

# HARRIS HEALTH SYSTEM

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### MINUTES OF THE SPECIAL CALL BOARD OF TRUSTEES MEETING

Thursday, December 12, 2019

Board Room – Administration Building

#### Members Present:

Ms. Anne Clutterbuck, Chair  
Dr. Kimberly Monday, Vice Chair  
Ms. Linda Morales, Secretary  
Dr. Arthur Bracey  
Mr. Lawrence Finder  
Dr. Ewan Johnson  
Ms. Elena Marks  
Mr. Art Morales  
Ms. Alicia Reyes

#### Members Absent:

#### Others Present:

Mr. George Masi, President & Chief Executive Officer  
Mr. Michael Hill, Senior Executive Vice President & Chief Operating Officer  
Mr. Michael Norby, Executive Vice President & Chief Financial Officer  
Dr. Ann Barnes, Executive Vice President & Chief Medical Officer  
Ms.Carolynn Jones, Executive Vice President & Chief Compliance & Risk Officer  
Dr. Nathan Deal, Executive Vice President & Administrator, Ben Taub Hospital  
Ms. Patricia Darnauer, Executive Vice President & Administrator, Lyndon B. Johnson Hospital  
Dr. Glorimar Medina-Rivera, Executive Vice President & Administrator, Ambulatory Care Services  
Mr. Omar Reid, Senior Vice President, Human Resources  
Ms. Karen Tseng, Senior Vice President, Population Health Transformation  
Ms. Victoria Nikitin, Senior Vice President, Finance  
Mr. David Webb, Interim Senior Vice President & Chief Information Officer  
Dr. Yvonne Chu, General Director, Affiliated Medical Services  
Dr. Joseph Garcia-Prats, Chair, Medical Executive Board  
Dr. Kenneth Mattox, Chief of Staff, Ben Taub Hospital  
Dr. Tien Ko, Chief of Staff, Lyndon B. Johnson Hospital  
Dr. Mohammad Zare, Chief of Staff, Ambulatory Care Services  
Dr. Michael Nnadi, Vice President & Chief Pharmacy Officer  
Ms. Desolyn Foy, Vice President, Advanced Analytics & Continuous Control Monitoring  
Mr. Christopher Okezie, Vice President, System Operations  
Mr. Jeffrey Vinson, Vice President & Chief Information Security Officer  
Mr. Robert Hillier, Vice President, Public Policy and Government Relations  
Dr. Jennifer Small, Vice President & Associate Administrator, Ambulatory Care Services  
Ms. Catherine Mitchell, Interim Chief Executive Officer, Community Health Choice, Inc.  
Mr. David Attard, Associate Administrator, Healthcare System Engineering  
Ms. Amanda Calloway, Associate Administrator, Mission Advancement  
Ms. Sara Thomas, Attorney, Harris County Attorney's Office  
Mr. Paul Shanklin, Commissioner Jack Cagle's Office

Ms. Peggy Boice, Harris County Judge Lina Hidalgo's Office  
Ms. Carole Lamont, Commissioner Steve Radack's Office  
Ms. Amber Weed, Commissioner Ellis's Office  
Administrative Staff  
Guests  
(Sign-in Sheets attached to permanent record)

## **I. Call to Order and Record of Attendance**

Ms. Anne Clutterbuck, Chair, called the meeting to order at 9:02 a.m., and noted that a quorum was present. The attendance was recorded.

## **II. Review and Discussion Regarding the Proposed Harris Health System FY2021 Operating and Capital Budget**

Ms. Victoria Nikitin, Senior Vice President, Finance, and Ms. Allison Perez, Director, Financial Planning & Analysis, led the discussion regarding the Harris Health System Fiscal Year 2021 (FY2021) Operating and Capital Budget. Ms. Nikitin delivered a high-level overview of the budget assumptions for FY2021 and budgeting process. She stated that the budgeting process starts by evaluating Harris Health's operational performance in addition to our volumes, revenue, and expenses for the current year. Ms. Nikitin stated that the demand for services by the uninsured population of Harris County, coupled with the imperative to improve patient safety and outcomes, continues to strain existing capacity and resources. Dr. Kimberly Monday inquired regarding our operational needs, stating that the Board would like to know how these requests are being prioritized and which items are being deferred due to budget constraints. Ms. Nikitin stated that the finance team in collaboration with the operations team meets regularly to determine what the operational needs are for the upcoming year. She noted that a \$35M has been requested to address CMS related initiatives. To assure that the Harris Health is fully meeting Medicare's Conditions of Participation and that corrective actions are hardwired into everyday practices, Harris Health has committed over \$15M to patient safety in FY2020 and is making an additional investment of more than \$20M in FY2021.

