HARRISHEALTH SYSTEM

BOARD OF TRUSTEES

Special Called Board Meeting

Thursday, January 6, 2022
8:00 A.M.

BOARD ROOM
4800 Fournace Place, Bellaire, Texas 77401

This meeting may be viewed online: **http://harrishealthtx.swagit.com/live**

Notice: Some Board Members may participate by videoconference.

Mission

Harris Health is a community-focused academic healthcare system dedicated to improving the health of those most in need in Harris County through quality care delivery, coordination of care, and education.

AGENDA

I.	**Call to Order and Record of Attendance**	**Dr. Arthur Bracey**	**2 min**
II.	**Announcements / Special Presentations**	**Dr. Arthur Bracey**	**5 min**
	A. CEO Report Including Updates on COVID-19		
III.	**Public Comment**	**Dr. Arthur Bracey**	**5 min**
IV.	**Consideration of Approval of the Proposed Harris Health System Stub Period Operating and Capital Budget (March 2022 – September 2022)** ***– Mr. Michael Norby, Ms. Victoria Nikitin and Ms. Alison Perez*** **[Strategic Pillar 3:** One Harris Health System**]**	**Dr. Arthur Bracey**	**47 min**
V.	**Adjournment**	**Dr. Arthur Bracey**	**1 min**

BOARD OF TRUSTEES

Meeting of the Board of Trustees

HARRISHEALTH SYSTEM

Thursday, January 6, 2022

CEO Report Including Updates on COVID-19

Public Comment Request and Registration Process

Pursuant to Texas Government Code §551.007, members of the public are invited to attend the regular meetings of the Harris Health System Board of Trustees and may address the Board during the **Public Comment** segment regarding an official agenda item that the Board will discuss, review, or take action upon, or regarding a subject related to healthcare or patient care rendered at Harris Health System. Public Comment will occur prior to the consideration of all agenda items. If you have signed up to attend as a Public Speaker virtually, a meeting link will be provided. Note: Public Speakers will be removed from the meeting after speaking and have the option to join the meeting live via **http://harrishealthtx.swagit.com/live**.

How to Request to Address the Board of Trustees

Members of the public must register in advance to speak at the Harris Health System Board of Trustees meetings. To register, members of the public must contact the Board of Trustees Office during core business hours, Monday through Friday between 8:00 a.m. to 5:00 p.m. Members of the public must submit the registration no later than 4:00 p.m. on the day before the scheduled meeting and may only register in one of the following manners:

1. Providing the requested information located in the "Speak to the Board" tile found at: https://www.harrishealth.org/about-us-hh/board/Pages/public-comment-request-and-registration-process.aspx.
2. Printing and completing the downloadable registration form found at: https://www.harrishealth.org/about-us-hh/board/Pages/public-comment-request-and-registration-process.aspx.
   2a. A hard-copy may be scanned and emailed to BoardofTrustees@harrishealth.org.
   2b. Mailing the completed registration form to 4800 Fournace Pl., Ste. E618, Bellaire, TX 77401.
3. Contacting staff at (346) 426-1524.

Prior to submitting a request to address the Harris Health System Board of Trustees, please take a moment to review the rules to be observed during the Public Comment Period.

Rules During Public Comment Period

The presiding officer of the Board of Trustees or the Board Secretary shall keep the time for speakers.

Three Minutes

A speaker, whose subject matter, as submitted, relates to an identifiable item of business on the agenda, will be requested by the presiding officer to come to the podium where they will be provided three (3) minutes to speak. A speaker, whose subject matter, as submitted, does not relate to an identifiable item of business on the agenda, will also be provided three (3) minutes to speak. A member of the public who addresses the body through a translator will be given at least twice the amount of time as a member of the public who does not require the assistance of a translator.

BOARD OF TRUSTEES

Meeting of the Board of Trustees

HARRISHEALTH SYSTEM

Thursday, January 6, 2022

Consideration of Approval of the Proposed Harris Health System Stub Period Operating and Capital Budget (March 2022—September 2022)

Attached for your review and discussion is the Harris Health System Stub Period and FY 2023 Operating and Capital Budget presentation. The Administration recommends approval of the Stub Period Operating and Capital Budget (March 2022—September 2022).

HARRISHEALTH SYSTEM

Stub Year & Fiscal Year 2023 Operating and Capital Budget

Harris Health System Board of Trustees

Special Called Board Meeting

January 6, 2022

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Fiscal Years Ending Sept. 30, 2022 and Sept. 30, 2023 - Operating and Capital Budget

Executive Summary

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 for consideration its budget deliverables captured within the two consecutive periods. The first period of the budget information covers seven 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."

Consistent with its strategic goal of delivering a 2 percent operating margin, Harris Health System recommends the same target for both the Stub Period and FY 2023. The proposed Operating Budget for the Stub Period ending September, 2022 reflects a margin of $26.2 million; the proposed annual Operating Budget for the fiscal year ending September 30, 2023 reflects a preliminary planning margin of $43.4 million, respectively. The entire 19-month budget proposal reflects an ongoing effort to manage operations and reinvest in the services and the infrastructure of the System.

The Harris Health System budget excludes the operating results for the Community Health Choice HMOs and the Harris County Hospital District Foundation.

Who We Are

As the safety-net healthcare provider for Harris County, Texas, Harris Health System is committed to ensuring the patient care we provide meets the highest standards of care in the community. Harris Health continues to serve a racially and ethnically diverse population, of which 54 percent is Hispanic/Latino and 26 percent is African American. Moreover, 43 percent of patients are Spanish speaking. Harris Health's payor mix also highlights the diversity of the patient population, with more than 51 percent uninsured and over 22 percent of patients with Medicaid and CHIP coverage. The cost of charity care provided for the benefit of the community exceeds $720 million annually.

Our two acute care hospitals (Ben Taub and Lyndon B. Johnson) are nationally designated as Magnet®, one of the highest recognitions for nursing excellence. Our community health centers are recognized by the National Committee for Quality Assurance as Patient Centered Medical Homes and have garnered multiple awards and recognitions for the high quality of care provided. Clinical care is provided in partnership with Baylor College of Medicine, McGovern Medical School at UTHealth and The University of Texas M.D. Anderson Cancer Center.

Ben Taub Hospital, a Level I trauma center, and LBJ Hospital, a Level III trauma center, remain two of the busiest emergency centers in the area and annually provide approximately 170,000 emergency visits. That figure dipped in 2020-21 due to the COVID-19 pandemic, as both hospitals became epicenters for the care of COVID-19 patients during significant surges in hospital cases. To illustrate this point, although Harris Health has only 6.6 percent of the inpatient beds in Harris County, during 2020, it provided 16.3 percent and 21.4 percent of the area's Medicaid and uninsured hospital admissions, respectively.

Response to the Ongoing Global Crisis

Since March 2020, Harris Health and its dedicated workforce of more than 10,000 have maintained a steadfast response to the ongoing pandemic. Through forged and established collaborations and partnerships with colleague institutions, private sector businesses, government agencies and community partners, Harris Health and its staff continue to respond and support the patient demands

during this unprecedented time. This has required operating at times at over 100 percent of normal capacity.

Strategic Plan for the Future

In the midst of Harris Health's response to COVID-19, Harris Health leadership, in collaboration with Harris Health's Board of Trustees, developed and adopted the organization's 2021-2025 Strategic Plan, which is guided by five strategic pillars to serve as the system's foundation for the future.

- **Quality and patient safety:** Harris Health will become a high-reliability organization (HRO) with quality and patient safety as a core value where zero patient harm is not only a possibility but an expectation.
- **People:** Harris Health will enhance the patient, employee and medical staff experience and develop a culture of respect, recognition and trust by actively listening to feedback and developing strategies to address high-impact areas of opportunity.
- **One Harris Health System:** Harris Health will act as one system in its approach to the management and delivery of healthcare.
- **Population health management:** Harris Health will lead in mitigating adverse health consequences driven by the social determinants of health through partnerships, demonstration of models, and convening the community of providers and support organizations to create a system of care that goes beyond the traditional disease management approach and toward a health promotion and diseases prevention approach to care.
- **Infrastructure optimization:** Harris Health will invest in and optimize infrastructure related to facilities, information technology (IT) and telehealth, information security, and health informatics to increase value, ensure safety and meet the current and future needs of the patients served.

Strategic Goals, Outcome Measures, and Priority Initiatives March 2022 – September 2023

Quality and Patient Safety

Specific outcome measures related to Quality and Patient Safety include an incremental reduction in the number of safety events (high harm and never events) per 10,000 adjusted patient days (typically preceded by an increase in reported events), a reduction in the number of hospital acquired conditions (HACs) per 1,000 discharges, and improvements in population health metrics related to diabetic patients (further discussed in Population Health Management). Actions taken during this budget period will contribute to Harris Health's long term goals of improving the organization's CMS Star rating, Leapfrog rating, Vizient ranking and HEDIS metrics.

Implementation of a consistent safety huddle process across the Harris Health System and development of a coordinated Quality, Patient Safety and Performance Improvement infrastructure will facilitate the achievement of these outcomes. Harris Health will also develop and implement an Enterprise Risk Management framework to identify, prioritize and address safety and quality risks throughout the system.

People

Specific outcome measures related to People include a reduction in staff turnover for employees with less than two years of tenure and improvement in patient experience scores.

Leadership will continue to invest in programs that help to stabilize the workforce, particularly in key clinical areas. These programs are focused on recruitment, retention, leadership development within the existing workforce, enhancement of diversity and inclusion initiatives, and creation of new training programs to increase the staffing pipeline. Compensation strategies that keep Harris Health competitive in the Houston market are essential to recruiting and retaining staff; this requires frequent market surveys and subsequent compensation adjustments as needed. Staffing structures will also be evaluated to ensure efficiency, consistency and harmony across the System.

