HARRISHEALTH SYSTEM

MINUTES OF THE HARRIS HEALTH SYSTEM BOARD OF TRUSTEES
Special Called Board Meeting – Budget Workshop
December 9, 2021
9:00 am

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
I. Call to Order & Record of Attendance	The meeting was called to order at 9:02 a.m. by Arthur Bracey, MD, Chair. It was noted there was a quorum present and the attendance was recorded. Dr. Bracey stated while some of Board members are in the room with us today, others will participate by videoconference as permissible by state law and the Harris Health Videoconferencing Policy. The meeting may be viewed online: http://harrishealthtx.swagit.com/live.	**A copy of the attendance is appended to the archived minutes.**
II. Announcements / Special Presentations	A. Board Member Recognition – Dr. Arthur Bracey recognized Ms. Anne Clutterbuck for nine (9) years of service and invaluable insight into making Harris Health among the best safety-net healthcare providers in the country. Harris County Commissioners Court appointed Ms. Clutterbuck to the Harris Health System Board of Trustees in 2012. While on the Board, Ms. Clutterbuck served as Chair of the Budget and Finance Committee and represented the Board on the System's Patient Safety Committee. Ms. Clutterbuck also served as Board Chair from 2017 until March of 2020. Dr. Bracey presented Ms. Clutterbuck with a crystal memento on behalf of the Board of Trustees. B. Special Announcement – Dr. Bracey recognized Dr. Kimberly Monday, for her generous donation of a Red Oak Tree. The tree will become the centerpiece of the entrance circle at Lyndon B. Johnson Hospital (LBJ) in 2022. He stated "as a committed board member and former board chair, we recognize this gift as a lasting legacy of her time serving Harris Health System and the residents of Harris County. On behalf of the Harris Health System and the Board of Trustees, we thank you for your service and very thoughtful gift."	
III. Public Comment		**There were no public speakers present.**
IV. Health System Hospital Comparisons: Tax and Operating Information	Mr. Michael Norby, Executive Vice President, Chief Financial Officer, delivered a presentation regarding Health System Hospital Comparisons: Tax and Operation Information. He reported that Harris Health has the lowest tax rate ($0.16491) among the major hospital districts across the US. He stated that Harris County ranks the highest in taxable value of property of $500.1B and has the largest property tax levy of $833.7M. Additionally, Mr. Norby reported that Harris County has an average taxable property value of $105,704, which is comparable to the other hospital districts. Based upon the 2020 US Census results, approximately 22% of Harris County's population is uninsured with a tax levy per uninsured resident of $795M, which is the lowest statistic compared to other hospital districts. Mr. Norby reported that Harris Health receives 36.9% of its revenue from ad valorem taxes; however, Harris Health receives less revenue from its net patient revenue ($695M) because of its patient payer mix.	**As presented.**

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	He mentioned that Harris Health is behind Dallas County in terms of total operating expenses primarily due to Dallas having a more robust obstetrics (OB) program, more hospital beds and greater inpatient admissions. Mr. Norby reported that over 75% of Harris Health's support for uninsured/underinsured patients, which includes property taxes and Medicaid Supplemental Payments, comes from direct governmental sources. He noted that this is significantly higher than Dallas, Bexar and Tarrant Counties. He discussed Harris Health's unrestricted cash and investments, days of cash on hand and long-term debt. Mr. Norby touched upon the hospital's unfunded pension liability ($162.1M) and unfunded OPEB liability ($572.2M). Additionally, Mr. Norby provided an overview of the national safety net systems, including budget and tax support. A copy of the presentation is available in the permanent record.	
V. Review and Discussion Regarding the Proposed Harris Health System Stub Year and Fiscal Year 2023 Operating and Capital Budget	Mr. Louis Smith, Senior Executive Vice President, Chief Operating Officer, and Ms. Victoria Nikitin, Senior Vice President, Finance, led the discussion regarding the Proposed Harris Health System Stub Year and Fiscal Year 2023 Operating and Capital Budget. Mr. Smith provided a high-level overview of Harris Health's strategic focus areas, goal statements and outcome measures. He noted that Harris Health System's strategic priorities are set forth in the 2021-2025 strategic plan. Additionally, Mr. Smith outlined the six (6) strategic focus areas including: 1) Quality and Patient Safety, 2) People (Patients, Employees, Medical Staff), 3) One Harris Health System, 4) Population Health Management, 5) Infrastructure Optimization, 6) Primary and Specialty Care Access and 6) Correctional Health Care. Ms. Nikitin stated that the proposed Operating and Capital Budgets for Harris Health System reflect a 19-month planning horizon from March 2022 through September 2023. In alignment with the Harris County's fiscal year transition, Harris Health is presenting its budget deliverables captured within the two consecutive periods for consideration. She explained that the first period of the budget information covers seven (7) months from March 2022 through September 2022 and is referred to as the "Stub Period" or "Stub Year." The second phase reflects a new fiscal year ending September 2023 (FY 2023) and is referred to as the "Planning Budget." ***Expected Patient Volumes*** Throughout FY 2022, Ben Taub and LBJ Hospitals' volumes rebounded 20% from the pandemic lows and remained strong due to the ongoing community need exacerbated by COVID-19 surges and demand. During the Stub Period and FY 2023, Ben Taub plans to further increase its ICU capacity while inpatient volumes at LBJ will see a planned decrease throughout the year to accommodate ongoing construction and repair efforts.	**As presented.**

