MINUTES

BOARD MEMBERS PRESENT:
James R. Adams, Chair
Roberto L. Jimenez, M.D, Immediate Past Chair
Robert Engberg
Ira Smith
Robert Gilbert

BOARD MEMBERS ABSENT:
Linda Rivas, Vice Chair
Dianna M. Burns-Banks, M.D., Secretary

OTHERS PRESENT:
George B. Hernandez, Jr., President/Chief Executive Officer, University Health System
Bryan Alsip, M.D., Executive Vice President/Chief Medical Officer, University Health System
Tim Brierty, Chief Executive Officer, University Hospital
Ted Day, Senior Vice President, Strategic Planning & Business Development, University Health System
Theresa De La Haya, Senior Vice President, Health Promotion/Clinical Prevention, Texas Diabetes Institute
Sergio Farrell, Senior Vice President, Ambulatory Services, University Health System
Roe Garrett, Vice President/Controller, University Health System
Michael Hernandez, Vice President/Chief Legal Officer, University Health System
Reed Hurley, Assistant Chief Financial Officer, University Health System
Sherry Johnson, Vice President/Integrity & Regulatory Services, University Health System
Monika Kapur, M.D., President/Chief Executive Officer, Community Medicine Associates
Leni Kirkman, Vice President, Strategic Communications and Patient Relations, University Health System
Nancy Ray, RN, MA, Chief Nurse Executive, University Health System
Michelle Ryerson, Senior Vice President, CNO/COO, Pediatric Clinical Services, University Health System
Allen Strickland, Vice President, Hospital Administration, Fiscal Services, University Hospital
Mark Webb, Executive Vice President/Chief Operating Officer, University Health System
And other attendees.
CALL TO ORDER, WELCOME, AND RECORD OF ATTENDANCE: JAMES R. ADAMS, CHAIR, BOARD OF MANAGERS

Mr. Adams called the meeting to order at 2:00 p.m.

INVOCATION AND PLEDGE OF ALLEGIANCE:

Mr. Adams introduced Marco Mendoza of Westover Hills Assembly of God Church for the invocation, and Mr. Adams 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 2015—GEORGE B. HERNÁNDEZ, JR./REED HURLEY

SUMMARY: Mr. Hernandez introduced the sole topic for discussion today informing the Board that the 2015 Budget process was developed using the Triple Aim Plus as 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 preliminary 2015 budget incorporates a full year of the many changes that occurred during 2014, the transition of services into the new Sky Tower and the continued growth of UT pediatric services are impacting the 2015 projections. Staff provided a summary for the preliminary 2015 operating, debt service, and capital budget for the Health System, minus Community First Health Plans (CFHP). The CFHP budget will be merged into that of the Clinical Services Division before the final budget is presented to the Board for consideration. Major items that are impacting the preliminary budget are roughly $15 million of incremental expense related to the ongoing/annualized operation of the new sky tower and associated equipment that is now out of warranty and in non-operating income expense, roughly $12 million in additional depreciation over 2014 levels. The following documents were reviewed and discussed during Mr. Hurley’s graphics presentation:

- Preliminary 2015 Operating Budget, University Health System, Less CFHP - Projected 2014 bottom line is ($8.6) million with a preliminary 2015 bottom line of $(35.3) million.

- Preliminary 2015 Activity - Total discharges projected to grow by 4.4% with 2.6% growth in adults and 27.1% in pediatrics. Adjusted discharges are projected to grow by 4.5% with moderate growth in most ambulatory areas, the Ambulatory Surgery Center at the Robert B. Green campus is expected to have large growth in surgery and endoscopy cases after a slower than budgeted start this year.

- Preliminary 2015 Budget, Changes to Total Operating Revenue - Increase in net patient revenue of $32.5 million, $18.8 million increase in other operating revenue, a total variance increase of $51.3 million, when compared to 2014.
• Preliminary 2015 Budget, Changes to Total Operating Expense – Employee compensation at ($34.2) million, medical services at $1.0 million, Supplies at ($10.9) million, purchased services at ($20.8) million, other expense at ($0.2) million for a total variance of ($65.1) million when compared to 2014.

• Preliminary 2015 Budget FTE Changes – Compared to total 2014 projected FTE’s of 6,356, preliminary 2015 budgeted FTEs at 6,612, a 4 percent FTE growth.

• Projected Depreciation Expense for Years 2015-2025 – Estimated depreciation expense for 2015 is $83,210,840.

• 2015 Preliminary Ongoing Capital Requirements – The capital budget for 2015 is recommended to be set at $30.0 million. In prioritizing the capital needs for 2015, the Capital Committee met and focused on items that were considered “Essential: Cannot Function Without,” “Important: Necessary for Improvement,” and “Proactive: Necessary to Avoid Problems.” For 2015, the Capital Committee agreed to forego most of the $2.0 million contingency fund established for unforeseen requests and only set aside $500,000.

Additional, detailed discussion ensued regarding key indicators for adjusted discharges, changes to the total operating revenue, sources of net patient revenue, total operating expenses, preliminary 2015 budget changes to total operating expenses, FTE change from 2014 projected to preliminary 2015 budget, and 2015 ongoing capital requirements.

Regarding debt service, the required principal and interest payments on the Health System’s outstanding bonds due in 2015, is $43.9 million. Included are the savings from the Build America Bond (BAB) subsidy of $8.3 million which is net of a 7.2% sequestration reduction ($640,000) and use of $195,000 available in the Debt Service fund to the amount previously provided by the federal government. A Debt Service tax levy of $43.9 million to cover payments due in 2015 was approved by Commissioners Court on September 26, 2014.

To ensure ongoing financial success of the Health System, staff will focus on the following items as the Board’s feedback is incorporated into the final budget:

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

**RECOMMENDATION:** None.  
**ACTION:** None.  
**EVALUATION:** Mr. Hernandez reminded the Board that 1115 Waiver funding would end in 2016 and this will eventually impact total operating revenue. Mr. Adams encouraged staff to review options for funding the Health System’s Pension Plan at some point during the budget planning process.
this year. He also expressed an interest in knowing more about the expense for maintenance contracts related to information technology items. Mr. Adams proposed that he, Mr. Engberg, and Mr. Smith be part of the Board group that is briefed on this topic. Mr. Smith asked staff to ensure that the marketing strategy under development be meshed within budget expectations. Regarding the FTE expense for 2015, Board members would like to better understand the method, or plan, for compensating nursing staff. Mr. Engberg initiated a discussion on the projected four percent FTE growth (256 positions) and asked how the staff had arrived at this number. Mr. Engberg also urged the staff to develop a long range plan for capital requirements, and Mr. Adams expressed a need for more control in the capital process. Mr. Adams thanked Mr. Hurley and the finance team for providing the high quality presentation today.

FOLLOW-UP: Staff will continue to work on fine-tuning the numbers and will take the Board’s feedback into consideration as described above.

ADJOURNMENT:

There being no further business, Mr. Adams adjourned the Board meeting at 4:02 p.m.

James R. Adams  
Chair, Board of Managers  
Dianna M. Burns-Banks, M.D.  
Secretary, Board of Managers

Sandra D. Garcia, Recording Secretary