Specific patient experience improvement strategies, developed in conjunction with Harris Health's employees, physicians and Patient and Family Advisory Councils during FY 2022, will be implemented in the Stub Period and FY 2023.

One Harris Health System

Specific outcome measures related to One Harris Health System include the assessment of the System's current structure and processes to support optimal patient care and throughput followed by the remediation of identified gaps to ensure one consistent framework for all support services. Further, Harris Health will achieve a 2 percent annual margin by controlling expenses and making improvements in efficiency in clinical and non-clinical areas.

Benchmarking internally and externally will allow for identification of operational opportunities and engagement of improvement resources to gain efficiency and ensure a harmonized structure across the organization. Further development of service lines and clinical care pathways will help to achieve consistency in clinical practice across the System.

Harris Health will continue to evaluate the cost/benefit of clinical and operational outsourced services in the Stub Period and FY 2023. Due to capacity limits, Harris Health continues to outsource some inpatient medical/surgical admissions, overflow psychiatric admissions, skilled nursing, rehab, and hospice. From an ambulatory perspective, Harris Health outsources sleep studies as well as colonoscopies, dialysis cases and other procedures that cannot be accommodated internally in a timely fashion. This trend is expected to continue and incrementally grow over the next 19-month budget cycle. Additionally, a significant amount of non-emergent procedural and surgical volume was deferred during the COVID surge, due to employee and physician staffing shortages and reassignments resulting from the surge. These deferred procedures and surgeries will need to be completed internally or outsourced, resulting in increased costs compared to prior years. There are planned interventions to increase the surgical capacity at Ben Taub, but they may not be sufficient to adequately or quickly reduce the backlog. Further, the full impact of COVID inpatient volumes on

procedural and surgical volumes is yet to be determined, and will be exacerbated if another surge occurs.

Harris Health will also continue its Marketplace Insurance Exchange subsidy program based on favorable reimbursement compared to premium subsidies paid in FY 2022. This program leverages federal dollars to improve access for eligible Harris County residents below 200 percent of the Federal Poverty Level while positively impacting net patient revenues. In FY 2022, due to program flexibilities provided by the federal government, Harris Health facilitated enrollment for over 28,000 eligible individuals. The plans are to maintain the same high level of membership in the next 19 months of the budget cycle.

Population Health Management

Specific outcome measures related to population health include the reduction of hemoglobin A1c (HbA1c) levels in high-risk diabetic patients enrolled in Harris Health's chronic disease management model of care, improvement in access to specialty care, and quality and efficiency enhancements related to care provided at the Harris County Jail.

Harris Health's chronic disease management model of care includes care pathways stratified by risk, a single point of navigation, and a focus on patient activation through clinical care management. Diabetes and pre-diabetes will remain a clinical focus area for population health management; however, Harris Health plans to expand the chronic disease model by 1-2 clinics per fiscal year. Harris Health will remain focused on delivery of equitable care, identifying disparities in care and working with community partners to address barriers.

Harris Health also plans to expand its community health hub approach (to include Harris Health's "Food Farmacies") by 1-2 clinic sites per year, focusing on the highest need geographies and domains. Harris Health will further expand its community partnerships related to key social determinants of health, formalized through collaboration agreements with City and County Health Departments, Harris Center and other healthcare and non-healthcare community based organizations.

Further, Harris Health is collaborating with other health systems to focus on multi-visit patients (MVPs) who are among the highest utilizers of healthcare services. The pathway involves identifying the patients in real time, assessing the drivers of utilization, then effectively engaging and definitively linking such patients to resources to stabilize utilization to an appropriate level over time. Focus in the Stub Year and FY 2023 will be on hardwiring the cross-continuum of MVP care, including expansion of regional collaboration.

Additionally, Harris Health plans to enhance access to primary care in FY 2023, particularly for high risk patients, through efficiency improvements such as provider schedule optimization, improved exam room utilization, enhanced training and support for primary care providers for appropriate specialty conditions, and consolidation of services from small/low volume sites to larger, more comprehensive sites.

Central to achieving access improvements is a focus on virtual care as a supplement to traditional care delivery. Harris Health will continue to enhance telehealth care delivery particularly in primary care and in those specialties with the most significant wait times. Harris Health will also expand remote patient monitoring for chronic disease management and general wellness. This focus on telehealth will require both operational and capital investment in the Stub Period and FY 2023.

Harris Health will also improve specialty care access in FY 2023 by embedding specialty care services throughout its network of ambulatory clinics, adding providers and services at a minimum rate of two sites per year. The Stub Year and FY 2023 focus will be on the five specialties with the longest wait times in FY 2022: cardiology, endocrinology, gastroenterology, ophthalmology and urology. Additionally, Harris Health will review and update referral criteria for all specialties to improve access where possible. Further, Harris Health will optimize its e-consult strategy as another means of enhancing access to specialists for patients and primary care providers.

As part of the specialty care strategy, Quentin Mease facility will reopen in FY 2023. The renovated facility will house outpatient dialysis (currently located at Riverside Dialysis Center) and HIV services

(currently provided at the Thomas Street Health Center). In addition, a new gastrointestinal (GI) lab will open on the premises of Quentin Mease to address the colonoscopy backlog and a number of specialty clinic expansions. Finally, where internal access cannot be enhanced appropriately, Harris Health will continue to pursue opportunities to outsource care to ensure service quality and timely care delivery.

Infrastructure Optimization

In relation to the acute care Pavilions, specific outcome measures include completion of facility master campus plans for replacement hospitals, identification and completion of approved sustainability projects for LBJ and Ben Taub, and an increase in capacity available through internal utility failure mitigation strategies and external partnerships. In addition, the Ambulatory Care Services platform will be addressing its clinic alignment to its patient population in underserved areas of Harris County with both new and re-developed clinics that will enhance access to primary and specialty care.

Of the highest priority is planning for the replacement of the LBJ and BT hospitals, both of which are aging and deteriorating. Facility master planning will be ongoing throughout the Stub Year and FY 2023. Moreover, some campus development activities will commence during this budget period, such as construction of the LBJ parking garage. Simultaneous to development of plans for replacement hospitals is the identification and completion of projects that mitigate the risk of internal utility failures that reduce capacity and jeopardize patient safety until the hospitals, particularly LBJ, can be replaced. This work is significant and expected to continue through FY 2023 and beyond.

Additionally, Harris Health is committed to continuing to augment its information security infrastructure to reduce organizational risk over the next several years. At the same time, enhancement of the electronic medical record and other information technology systems that allow for greater efficiency and improve clinical care will be a high priority for the organization.

Correctional Health Care

Harris Health is expected to begin providing healthcare services to detainees in the Harris County Jail March 1, 2022, pending final approval of an interlocal agreement by Harris Health's Board of Trustees and Harris County Commissioners Court.

Specific outcome measures (included as part of the Population Health Management strategy) include increased access to care and expansion of on-site services that reduce the number of patients transported to outside facilities, reduction in time to first provider visit after intake, and reduction in time to first dose medication after intake.

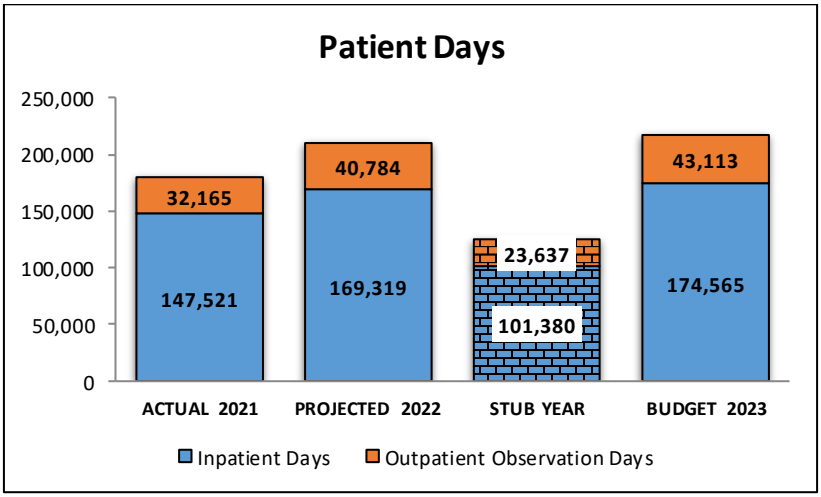
Assessments of the processes related to medical care, nursing, pharmacy, and other services are ongoing and will be incorporated into the transition plan as they are identified. Opportunities to enhance efficiency and to improve care delivery will be prioritized in FY 2023.

Expected Patient Volumes March 2022 – September 2023

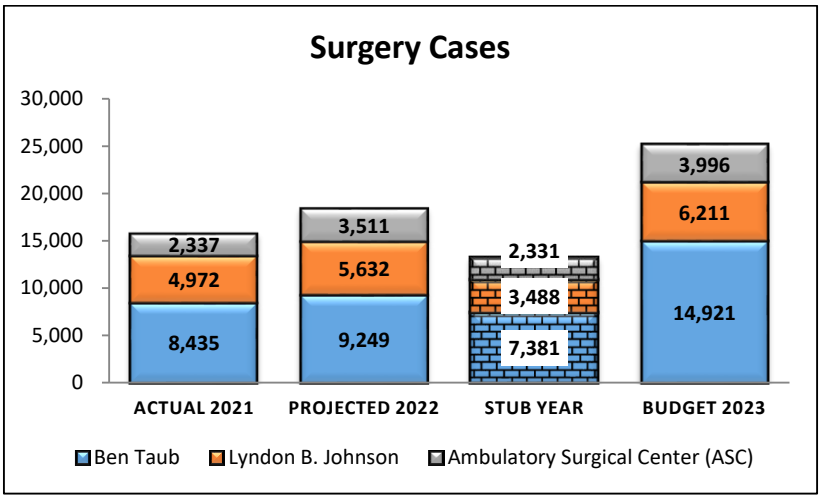
During the 19 months of the proposed budget, there are no plans to change the indigent care policy, Financial Assistance Program, affecting patient volumes. Income eligibility criteria will be maintained at 150 percent of the federal poverty level.

