramp up phase, the revenues will lag the expenses as we set up new services and expand existing capacity. The Health System will open a Pediatric Emergency Room in April/May of 2016 and achieve Level 1 status for Pediatric Trauma. There are additional expenses associated with staffing a separate Pediatrics ER and achieving the Level 1 Trauma designation.

Skilled Nursing Facilities (SNF) – The Skilled Nursing Facilities that we operate under the NAIP program provide roughly $2 million dollars of bottom line for the Health System as well as a good partner in the post-acute setting. The accounting for this program inflates our Revenue and Expense by $30 million a year as the collections for the SNF’s are booked as our revenue then a corresponding expense as this is passed back to the management company to cover operating expenses.

The AirLife sale closed in October of 2015 so that entity will no longer be included in the budget. Air Life had an annual budget of $7 million.

New UT Research Group – In October of 2015 the Health System transitioned a UT research group from UT to the Health System. This group does research on various community pediatric health issues. This group has 18 employees and an expense of $3 million. This program covers its expense by grant funds and will operate under Dr. Roberto Villarreal.

Exhibit B – Activity
• Inpatient Growth (adults) 3.9% overall
  – Medicine Growth 4.2% (ED trend upward, additional CMA providers)
  – Heart and Vascular 4.2% (update of cardiology equipment, new cardiologist growth, increase in TAVR and valve procedures
  – Orthopedics 4% new UT orthopedic spine surgeons
• Inpatient Growth (pediatrics) 5.9%
  – Orthopedics 6.1% (new and maturing pediatric orthopedic practice)
  – Increase admission from Pedi ER opening in spring
• Emergency room
7.7% adult (better throughput, decrease in LWBS)
- 6.0% pediatric (Emergency room opening in spring, volume ramp up)

- Physician Practices
  - 3.4% (new CMA providers, chronic care management program

- Surgery (10.8% increase adult and Pedi)
  - Better utilization of RBG and MARC ASC
  - Increased OR time in main OR with pediatrics moving more cases to 11th floor.

Exhibit C – Revenue - is budgeted to increase by $71.6 million compared to the 2015 projection. The first page of Exhibit C covers the changes in Net Patient Revenue (NPR). NPR is the funding provided directly from patients and their insurance providers including Medicare and Medicaid funding. This funding can be described as the revenue associated with specific patient encounters. NPR makes up approximately half of the Health Systems revenue (not including CFHP our Health Plan which we will discuss at the 2nd budget meeting). The main factors that drive NPR are activity (volume) and payer mix (the mix of the various types of insurances or uninsured patients); changes in rates also drive changes in revenue. On page 1 of Exhibit C the changes in volume by inpatient service line and outpatient area are listed. There are also rate changes for Medicare and Medicaid listed and other impacts. These will be covered in more detail at the Board meeting on Tuesday. Page 2 of Exhibit C covers the changes in non-net patient revenue, such as property tax revenue, 1115 Waiver funding, NAIP, and Grants.

Exhibit D - Operating Expenses are budgeted to increase by $84 million compared to the 2015 projection. This Exhibit summarizes the major changes in operating expenses. Unique items this year are:

- Employee Compensation - The “Minimum Wage and Decompression” adjustment is related to raising the Health Systems minimum wage to $13 per hour to match what Bexar County will do this coming year (increase of $3 million).

- Medical Services - The increase in Bexar County Clinical Services (and decrease in Medicaid Supplemental Medical Services) is related to the decrease in 1115 Waiver funding and is related to contracts for physician services provided by UT.

- Purchased Services - The increase of $26.5 million dollars in Nursing home services is related to our Skilled Nursing home relationship, we have offset revenue so this has no impact to the bottom line. The increase in maintenance contracts is related to equipment that was purchased with the Sky Tower opening that had two year service agreements, the two years will end in April 2016 and we will have to cover the service and maintenance expense going forward. Media and Advertising is currently budgeted at the maximum amount, with a proposal to reduce this amount in 2016 by $2 million. The sale of AirLife will reduce maintenance expense by roughly $7 million. The
revenue associated with this program will cease (no material bottom line impact). Other purchased services are still being researched as to why the variance to projection is so large.

Exhibit E – Change in FTE’s
2015 Projected: 6,548
2016 Preliminary: 7,009.7

Exhibit F – Depreciation Projection - Due to the opening of the Sky Tower and new Robert B. Green building depreciation expense increased dramatically in 2014 ($73,039,702) and 2015 ($81,885,527).

Exhibit G – Capital - A summary and detail list of capital items requested for 2016 in the amount of $38,329,228.