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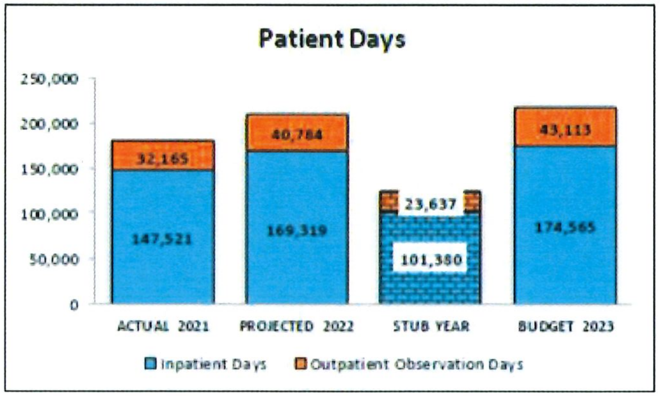
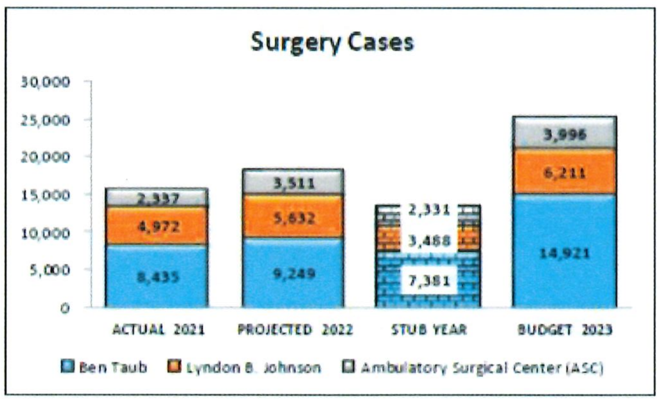


Surgery cases at Ben Taub will experience an incremental growth of cases to regain up to 60% of its lost operating room capacity as a result of nursing shortages and intermittent closures related to COVID-19 surges in FY 2022. In addition, Ben Taub projects a modest increase in gastrointestinal procedures to meet patient needs. The overall annualized system surgical volume in the Stub Period and FY 2023 will reach over 22,000 and 25,000 cases, respectively.



Revenues

In FY 2021 and FY 2022, Harris Health was able to withstand the brunt of the COVID-19 pandemic given its diversity of funding sources. Property tax revenue and supplemental funding, which comprise about 36% and 25% of total revenue, respectively, generally continue to flow to the System regardless of patient volume. In addition, federal funding received for uninsured COVID-19 patients from the Provider Relief Fund provided for sustained operational support.

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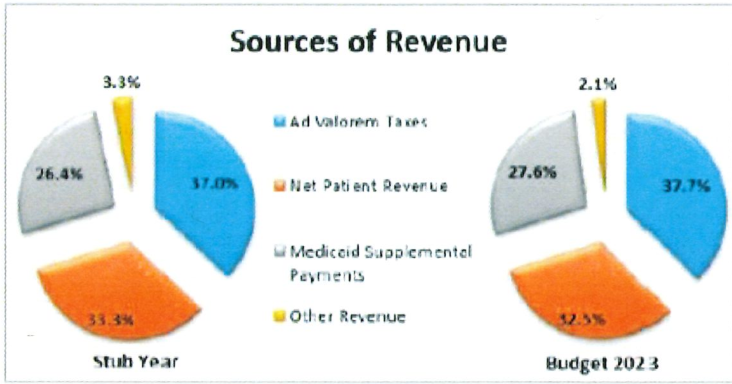
Similar to last year, current FY 2022 revenue projections point to a 19% pickup over the budgeted revenues, which, at the time, did not include COVID-related contingency reimbursement by federal government. The total Harris Health System revenue budget for the Stub Period and FY 2023 is planned at an annualized $2.22B, a decrease of over $30M and $25M, respectively, from the FY 2022 projections.