Except for planned bed closures at LBJ Hospital, and a slight adjustment in outpatient clinics, overall volume for Harris Health is expected to remain stable compared to current FY 2022 and continue to return to pre-COVID levels in prior years.

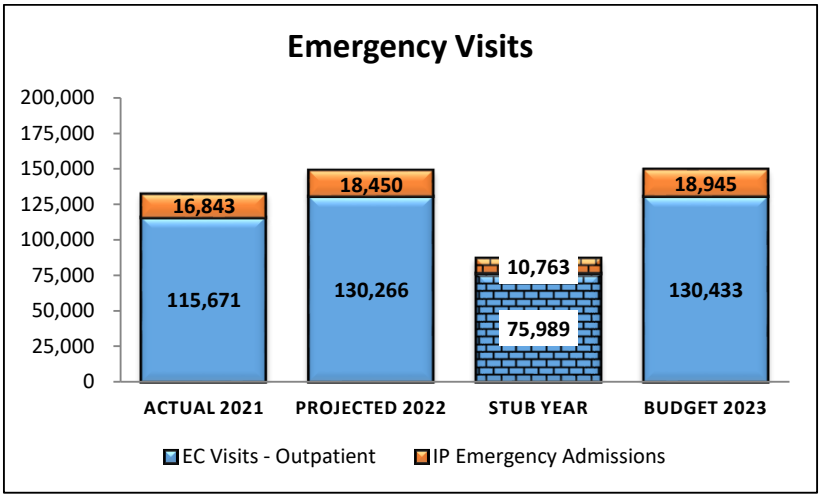
Throughout FY 2022, Ben Taub and LBJ Hospitals' volumes rebounded 20 percent from the pandemic lows and remained strong due to the ongoing community need exacerbated by COVID-19 surges and pent-up demand. In the Stub Period and FY 2023, Ben Taub plans to further increase its ICU capacity while inpatient volumes at LBJ will see a planned decrease throughout the year to accommodate ongoing construction and repair efforts.



Surgery cases at Ben Taub will experience an incremental growth of cases to regain up to 60 percent 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.

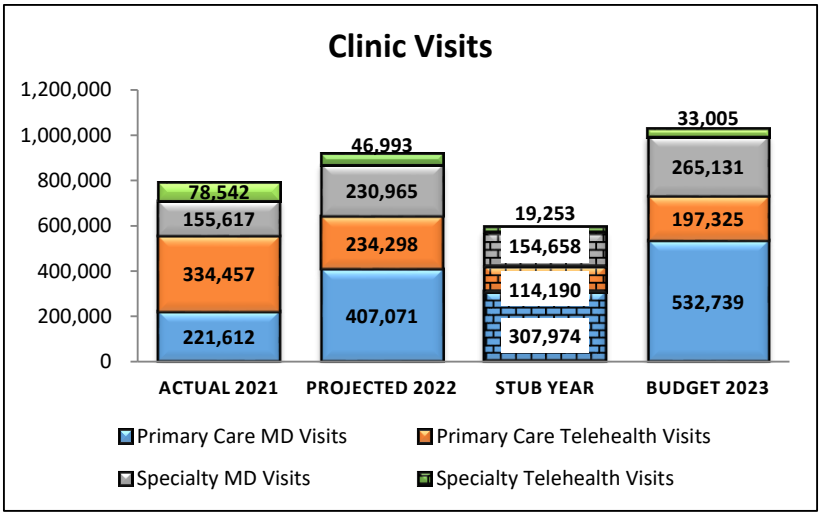


Similar to inpatient hospital volumes, emergency room visits made a 13 percent comeback compared to FY 2021 and are projected to remain mostly flat to current levels. After a planned completion of the Ben Taub emergency center renovation project in the spring of 2023, a small incremental growth in visits is anticipated there. Total combined emergency room volume for the Ben Taub Level I emergency center and the LBJ Level III emergency center is projected at an annualized level of just under 150,000 visits.



Labor and delivery volumes are budgeted virtually at the same level as FY 2022, factoring in an approximate 10 percent volume recovery compared to FY 2021.

In outpatient services, total combined primary, specialty and telehealth visits rebounded almost 16 percent compared to the same period last year. Primary care budgeted volumes are expected to be essentially flat reflecting the multi-year trend. Specialty care visits are expected to see planned growth in certain specialties, and a slightly lower utilization in other specialties primarily attributed to limited procedural access. Ambulatory face-to-face visits will be supplemented with virtual visits up to 25 percent of the overall appointment schedule. In addition, ambulatory surgery cases are planned to increase to full available capacity barring continued labor shortages in operating room staff. As discussed earlier, the reopening of the Quentin Mease outpatient facility in the summer of 2023 will expand patient access to GI procedures.

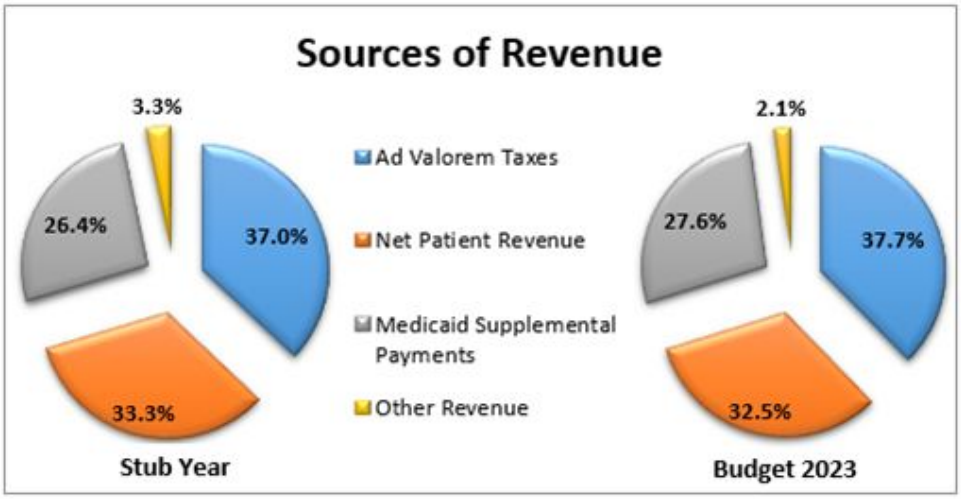


Revenues

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 percent and 25 percent 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.

Similar to last year, current FY 2022 revenue projections point to a 19 percent 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 $2.22 billion, a decrease of over $30 and $25 million, respectively, from the FY 2022 projections. The decrease is attributable to expiration of federal flexibilities allowed during the public health emergency. Of note, this figure excludes reimbursement for correctional health services currently under negotiation with the Harris County Sheriff's Office; it will be incorporated following the approval of an interlocal agreement by Harris Health's Board of Trustees and Harris County Commissioners Court.



❖ 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 $806 million. A slight 2 percent 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

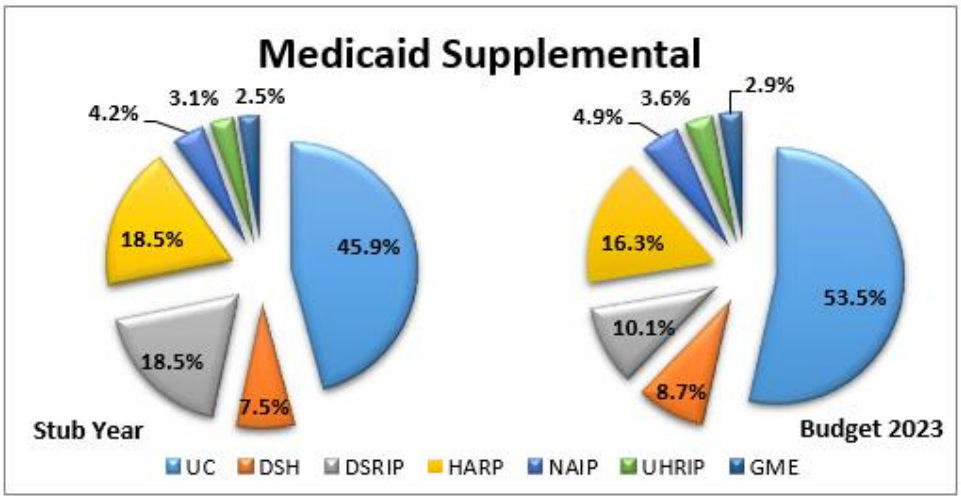
Net patient service revenue comprises almost 37 percent of the entire System revenue portfolio. Net patient revenue increased $104 million in FY 2021 and $127 million in FY 2022 (projected). The increase is attributed to $115 million and $108 million (projected), respectively, in COVID-19 claims reimbursement 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 ACA-mandated reduction in the uncompensated care pool specific to the Medicare Disproportionate Share (DSH) program will result in a corresponding payment reduction of $25 million 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 $120 million.

❖ Medicaid Supplemental Payments

Medicaid Supplemental Programs' revenues make up about 25 percent 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 grew by $273 million over the prior year due to the

resizing of the State's UC pool, the charity allocation changes, as well as the higher federal medical assistance percentage (FMAP) provided under the CARES Act. In FY 2022, supplemental program revenue is projected to be $13 million 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.