RECOMMENDATION: The preliminary operating and capital budget for 2016 was presented for the Board’s review, discussion, and feedback.

ACTION: No action was required by the Board of Managers.

EVALUATION: Discussion ensued regarding the internal budget process, continuing education and academic-type expenses, projected patient activity drivers and revenue, managed care contracting, and the $88 million depreciation amount estimated for 2016. Mr. Adams deemed the inpatient activity projections unacceptable (pediatrics 5.9 percent and adult 3.9 percent overall) due to the brand new Sky Tower at University Hospital and a physician practice (UT Medicine) that is gaining traction. With recent marketing and branding discussions taking place, his expectation is that staff will do an entirely different kind of job of selling who we are. Mr. Banos noted that by adding additional CMA providers and doing the work that is supposed to take place on the ambulatory side, University Hospital should see a decrease in the number of inappropriate admissions and also in keeping patients out of the hospital. Both Dr. Jimenez and Dr. Burns believe that the physician practice is a huge disadvantage in growing market share for University Hospital because the group does not have a referral network. Both physicians have personally experienced that the necessary follow up from UT providers is not there, and personal relationships are a must for a strong referral base. Mr. Engberg was interesting in knowing how the activity projections were determined. He sees major movement which, in his eyes, is significant and critically important as it drives revenue. The Board needs to understand where these numbers are coming from. Who is taking responsibility for growing the activity as indicated in the budget document? How comfortable are we on the revenue side with these projections? Mr. Hurly explained that the budget is comprised of many moving parts. In the clinical services division, 50 percent of net patient revenue comes from patient insurance and patient payments, and 30 percent comes from CareLink. ($458 million projected for 2014). Therefore, volume, payor mix, and Medicaid inpatient reimbursement rates drive patient revenue. As for accountability, Mr. Banos assured the Board that department directors are being challenged to control and achieve their budgets. They have a lot of input into the process and there is much interaction with senior staff during the process. Board members agreed that involving
managers in the process is extremely important for accountability purposes. In response to the FTE growth of 7.1 percent, Dr. Jimenez expressed concern in terms of quashing innovation and creativity. How will senior leadership maintain the staff’s morale while challenging them? The small FTE increase was a challenge in itself for the managers to be more efficient, and all are in general agreement that it can work. Mr. Smith expressed concern with the lack of Board input up to this point in the process. It appears to him that the staff is farther along than it has been at this same time in prior years. Mr. Smith feels this is a good discussion; he is just not sure where we are in the process. Regarding the Health System’s capital requirements listed under Exhibit G, in the total amount of $30,329,228, Dr. Jimenez asked how 2016 unforeseen capital requirements would be handled, and Mr. Engberg asked how the staff arrived at $30 million. He understands where the $30 million figure came from, because at one point that was the Health System’s depreciation amount. However, depreciation is now at $88 million therefore is worth discussing how the staff arrived at $30 million this year. Mr. Hernandez summarized the Board’s feedback as follows: From the Board’s perspective ensure that there is accountability in the budget process with acceptance by those department directors that they are going to be held accountable for achieving their budgets. As for Dr. Jimenez’s concern about quashing innovation, the staff works on data. In some organizations, for example, certain percentage(s) are slashed across the board. He pointed out that the staff may have grown activity in some areas and reduced it in others, it was not an overall increase or reduction. He explained that this is due to an investment made a few years ago in the EPSi System, a multifaceted financial, clinical and operational system that allows us to manage this aspect of the budget. As for the lack of Board input issue raised by Mr. Smith, Mr. Hernandez explained that the budget process is not anything that is started brand new. There have been nine Board meetings and two Board retreats leading up to this budget. For example, as the Board is aware in pediatrics, staff is projecting staffing for the emergency department to start in April 2016, not January 2016. Everything the Board has approved this year has been built into today’s budget document. Mr. Hernandez attributes the improved and thorough process to the professionalism brought to the table by Mr. Banos, Mr. Hurley, and the finance team. He agreed that the budget process is ahead of where we have been at this time in prior years past.

**FOLLOW UP:** Staff will return with a more refined operating budget, and the CFHP budget will be the focus at next week’s Board meeting. In addition, Mr. Adams asked that a cash balance and capital need discussion take place next week. To the point that Mr. Smith made today about Board input, Mr. Adams requested that the staff provide a 15-20 minute presentation in the early Fall 2016 regarding the following year’s budget process.
ADJOURNMENT:

There being no further business, the public meeting adjourned at 4:05 p.m.

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James R. Adams                      Dianna M. Burns, M.D.
Chairman, Board of Managers            Secretary, Board of Managers

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Sandra D. Garcia, Recording Secretary