Ad Valorem Tax
On October 5, 2021, the Commissioners Court unanimously adopted Harris County Hospital District's tax rate for maintenance and operations of $0.16047 per $100 of property valuation, down from $0.16491 last year. As a result, the year-end FY 2022 net ad valorem revenues are projected at about $806M. A very modest 2% increase in Harris County property values, and Harris Health ad valorem budget, is assumed for both the Stub Period and FY 2023.

Net Patient Service Revenue
Net patient service revenue comprises almost 37% of the entire System revenue portfolio. Net patient revenue increased $104M in FY 2021 and $127M in FY 2022. The increase is attributed to $115M and $108M (projected), respectively, in COVID-19 claims reimbursement for the uninsured, provided by the federal Health Resources & Services Administration (HRSA) program as a response to the COVID-19 pandemic. Beginning in the Stub Period and continuing in FY 2023, Harris Health is preparing for decreases in patient revenues resulting from anticipated discontinuance of HRSA reimbursement for the COVID care of unfunded patients. In addition, the Affordable Care Act-mandated reduction in the uncompensated care pool specific to the Medicare Disproportionate Share (DSH) program will result in a corresponding payment reduction of $25M for federal fiscal year FFY 2022 beginning October 2021. Such mandated reductions have been in effect starting in FFY 2021. The combined annual impact of these reductions to Harris Health's net patient revenue budget is approximately $120M.

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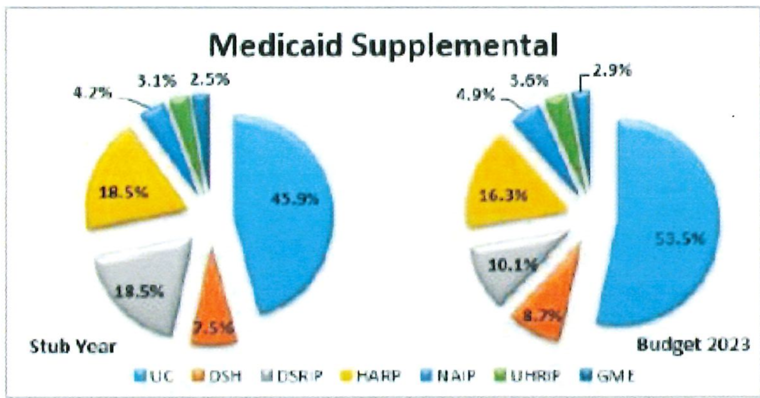
	Medicaid Supplemental Payments Medicaid Supplemental Programs' revenues make up about 25% of Harris Health's total revenue and include Medicaid Disproportionate Share (Medicaid DSH), Uncompensated Care (UC), Delivery System Reform Incentive Payment (DSRIP), Network Access Improvement Program (NAIP), Uniform Hospital Rate Increase Program (UHRIP), and Graduate Medical Education (GME) program funding. In FY 2021, overall supplemental funding increased by $273M over the prior year due to the resizing of the State's UC pool, the charity allocation changes, and an increased federal medical assistance percentage (FMAP) provided under the CARES Act. In FY 2022, supplemental program revenue is projected to be $13M lower compared to last year due to decreases in DSRIP receipts.  The DSRIP program, authorized under the 1115 Waiver, officially expired on September 30, 2021. In preparation for the program replacement, Texas Health and Human Services Commission (HHCS) petitioned to CMS and secured approval in January 2021 of the Waiver extension for ten years. The Waiver extension allowed HHSC to continue with the existing directed-payment programs (DPP), including the UHRIP Program for hospitals and the Quality Incentive Payment Program (QIPP) for nursing facilities, and opened the door for implementation of several new or increased directed-payment programs. In April 2021, CMS rescinded its prior approval, and the State and CMS entered into a protracted legal challenge and negotiation aimed at finding a compromise. On August 13, 2021, CMS notified HHSC that they were willing to approve a one-year extension to DSRIP, with certain modifications and requirements, and gave two options related to directed-payment programs that were proposed by HHSC for state fiscal year SFY 2022.	