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.
On December 3, CMS further clarified its position regarding the private "hold harmless" financing arrangements as unacceptable sources of funding for any pending programs. CMS noted that it is open to DSRIP extension approval but is pending decision until it receives the State's DSRIP submission and can assess the proposed non-federal match.

If the DSRIP extension is approved, Harris Health's budget for the 19 months starting in March 2022 will be favorably affected, adding an approximate $70 and $60 million in net payments to each budget segment. This request has a reasonably high possibility of approval and is being included in the budget projections at this time pending resolution of the issues above. Likewise, Harris Health's net Medicaid managed care reimbursement from the UHRIP program depends on the result of the negotiations between CMS and HHSC. The net annual benefit to the System currently stands at over $20 million. If approved, the funding will continue at the rate of SFY 2021.

The Network Access Improvement Program (NAIP) will continue at the current pace. Funding is expected to be stable at $27 million for the foreseeable future.

The Graduate Medical Education (GME) funding program, started in October 2018, allows for recovery of some GME costs. The net benefit to Harris Health in FY 2022 is estimated at $18 million and is projected at the same annualized level for the Stub Year and FY 2023.

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 $4.5 billion beginning in FFY 2022. This request has a reasonably high possibility of approval and is being included in the budget projections at this time pending resolution of the CMS-HHSC issues discussed earlier. The annualized net benefit to Harris Health from the increased UC pool is projected at over $40 million.

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 approval window by CMS pending receipt of additional information from the State. If approved, the program will bring over $100 million in additional Medicaid supplemental revenue to Harris Health.

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 percent 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 $53.6 million.

In summary, after factoring in the variables discussed above, the aggregate Medicaid Supplemental Programs revenue is budgeted at $341 million for the seven months of the Stub Period and at $614 million in FY 2023. In the event the 1115 Waiver negotiations between CMS and the State continue

to stall, about $400 million in Harris Health's Medicaid Supplemental revenue and $6.7 billion in UC and DSRIP funding for Texas would be disrupted.

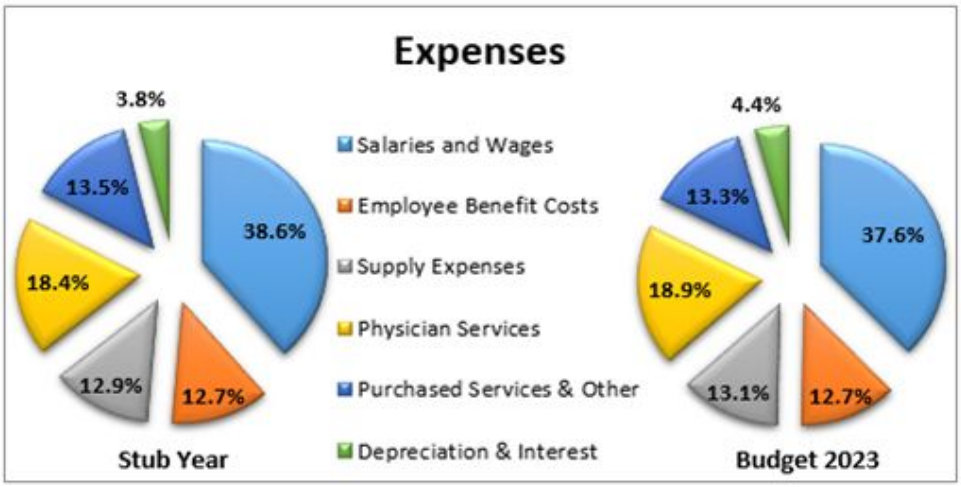
❖ **Other Revenue**

Other revenues are projected at an annualized level of $42 and $47 million, or a little over 3 percent of the total Harris Health budget, in both budget periods. The largest, annual tobacco settlement revenue, is projected to continue at $13 million 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 $171 million, or 10.6 percent, as a direct response to the COVID-19 pandemic. Purchased services, supplies, and other operating expenses increased $110 million, or 15.4 percent, primarily due to increases in physician cost, purchased medical and non-clinical services, and medical insurance subsidies. The System's salaries and wages increased $47 million, or 7.8 percent, 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 $9 million, or 3.7 percent, 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 $275 million, or 15.4 percent, as yet another grim testament to the ongoing pandemic. Salaries and wages are expected to increase by $153 million, and related benefits by $28 million, 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 $150 million over three years. Other operating expenses will have increased $95 million in FY 2022 (projected), primarily due to increases in medical and pharmaceutical supplies, physician cost, and purchased medical and non-clinical services.



In keeping with the System goal of achieving a 2 percent 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.

Salaries and benefits are budgeted to grow by 3.8 percent, or an annualized $41 million in the Stub Year and by 2.1 percent, or $23 million in FY 2023, as a result of continued retention programs mitigated by benchmarking and productivity initiatives. The cost of the total compensation portfolio in FY 2023 is budgeted at $1.10 billion, or 50 percent of the total expense budget.

Physician services are budgeted to increase to $412.7 million in FY 2023, up by an annualized $31 million in the Stub Period and by $43 million in FY 2023 compared to the FY 2022 projection.

Supply expense is expected to increase by 4 percent, or an annualized $10.6 million in the Stub Period and by $15.2 million to a total of $284.8 million in FY 2023, accounting for a 3 percent inflation as well as incremental expenses associated with strategic initiatives and pandemic inventories.

Purchased services will experience an inflationary increase of 4 percent 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 $9.4 million 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.

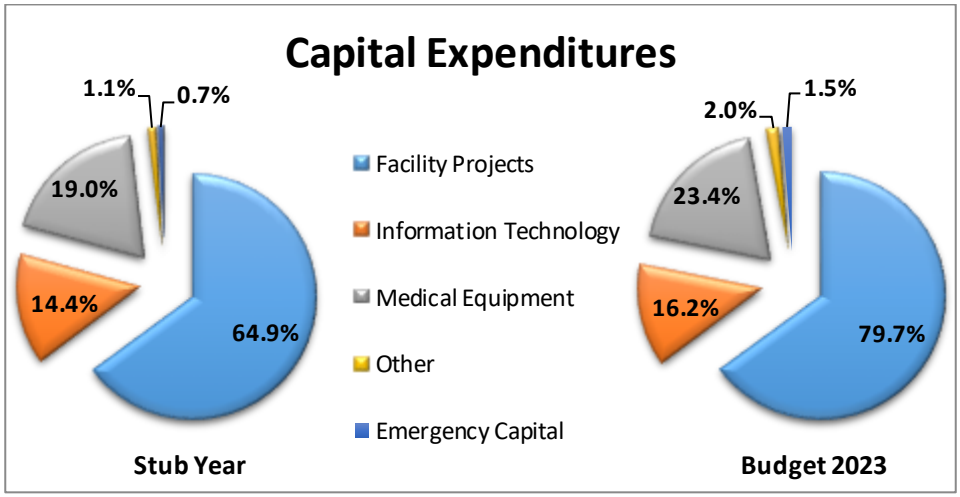
Depreciation, amortization, and interest expense for the Stub Year and FY 2023 is budgeted at an annualized cost of $95.5 million, which includes a planned increase from the adoption of the lease accounting standard. Together, both purchased services and depreciation/amortization cost will see a projected annualized increase of $23 million in the Stub Year and $31.6 million in FY 2023, for a combined budget of $385 million in FY 2023. Of note, this figure excludes the budget for correctional health services currently under negotiation with the Harris County Sheriff's Office; it will be incorporated following the approval of an interlocal agreement by Harris Health's Board of Trustees and Harris County Commissioners Court.

Overall, total operating expense budget for Harris Health is projected at $1.27 billion in the Stub Period and $2.18 billion in FY 2023. The result is a budgeted net operating margin of $26.2 million, or 2 percent, for the Stub Period. Similarly, net operating margin of $43.4 million, or 2 percent, 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

Harris Health is continuously assessing its facilities, equipment and technology to determine the priorities for replacement, repair and any new acquisitions. The assessment and prioritization methodology addresses patient safety, building safety and code compliance requirements, planned equipment obsolescence, and new technology.

In FY 2022, the overall Capital Budget proposal totaled $176 million, of which $131 million 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. In alignment with its Strategic Plan 2021-2025, 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 $135 million, and for FY 2023, at $166 million, based upon the 2 percent 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 $323 million. The current year-end estimate for FY 2022 is an increase of over $100 million compared to the budgeted margin. Based on the priorities outlined in the Strategic Plan 2021-2025, Harris Health management proposes to earmark $300 million as the internal investment in the financing of capital and construction cost of future strategic initiatives.

Conclusion

Together, 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 the Harris County's and underscores the strength of its operations and financial stability despite the ongoing COVID-19 pandemic and other economic challenges. The increased cost of maintaining services and improving patient quality in an environment of decreased tax support will make for a very challenging year ahead. The proposed 2 percent operating margin will allow Harris Health System to continue with its infrastructure modernization and delivery of high quality healthcare to Harris County residents.

Harris Health System
Statement of Revenues and Expenses
Stub Year & Fiscal 2023 Proposed Budget
($ in Millions)

		Actual FY 2021	Projected FY 2022	Budget Stub Year	Budget FY 2023
	Revenue:				
1	**Net Patient Revenue**	$ 695.2	$ 822.3	$ 431.4	$ 723.7
2	**Medicaid Supplemental Programs**	563.9	551.2	341.0	614.3
3	**Other Operating Revenue**	57.8	54.8	27.7	32.0
4	**Total Operating Revenue**	**$ 1,317.0**	**$ 1,428.3**	**$ 800.1**	**$ 1,370.0**
5	**Net Ad Valorem Taxes**	780.7	805.6	479.4	838.2
6	**Net Tobacco Settlement Revenue**	12.9	13.3	13.3	13.3
7	**Interest Income & Other**	4.4	1.9	1.1	2.0
8	**Total Nonoperating Revenue**	**$ 798.1**	**$ 820.8**	**$ 493.8**	**$ 853.4**
9	**Total Net Revenue**	**$ 2,115.0**	**$ 2,249.1**	**$ 1,293.8**	**$ 2,223.5**
	Expense:				
10	**Salaries and Wages**	$ 655.3	$ 807.9	$ 489.4	$ 819.9
11	**Employee Benefits**	239.0	266.6	161.4	277.6
12	**Total Labor Cost**	**$ 894.3**	**$ 1,074.6**	**$ 650.8**	**$ 1,097.5**
13	**Supplies**	233.0	269.6	163.5	284.8
14	**Physician Services**	341.2	369.7	233.7	412.7
15	**Purchased Services**	252.6	283.6	171.3	289.6
16	**Depreciation, Amortization & Interest**	70.7	70.0	48.4	95.5
17	**Total Operating Expense**	**$ 1,791.8**	**$ 2,067.5**	**$ 1,267.6**	**$ 2,180.1**
18	**Operating Income (Loss)**	**$ 323.2**	**$ 181.6**	**$ 26.2**	**$ 43.4**

Harris Health System
Statistical Highlights
Stub Year & Fiscal 2023 Proposed Budget

		Actual FY 2021	Projected FY 2022	Budget Stub Year	Budget FY 2023
	Volumes:				
1	**Primary Care Clinic Visits**				
	MD Clinic Visits	221,612	407,071	307,974	532,739
	Telehealth Visits	334,457	234,298	114,190	197,325
2	**Specialty Clinic Visits**				
	MD Clinic Visits	155,617	230,965	154,658	265,131
	Telehealth Visits	78,542	46,993	19,253	33,005
3	**Total Clinic Visits**	**790,228**	**919,327**	**596,075**	**1,028,200**
4	**Total Emergency Room Visits**	**132,514**	**148,716**	**86,751**	**149,378**
5	**Total Surgery Cases**	**15,744**	**18,392**	**13,200**	**25,128**
6	**Total Outpatient Visits**	**1,403,263**	**1,671,438**	**1,070,809**	**1,850,317**
7	**Births**	**4,217**	**4,655**	**2,715**	**4,655**
8	Inpatient Cases (Discharges)	24,626	27,573	16,627	29,151
9	Outpatient Observation Cases	11,855	13,704	7,995	14,510
10	**Total Cases Occupying Patient Beds**	**36,481**	**41,277**	**24,622**	**43,661**
11	Inpatient Days	147,521	169,319	101,380	174,565
12	Outpatient Observation Days	32,165	40,784	23,637	43,113
13	**Total Patient Days**	**179,686**	**210,103**	**125,017**	**217,678**
14	**Average Daily Census**	**492.3**	**575.6**	**584.2**	**596.4**
15	**Payor Mix (% of Charges):**				
16	**Charity & Self Pay**	**51.2%**	**47.8%**	**47.8%**	**47.8%**
17	**Medicaid & Medicaid Managed**	**22.3%**	**20.5%**	**20.5%**	**20.5%**
18	**Medicare & Medicare Managed**	**11.9%**	**12.4%**	**12.4%**	**12.4%**
19	**Other Third Party Payers**	**14.7%**	**19.2%**	**19.2%**	**19.2%**

Harris Health System
Capital Budget Summary
Stub Year & Fiscal 2023 Proposed Budget

Category Totals	Budget Stub Year	Budget FY 2023
Facility Projects	$ 87.7	$ 107.8
Information Technology	19.4	21.9
Medical Equipment	25.7	31.7
Other	1.4	2.7
Emergency Capital	1.0	2.0
Total Capital Budget	$ 135.3	$ 166.1

Appendix A

Harris Health System's Strategic Goals and Outcomes
March 2022 – September 2023

Harris Health System's strategic priorities are set forth in the 2021-2025 strategic plan.

Strategic Focus Area	Goal Statement	Outcome Measure
Quality and Patient Safety	Harris Health will become a high reliability organization (HRO) with quality and patient safety as a core value, where zero patient harm is not only a possibility but an expectation.	Reduction in the number of safety events (high harm and never events) per 10,000 adjusted patient days
		Reduction in the number of Hospital Acquired Conditions (HACs) per 1,000 discharges
People (Patients, Employees, Medical Staff)	Harris Health will promote a culture of respect, recognition and trust with its patients, staff and providers.	Reduction in staff turnover for employees with less than two years of tenure
		Improvement in patient experience scores
One Harris Health System	Harris Health will act as one system in its approach to management and delivery of healthcare and ensure that consistent structure and resources are in place across the platform.	Improvement in patient throughput and remediation of gaps to ensure one consistent framework for all support services
		Demonstrate fiscal responsibility and stewardship by controlling costs and maximizing efficiency to achieve a 2% annual margin
Population Health Management	Harris Health will measurably improve patient health outcomes by optimizing a cross- continuum approach to health that is anchored in high impact preventive, virtual and community based services, deployed in coordination with clinical and social services partners, and underwritten by actionable population health analytics and technology.	Expansion of Food Farmacies and chronic disease management model in two new locations annually with the goal of reducing HbA1c levels in highest and high risk diabetic patients enrolled
		Reduction of wait time for appointments in key specialties/procedures
		Expansion of on-site services at HCJ thus reducing the number of detainees

Strategic Focus Area	Goal Statement	Outcome Measure
		transported to outside facilities
		Reduction in time to first provider visit after intake at HCJ
		Reduction in time to first dose medication after intake at HCJ
Infrastructure Optimization	Harris Health will invest in and optimize infrastructure related to facilities, information technology and telehealth, information security, and health informatics to increase value, ensure safety and meet the current and future needs of the patients we serve.	Completion of phase two facility master plans for replacement hospitals for LBJ and Ben Taub
		Increase in the number of inpatient beds available (through internal utility failure mitigation strategies and external partnerships)

Appendix B

Stub Year Capital Project Highlights (Major Projects)

	Budget Stub Year
Infrastructure	
BT Main Air Handling Units Phase 3 of 4	$ 15,000,000
LBJ Cooling Towers	3,500,000
	$ 18,500,000
New Construction	
Quentin Mease Redevelopment	$ 7,954,709
Strategic Land Acquisition & Development	3,000,000
Casa de Amigos Redesign	1,650,000
	$ 12,604,709
Renovation	
BT Emergency Center Modernization	$ 15,000,000
System-wide Elevator Refresh/Updates	1,626,914
LBJ Roofing (Cyclic)	1,150,000
	$ 17,776,914
Transformation	
BT Phase 3 Facilities Master Plan Projects	$ 18,200,000
LBJ New Facility Design/Planning	11,000,000
LBJ Phase 3 Facilities Master Plan Projects	4,470,000
	$ 33,670,000
Medical Equipment	
Multi-site Equipment Refresh	$ 8,150,000
System Patient Monitoring Update	5,400,000
LBJ Surgical Assisted Robotics Device	2,200,000
	$ 15,750,000
IT	
Microsoft Office 365	$ 4,300,000
RayStation Treatment Planning System	2,028,619
Workstation on Wheels Replacement	1,803,565
Epic Lumens and Agfa GI Imaging	1,499,100
LBJ Hospital Network Tech Refresh	1,141,827
LBJ Wireless Access Point Tech Refresh Phase II	1,010,500
	$ 11,783,611
Subtotal Major Projects	**$ 110,085,234**

FY2023 Capital Project Highlights (Major Projects)

		Budget FY2023
Infrastructure		
BT Main Air Handling Units Phase 4 of 4	$	12,000,000
BT Level 4 OR Flooring Replacement		1,500,000
	$	**13,500,000**
New Construction		
Strategic Land Acquisition & Development	$	15,000,000
Quentin Mease Redevelopment (close out)		3,368,314
Casa de Amigos redesign (close out)		1,350,000
	$	**19,718,314**
Renovation		
System-wide Roofing (Cyclic)	$	1,550,000
	$	**1,550,000**
Transformation		
BT Phase 3 Facilities Master Plan Projects	$	40,000,000
LBJ New Facility Design/Planning		24,000,000
LBJ Phase 3 Facilities Master Plan Projects		6,000,000
	$	**70,000,000**
Medical Equipment		
System-wide Multi-device Equipment Refresh	$	9,677,500
System-wide Patient Monitoring Update		4,350,000
System-wide Anesthesia Device Update		3,000,000
System-wide Endoscope replacement (ongoing)		2,600,000
	$	**19,627,500**
Other		
Security Systems Updates	$	1,205,105
System Vehicle Refresh (Lease)		1,065,249
	$	**2,270,354**
IT		
HANAish Real Time Analytics	$	3,000,000
Server Technology Refresh - Windows		2,161,921
Speech Recognition - IVR		1,900,000
WebEx Contact Center		1,200,000
BT/LBJ Access Point Upgrade		1,100,000
	$	**10,361,921**
Subtotal Major Projects	**$**	**137,028,089**

Appendix C

Harris Health System

Statistical Highlights

Stub Year and Fiscal 2023 Proposed Budget

BT Patient Days

Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
119,045	138,427	82,230	140,966