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	On September 7, HHSC asked CMS to approve the Quality Incentive Payment Program (QIPP) as proposed, to temporarily renew the Uniform Hospital Rate Increase Program (UHRIP), and to approve the extension of DSRIP, while simultaneously continuing to work with HHSC towards approval of the Comprehensive Hospital Increased Reimbursement Program (CHIRP), the Texas Incentives for Physicians and Professional Services (TIPPS), the Rural Access to Primary and Preventive Services (RAPPS), and the directed-payment program for Behavioral Health Services (DPP for BHS). On November 15, CMS signaled approval of the two directed-payment programs, QIPP and BHS. CMS also stated that Texas did not accept either option for modifications in the directed-payment programs exactly as proposed by CMS, choosing instead a different approach as the State's negotiation strategy. As a result, CMS has not yet provided approval for the continuation of DSRIP or the temporary UHRIP program. In addition, CMS requested information related to local provider participation funding (LPPF) arrangements in Texas in order to determine whether such arrangements that fund some of Texas's directed-payment programs meet federal requirements. The deadline for receipt of this information by CMS was set for end of November 2021. If the DSRIP extension is approved, Harris Health's budget for the 19 months starting in March 2022 will be favorably affected, adding approximately $70 and $60M in net payments to each budget segment. This request has a reasonably high possibility of approval and is being included in the budget projections. Likewise, Harris Health's net Medicaid managed care reimbursement from the UHRIP program will continue at the rate of State Fiscal Year (SFY) 2021. The net annual benefit to the System currently stands at over $20M. As part of the 1115 Waiver negotiations with CMS, HHSC also submitted data as the basis for the resized UC pool. The proposal would increase the State's UC pool to $4.5B beginning in FFY 2022. This request has a reasonably high possibility of approval and is being included in the budget projections. The annualized net benefit to Harris Health from the increased UC pool is projected at over $40M. Separate and distinct from the ongoing directed-payment program negotiations, in September 2021, HHSC submitted a proposal to CMS to implement the program outside of the 1115 Waiver which will help health systems like Harris Health that do not benefit from the DPP DSRIP replacement programs discussed above. The Hospital Augmented Reimbursement Program (HARP) is a new statewide supplemental program providing Medicaid payments to hospitals for inpatient and outpatient services that serve Texas Medicaid fee-for-service (FFS) patients. The submission is currently in the 90-day approval window by CMS. If approved, the program will bring over $100M in additional Medicaid supplemental revenue to Harris Health.	

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	Meanwhile, federal cuts in Medicaid DSH funding that were originally scheduled to be effective at the start of FFY 2020, have been delayed by Congress until FFY 2024 with the passing of the Consolidated Appropriations Act 2021 in December 2020. If not repealed, the available future distributions to Harris Health could drop up to 20% in FFY 2024 and beyond. At this time, however, Harris Health's Medicaid DSH revenue reflects a stable trend until FFY 2024. The annualized DSH budget for the Stub Period and FY 2023 reflects a total funding of \$53.6M. In summary, after factoring in the variables discussed above, the aggregate Medicaid Supplemental Programs revenue is budgeted at \$341M for the seven months of the Stub Period and at \$614M in FY 2023. ***Other Revenue*** Other revenues are projected at an annualized level of \$42 and \$47M, or a little over 3% of the total Harris Health budget, in both budget periods. The largest, annual tobacco settlement revenue, is projected to continue at \$13M in both the Stub Period and FY 2023. The residual CARES Act revenue recognition specific to the pandemic relief has been included in the Stub Year revenue. ***Expenses*** During FY 2021 ended February 28, 2021, Harris Health System's total operating expenses increased \$171M, or 10.6%, as a direct response to the COVID-19 pandemic. Purchased services, supplies, and other operating expenses increased \$110M, or 15.4%, primarily due to increases in physician cost, purchased medical and non-clinical services, and medical insurance subsidies. The System's salaries and wages increased \$47M, or 7.8%, as a direct corollary to multiple COVID surges, and included surge pay differentials and various incentives aimed at retention of nursing and other clinical staff. Related benefits increased \$9M, or 3.7%, primarily due to increase in the labor cost and increased postretirement health benefits as a result of updated actuarial estimates. The current year FY 2022 is projected to see the System's operating expense grow by over \$275M, or 15.4%, as yet another grim testament to the ongoing pandemic. Salaries and wages are expected to increase by \$153M, and related benefits by \$28M, or three times the amount recorded in FY 2021. In an unprecedented move to boost clinical staff retention and curb labor shortages, Harris Health executive leaders implemented a series of market increases to nursing and other key clinical personnel in August 2021. In addition, a new 3-year retention program went into effect late October 2021. The combined cost of these programs is projected at \$150M over three years. Other operating expenses will have increased \$95M in FY 2022 (projected), primarily due to increases in medical and pharmaceutical supplies, physician cost, and purchased medical and non-clinical services.	