BT Cases Occupying Beds

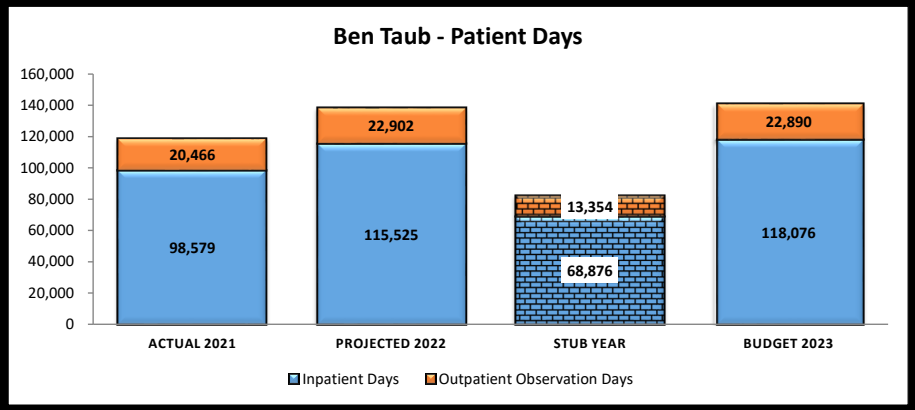
Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
23,009	24,928	14,930	25,974

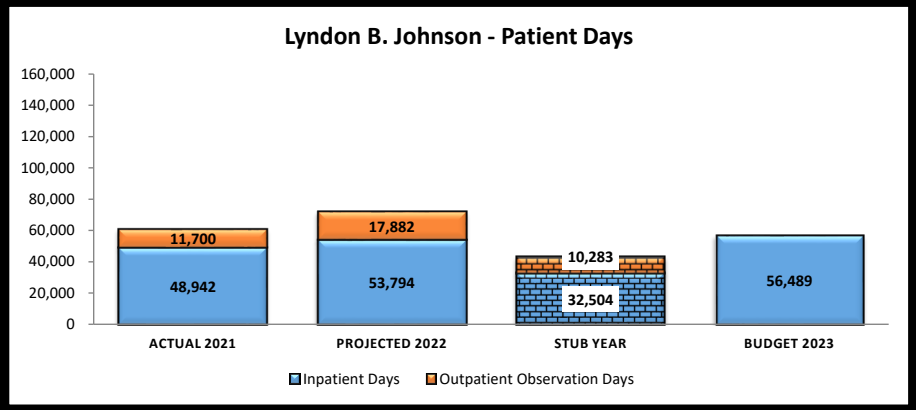
LBJ Patient Days

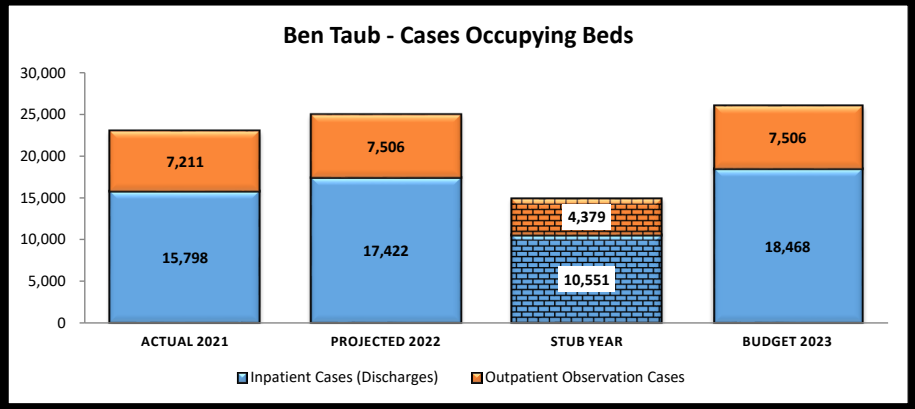
Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
60,642	71,676	42,787	76,712

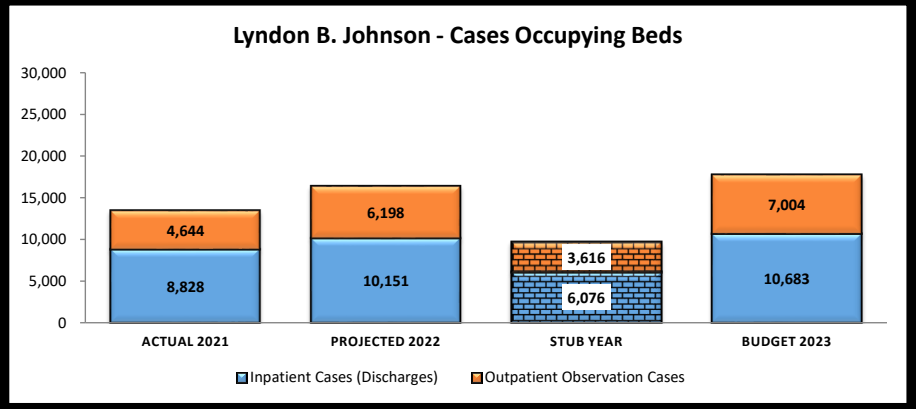
LBJ Cases Occupying Beds

Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
13,472	16,349	9,692	17,687









Harris Health System

Statistical Highlights

Stub Year and Fiscal 2023 Proposed Budget

BT Emergency Visits

Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
65,830	74,014	43,175	74,583

BT Surgery Cases

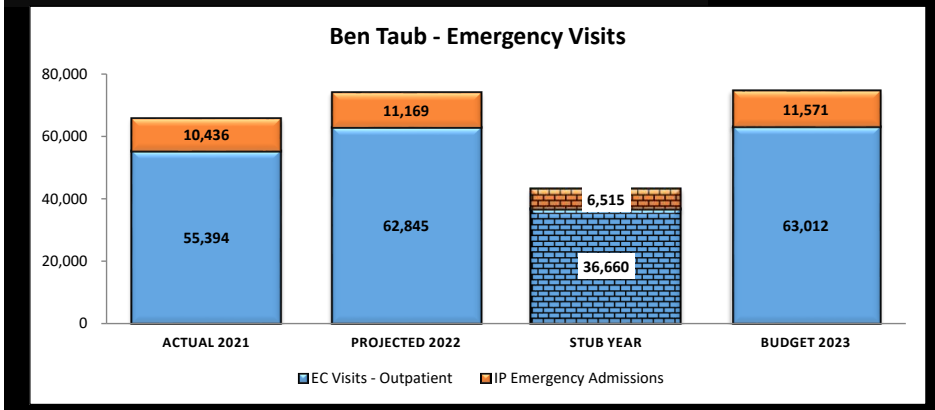
Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
8,435	9,249	7,381	14,921

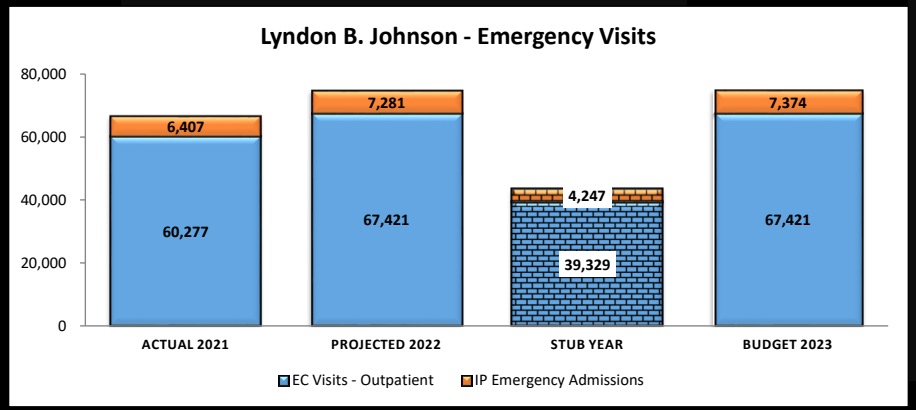
LBJ Emergency Visits

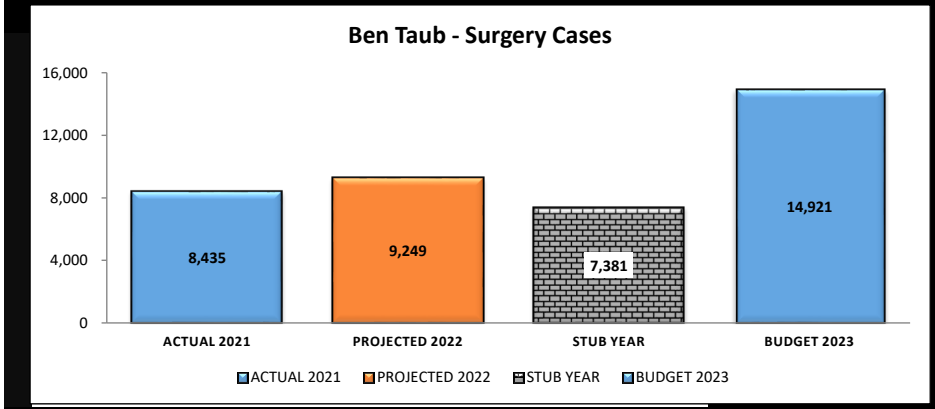
Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
66,684	74,702	43,576	74,795

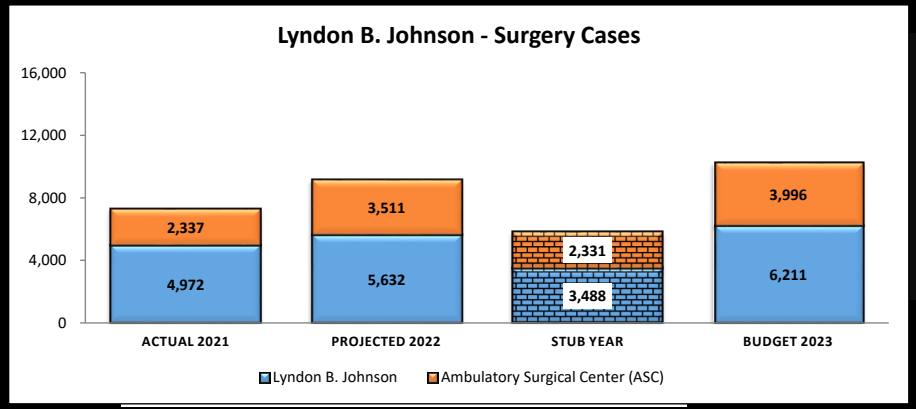
LBJ Surgery Cases

Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
7,309	9,143	5,819	10,207









Harris Health System

Statistical Highlights

Stub Year and Fiscal 2023 Proposed Budget

BT Births

Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
2,443	3,012	1,757	3,012

LBJ Births

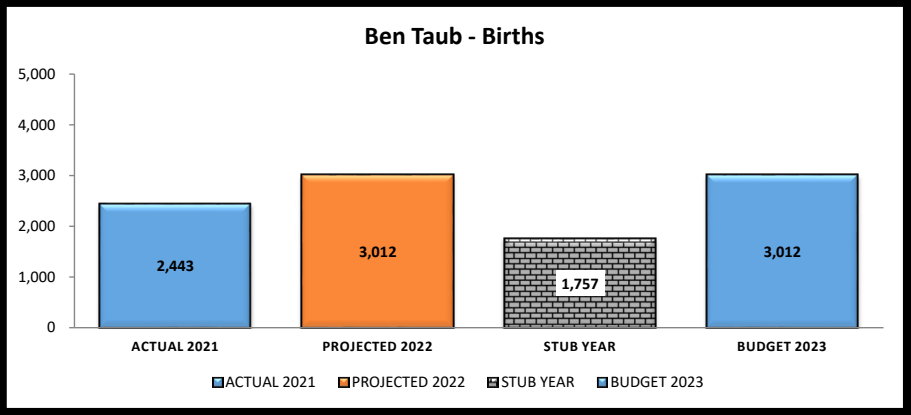
Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
1,774	1,643	958	1,643

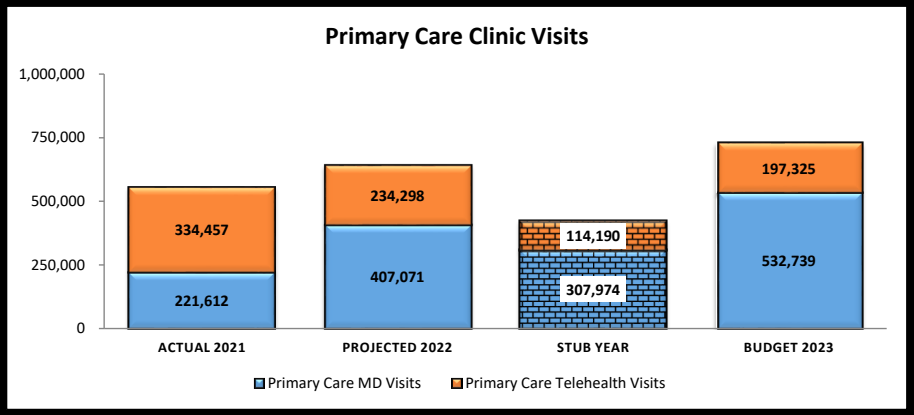
Primary Care Clinic Visits

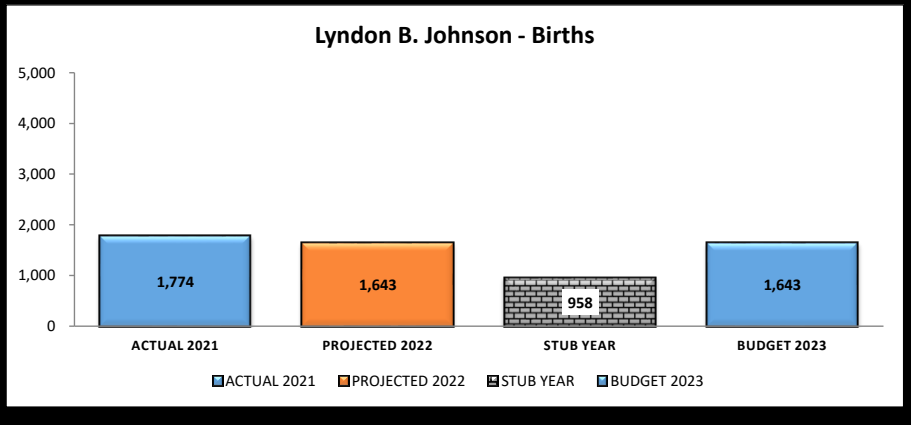
Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
556,069	641,369	422,164	730,064

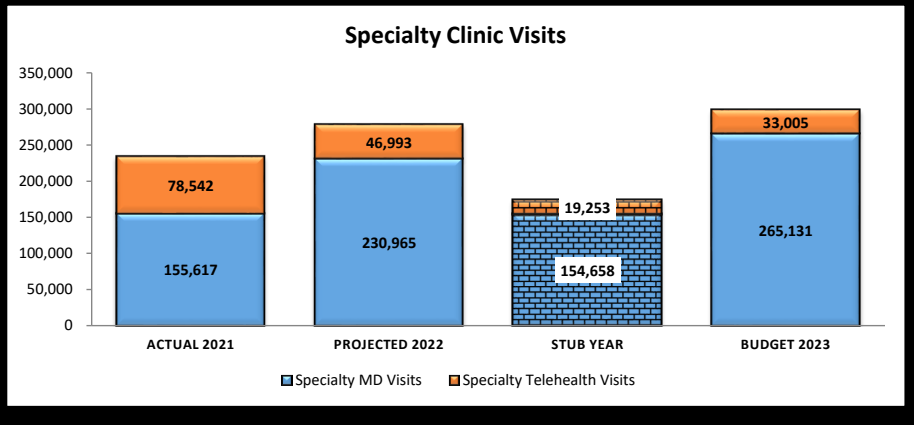
Specialty Clinic Visits

Actual FY2021	Projected FY2022	Stub Year	Budget FY2023
234,159	277,958	173,911	298,136









Appendix D

Congress of the United States
Washington, DC 20515

December 6, 2021

The Honorable Joseph R. Biden
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

The Honorable Charles Schumer
Senate Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Senate Minority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
House Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear President Biden, Leader Schumer, Minority Leader McConnell, Speaker Pelosi, and Minority Leader McCarthy,

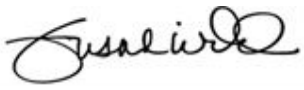
We write today to strongly urge quick and decisive action to prevent the harmful cuts to our nation's hospitals, doctors and other health care professionals that are set to take effect on January 1, 2022. Cutting Medicare reimbursement to our health care heroes during a pandemic is simply unacceptable. We stand ready to work with you to introduce, whip for, and vote to pass legislation to reverse these cuts, as well to work with you to identify ways to pay for reversing these cuts. We are opposed to paying for preventing these cuts with additional provider cuts.

As you know, there are several cuts that are set to take effect on January 1, 2022. Among these are the expiration of a 3.75% payment adjustment to the Medicare Physician Fee Schedule Conversion Factor, a 2% cut to providers as a result of sequestration, and a 4% cut due to Statutory Pay-As-You-Go (PAYGO) being triggered. Additionally, we need to reverse looming cuts to radiation oncologists set to take effect under the Radiation Oncology Alternative Payment Model.

All of these cuts can and should be prevented. In previous years Congress has not allowed Statutory PAYGO cuts to take effect and we have found offsets to pay for reversing other similar cuts. We must act soon to give our health care providers certainty as January 1st approaches.

Thank you for your leadership in working with us to beat the pandemic and build a stronger America. We appreciate your time and consideration and look forward to working with you to ensure we reverse these cuts before the new year.

Sincerely,



Susan Wild
Member of Congress

Cindy Axne
Member of Congress

Steven Horsford
Member of Congress

Susie Lee
Member of Congress

Antonio Delgado
Member of Congress

Sharice L. Davids
Member of Congress

Colin Allred
Member of Congress

Lucy McBath
Member of Congress

Carolyn Bourdeaux
Member of Congress

Lizzie Fletcher
Member of Congress

Chris Pappas
Member of Congress

Andy Kim
Member of Congress

Angie Craig
Member of Congress

Tom O'Halleran
Member of Congress

Conor Lamb
Member of Congress

Mikie Sherrill
Member of Congress

Haley Stevens
Member of Congress

Tom Malinowski
Member of Congress

CC: Chairwoman Murray, Chairman Wyden, Chairman Neal, and Chairman Pallone

United States Senate
WASHINGTON, DC 20510

November 18, 2021

VIA ELECTRONIC TRANSMISSION

Phillip Swagel, PhD.
Director
Congressional Budget Office
441 D Street SW
Washington, DC 20515

Dear Dr. Swagel:

Thank you for your work to produce budgetary and economic analysis of the proposed legislation, the Build Back Better Act.

While the final text of the bill is not available at the time of this letter, we write today to ask for additional economic analysis of the legislation, specifically a section of the Energy & Commerce title which changes Medicaid Disproportionate Share Hospital (DSH) payment allotments as well as funding for Uncompensated Care Pools. This legislation would significantly affect states' safety net programs and it is essential that each member of Congress have complete and full understanding of such a provision. In order to provide accurate information to our constituents who would be impacted by these punitive measures, we request your answers to the following questions:

1) What is the impact of this legislation on state budgets?
2) How would the DSH and Uncompensated Care Pool penalties impact coverage in the affected states?
3) What is the impact of this legislation to access to care, including closures, at safety net hospitals, children's hospitals, and rural hospitals?
4) Does CBO believe that some individuals will have to go without care because of these DSH and Uncompensated Care Pool penalties?