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	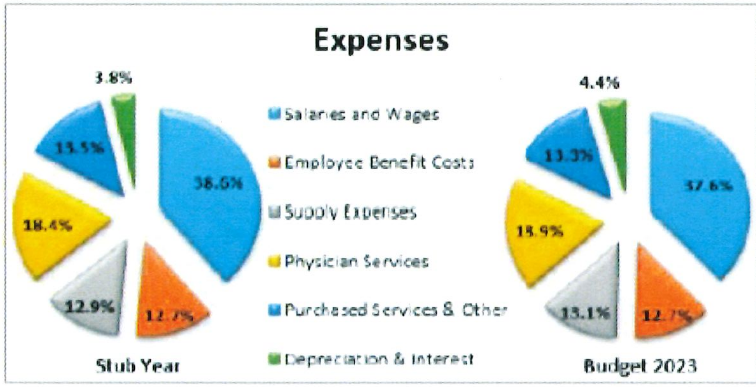 In keeping with the System goal of achieving a 2% operating margin over the next 19 months of fiscal transition, Harris Health recommends to focus on expense control and efficiency improvements while maintaining its commitment to clinical staff retention. Purchased services will experience an inflationary increase of 4% and a shift of operating lease expense due to a change in the accounting standard for leases, GASB #87, effective March 2022. Based on preliminary estimates, an annualized $9.4M in previous lease expense will move to amortization cost as most leases transition to capital assets. Aside from the effect of the new rule, however, Harris Health's purchased clinical services are projected to incrementally grow, most notably in the area of care coordination with outside partners as discussed earlier. In addition, operating investments in infrastructure remediation and master planning of the facilities will continue to inform both budget periods. Overall, total operating expense budget for Harris Health is projected at $1.27B in the Stub Period and $2.18B in FY 2023. The result is a budgeted net operating margin of $26.2M, or 2%, for the Stub Period. Similarly, net operating margin of $43.4M, or 2%, is budgeted for FY 2023. Analysis of cash flow for FY 2022, including the proposed capital budget expenditures discussed below, reflects a stable cash flow performance for the year, maintaining the minimum required days cash on hand for Harris Health's Letter of Credit covenants. ***Capital Expenditures*** In FY 2022, the overall Capital Budget proposal totaled $176M, of which $131M was committed in investments in facilities infrastructure. The entire capital budget has been nearly fully obligated at November 2021, with major infrastructure projects planned for the Stub Period and FY 2023.	