Sincerely,

Marsha Blackburn
U.S. Senator

Marco Rubio
U.S. Senator

Bill Hagerty
U.S. Senator

Ted Cruz
U.S. Senator

John Cornyn
U.S. Senator

Rick Scott
U.S. Senator

Texas Hospital Association

1108 Lavaca Street, Suite 700, Austin, Texas 78701
512/465-1000
www.tha.org

Dec. 1, 2021

Dear Members of the Texas Congressional Delegation,

On behalf of our more than 475 member hospitals and health systems, including rural, urban, children's, teaching and specialty hospitals, and private psychiatric facilities, the Texas Hospital Association celebrates passage of coverage provisions in the Build Back Better Act (BBB) by the House. If also approved by the Senate, approximately 771,000 working-age adult Texans who earn too much to qualify for Medicaid but too little to afford commercial health insurance will be able to enroll in free or low-cost coverage in the marketplace through 2025. This will be the first meaningful expansion of comprehensive health coverage for uninsured Texans in roughly a decade and will reduce the number of difficult choices people make about whether to seek medical care due to cost. Our strong concerns about cuts to the disproportionate share hospital program and limits on uncompensated care payments in the underlying bill remain, but the steadfast commitment by many to address the Medicaid coverage gap is greatly appreciated.

We bring to your attention concerns that the broader health care safety net in Texas remains fragile even as we celebrate the coverage expansion passed by the House. Hospitals are gravely concerned about delays in approving directed payment programs (DPPs) that provide critical funding to providers who serve Medicaid enrollees. We write to emphasize the importance of the Centers for Medicare & Medicaid Services continuing to work in earnest with Texas to resolve outstanding concerns affecting these programs.

Two of Texas' longstanding Medicaid payment programs totaling over $5 billion in annual funding recently expired without any CMS-approved transition program to replace them. Three proposed DPPs that would restore these funds remain pending before CMS. Essential funding to Texas' safety net hospitals has now lapsed, putting at risk access to care for the state's Medicaid enrollees.

As of Dec. 1, an entire fiscal quarter will conclude with no rate enhancements paid to hospitals on managed Medicaid claims, a loss of nearly $7 million per day of delay.[1] Operational complications for hospitals, managed care plans, and the state worsen with every lost day of implementation. Without retroactive approval of DPPs to Sept. 1 as Texas has requested, hospitals will lose rate increases on all services to managed Medicaid enrollees since that date. Even if CMS does approve the DPPs retroactively, managed care plans must then re-process every claim since Sept. 1 to include full payment. This process grows increasingly time consuming the more underpaid claims accumulate. A prolonged delay takes the state deeper into uncharted territory and creates uncertainty as to whether Texas could implement its hospital rate increase at all in state fiscal year (SFY) 2022. *A total loss for the entire program year would be catastrophic.*

Texas hospitals are continuing to provide services to Medicaid patients at a deep discount, assuming full risk that DPPs will eventually be approved. *But they cannot be expected to do so indefinitely.* Safety net hospitals are already beginning to experience financial pressure due to discontinuation of these funds,

[1] At SFY 2021 Uniform Hospital Rate Increase Program funding levels.

which reduces their flexibility to weather other ongoing fiscal challenges, such as extraordinary COVID-19 related staffing expenses from recent surges. *Furthermore, for the BBB's coverage expansion to provide new marketplace enrollees access to a full array of benefits, there must be a robust network of private and public hospitals willing to participate in Medicaid*. This is because hospitals rely on Medicaid supplemental payments to operate service lines that serve a great number of Medicaid enrollees, such as obstetrics, labor and delivery, and behavioral health. The BBB coverage expansion must work hand-in-hand with DPPs and the 1115 waiver to ensure hospitals can serve anyone who needs care regardless of ability to pay – including 4.9 million current Medicaid enrollees and another roughly 4 million remaining uninsured who will not qualify for any coverage option.

As you may be aware, Texas and CMS have come to agreement on nearly all features of the pending DPPs, including aggregate funding amounts. A sole stumbling block remains: a dispute on the methods Texas uses to finance the non-federal share of Medicaid supplemental payments. The funding mechanism in question, the Local Provider Participation Fund (LPPF), has been used in Texas since 2013 to fund each of the state's hospital supplemental payment programs, all critical to sustaining care for low-income, uninsured Texans. Texas hospitals continue to support the use of LPPFs.

Regardless of whose position prevails as these issues are negotiated and litigated, it is essential that Texas and CMS move off this stumbling block at once, if only on a temporary basis, to avert total loss of Medicaid supplemental hospital payments this year. Hospitals need a short-term resolution that restarts the flow of DPP funds while CMS and Texas negotiate a long-term path forward for Medicaid supplemental payments and the 1115 waiver. **We respectfully ask you to remind CMS of the urgency with which funds to hospitals must restart to maintain current services, and how the lack of clarity on what future programs CMS is willing to approve is harming hospitals' ability to plan.** For those who have already engaged CMS on this issue, Texas hospitals thank you.

Again, THA applauds the hard work of many to deliver a long overdue solution for those in the coverage gap. For the next three years, the BBB will add a key reinforcement to Texas' health care safety net. Texas hospitals value the support and leadership of the delegation, and with your help, the many programs that are linked together to keep Texas' safety net intact will all remain strong. With any questions, please do not hesitate to contact me at jhawkins@tha.org or (512) 465-1505.

Sincerely,

John Hawkins
Senior Vice President
Advocacy & Public Policy
Texas Hospital Association

TED CRUZ
TEXAS

COMMITTEES:
COMMERCE
JUDICIARY
FOREIGN RELATIONS
RULES AND ADMINISTRATION
JOINT ECONOMIC COMMITTEE

United States Senate

December 9, 2021

Ms. Chiquita Brooks-LaSure
Administrator
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Baltimore, MD 21244

Dear Administrator Brooks-LaSure,

I am writing to you today deeply concerned by the Biden Administration's plans regarding Texas' Medicaid 1115 Waiver as well as the Biden Administration targeting of states that have chosen not to expand Medicaid, including Texas, in its Build Back Better Act.

As you know, your agency decided on Friday, April 16, 2021, to rescind the 10-year extension of Texas' Medicaid 1115 Waiver. The Trump Administration's extension of this waiver on January 15, 2021, through September 30, 2030, provided much-needed certainty to Texas healthcare providers to plan for future years of medical care for the state's most vulnerable citizens. This unprecedented action jeopardized billions of dollars in funding for Texas' Medicaid program and has threatened the integrity of the state's Medicaid program. The rescission of this previously approved waiver extension has undermined the safety net and the ability of hospitals to provide quality care to Medicaid and uninsured patients in Texas. Since this decision, Texas has re-applied for a waiver but still has not heard a decision from the Centers for Medicare & Medicaid Services (CMS).

Now, the Build Back Better Act put forth by Democrats in the House of Representatives and supported by the Biden Administration contains multiple provisions that further undermine Texas' Medicaid program and threaten Texas' low-income and rural serving hospitals. The bill proposes to cut 12.5 percent from Disproportionate Share Hospital Payments annually and reduce payments to Texas' Uncompensated Care Pool (UCP) by 40-65 percent annually. This is a massive cut to Medicaid, which will only exacerbate the struggle that hospitals in Texas have experienced since your agency decided to rescind Texas' waiver extension. Disproportionate Share Hospitals (DSH) are hospitals that serve large numbers of low-income individuals who rely on the care provided by these hospitals.

With this plan, the Biden Administration is targeting not just Texas, but the 11 other states that have chosen to not expand their Medicaid programs. Under the Biden Administration's Build Back Better plan, Texas will be hit with at least $150 million reduction in Disproportionate Share Hospital Payments. Out of the proposed $450 million reduction in payments for Disproportionate Share Hospital Payments nationwide, one-third of the nationwide cuts are coming from Texas' allocated funds. These cuts will be devastating for thousands of Texans.

The state of Texas is directly and blatantly being targeted by the Biden Administration. This is unacceptable. Texas' most vulnerable patients should not lose access to healthcare because of partisan politics. I ask that you immediately approve Texas' Medicaid 1115 waiver so that no

SUITE 961
300 EAST 8TH STREET,
AUSTIN, TX 78701
(512) 916-5834

SUITE 410
3626 NORTH HALL STREET,
DALLAS, TX 75219
(214) 599-8749

SUITE 9047
1919 SMITH STREET,
HOUSTON, TX 77002
(713) 718-3057

SUITE 1603
200 SOUTH 10TH STREET,
MCALLEN, TX 78501
(956) 686-7339

SUITE 950
9901 IH-10 WEST,
SAN ANTONIO, TX 78230
(210) 340-2885

SUITE 501
305 SOUTH BROADWAY,
TYLER, TX 75702
(903) 593-5130

SUITE SR-127-A
RUSSELL BUILDING
WASHINGTON, DC 20510
(202) 224-5922

Texan loses access to the care they need. I also urge you to work with congressional leadership to remove the 12.5 percent cut from Disproportionate Share Hospital Payments as well as reduced payments from states' Uncompensated Care Pools.

I look forward to hearing from you as soon as possible regarding these important matters.

Sincerely,

Ted Cruz
United States Senator

Michael Cloud
Member of Congress

Ronny L. Jackson, M.D
Member of Congress

Jake Ellzey
Member of Congress

Beth Van Duyne
Member of Congress

Pat Fallon
Member of Congress

Van Taylor
Member of Congress