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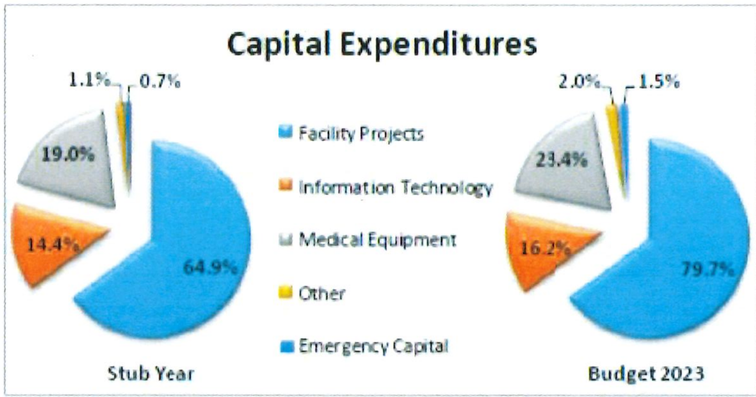
	In alignment with its Strategic Plan, Harris Health recommends continued accelerated remediation efforts aimed at maintaining its aging plant over the next 19 months of the budget cycle. The routine capital budget for the Stub Year is proposed at \$135M, and for FY 2023, at \$166M, based upon the 2% margin target from operations. Harris Health's capital program structure and solid balance sheet also inform and support this recommendation.  ***Strategic Plan Fund Commitment*** At the conclusion of FY 2021, Harris Health's net position increased \$323M. The current year-end estimate for FY 2022 is an increase of over \$100M compared to the budgeted margin. Based on the priorities outlined in the Strategic Plan 2021-2025, Harris Health management proposes to earmark \$300M as the internal investment in the financing of capital and construction cost of future strategic initiatives. Ms. Nikitin concluded by stating that the Stub Period and Fiscal Year 2023 Operating and Capital Budgets represent Harris Health's unwavering commitment to patient safety and advancement in the health status of the residents of Harris County. The budget reflects Harris Health's essential status within the overall healthcare landscape of Harris County and underscores the strength of its operations and financial stability despite the ongoing COVID-19 pandemic and other economic challenges. Ms. Nikitin mentioned that the increased cost of maintaining services and improving patient quality in an environment of decreased tax support would make for a very challenging year ahead. Additionally, Ms. Nikitin stated that the proposed 2% operating margin would allow Harris Health System to continue with its infrastructure modernization and delivery of high quality healthcare to Harris County residents. A copy of the Proposed Harris Health System Stub Year and Fiscal Year 2023 Operating and Capital Budget is available in the permanent record.	

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VI. Adjournment	Moved by Ms. Elena Marks, seconded by Ms. Alicia Reyes, and unanimously approved to adjourn the meeting. There being no further business to come before the Board, the meeting adjourned at 10:48 a.m.	

I certify that the foregoing are the Minutes of the Harris Health System Board of Trustees Special Called Board Meeting held on December 9, 2021.

Respectfully Submitted,

Arthur Bracey, M.D., Chair

Elena Marks

Elena Marks, Secretary

Minutes transcribed by Cherry Pierson

Thursday, December 09, 2021

Harris Health System Board of Trustees Special Called Board Meeting & Budget Workshop – Attendance

Note: For Zoom meeting attendance, if you joined as a group and would like to be counted as present, please submit an email to: BoardofTrustees@harrishealth.org before close of business the day of the meeting.

BOARD MEMBERS PRESENT	BOARD MEMBERS ABSENT
Dr. Arthur Bracey (Chair)	
Ms. Elena Marks (Secretary)	
Ms. Alicia Reyes	
Dr. Andrea Caracostis	
Dr. Ewan Johnson	
Professor Marcia Johnson	
Ms. Mia Mends	
Mr. Lawrence Finder	

EXECUTIVE LEADERSHIP
Dr. Esmaeil Porsa, President & Chief Executive Officer
Ms. Carolynn Jones, Executive Vice President & Chief Compliance and Risk Officer
Dr. Glorimar Medina-Rivera, Executive Vice President, Ben Taub Hospital
Dr. Jackie Brock, Executive Vice President & Chief Nursing Executive
Dr. Jennifer Small, Interim Executive Vice President, Ambulatory Care Services
Mr. Louis Smith, Senior Executive Vice President & Chief Operating Officer
Ms. Maria Cowles, Senior Vice President, Chief of Staff
Mr. Michael Hill, Executive Vice President, Chief Strategy & Integration Officer
Mr. Michael Norby, Executive Vice President & Chief Financial Officer
Mr. Omar Reid, Senior Vice President, Human Resources
Ms. Patricia Darnauer, Executive Vice President, Lyndon B. Johnson Hospital
Mr. R. King Hillier, Vice President, Public Policy & Government Relations
Ms. Sara Thomas, Vice President Legal Affairs/Managing Attorney, Harris County Attorney's Office
Dr. Steven Brass, Executive Vice President & Chief Medical Executive
Ms. Victoria Nikitin, Senior Vice President, Finance

OTHERS PRESENT	
Alison Perez	Dr. Kimberly Monday, *Former Board of Trustee*
Anne Clutterbuck, *Former Board of Trustee*	Nicholas Bell
Cherry Pierson	Paul Lopez
Daniel Smith	Randy Manarang
David Attard	Tai Nguyen
Elizabeth Winn	Xylia Rosenzweig
Jennifer Zarate	Yasmin Othman
Jerald Summers	