Ms. Nikitin reported that the overall volumes for Harris Health are expected to remain stable in FY2021. Mr. George Masi, President & Chief Executive Officer, stated that although volumes are expected to remain stable, Harris Health will continue to outsource inpatient skilled nursing and rehabilitation care, dialysis, colonoscopy, and sleep studies for a total budget of \$36M. Discussion ensued regarding opportunities for Harris Health to reduce operating expenses while improve maximizing utilization. Mr. Masi stated that the more efficient you become, the more expenses you will accrue. He recommended a decrease in services as opposed to service lines. Mr. Mike Hill, Senior Executive Vice President & Chief Operating Officer, stated that for FY2021, there will be no change in the indigent care policy (Financial Assistance Program) affecting patient volumes. He reported that the income eligibility criteria was reduced from 200% to 150% of the federal poverty level in 2016, and has remained at that level.

In October 2019, by order of the Harris County's Commissioners Court, the current tax rate for maintenance and operations of 17.000 cents per \$100 of property valuation defaulted to the effective rate of 16.491 cents. Ms. Nikitin explained that this decrease amounts to a loss of approximately \$22M in tax support for the current fiscal year. She reported that the ad valorem revenues are projected to be around \$763M in FY2020; however, these estimates are subject to change based on actual tax collections coming in.

Additionally, Ms. Nikitin reported that the net patient revenue is budgeted to grow from \$579M in FY2020 to \$617M in FY2021, due to the final phase-in of increased Medicare Disproportionate Share Funding. Ms. Nikitin stated that the Medicaid Supplemental Programs' revenues make up 13% of Harris Health's total revenue budget 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. She stated that Federal cuts in Medicaid DSH funding went live in October 2019; and, if not repealed by Congress in the near future, the available distribution for Harris Health will drop about 25% in FY 2021 compared to FY 2020. At this time, given no indication of potential action to reverse the cuts, Harris Health has built an estimated reduction of \$9M into the Medicaid DSH projections for FY 2021, for a total funding of \$30M. Ms. Nikitin mentioned that Harris Health's Uncompensated Care (UC) funding decreased in Federal Fiscal Year (FFY) 2019 due to the State-adopted methodology of increased allocation to non-hospital classes. Beginning in FFY 2020, the UC allocation methodology is based on the Medicare S-10 schedule, which is projected to return the uncompensated care allocation to FFY 2017 levels. Ms. Nikitin reported that at this time, the budget for Harris Health's UC in FY 2021 is estimated at over \$103M, which is a \$27M improvement compared to the current year. She stated that the size of the DSRIP pool for Texas is changing in real time; the \$3.1B allocation approved for FFY2019 Demonstration Year (DY8) has ended. Starting in October 2019, FFY2020 (DY9), the reduced pool size in DY9-10 will result in a 5.9% reduction in DY9 and 19.5% reduction in DY10, dropping to zero in the last year of the current program. She noted that the State is currently seeking proposals to replace the program when it expires, so as to maintain the current federal funding. Additionally, Ms. Nikitin stated that a decline of over \$7M in Harris Health's DSRIP revenue is expected in FY2021.

Ms. Nikitin reported that total Harris Health operating expense is projected to increase by 4.5% or \$71M, from \$1.58B in FY 2020 to \$1.65B in FY 2021. After accounting for \$50M in annual inflation of 3.2%, Harris Health is choosing to strategically invest over \$20M in patient safety across the platform in FY 2021. Ms. Nikitin reported that physician services are budgeted to increase to \$310.5M in FY 2021, up by almost \$26M from the FY 220 projection of \$284.6M. She noted that the new Local Provider Participation Fund (LPPF) has replaced the Harris Collaborative program and the Medicaid IGT model. The elimination of the private UC funding model in July 2019 accounts for a return of roughly \$300M in annual direct physician costs onto Harris Health's books. Other non-AMS provider costs are not significant, and are assumed to remain stable. Ms. Nikitin stated that the supply expense is expected to increase less than 3% to \$228.3M in FY2021, due to lower than usual inflation in inpatient pharmaceuticals. She reported that purchased services are budgeted to decrease by \$8.7M solely due to a change in the accounting standard for leases, Government Accounting Standards Board (GASB) #87, effective next fiscal year. Based on preliminary estimates, almost \$13M in lease expense will move to amortization cost as most leases transition to capital assets. She noted that aside from the effect of the new rule, Harris Health's purchased clinical services are projected to grow, most notably in the area of care coordination with outside partners as discussed earlier.

Ms. Nikitin reported that the capital budget recommendation for FY 2021 is \$75.8M or 140% of the prior year depreciation of \$54M. Mr. Mike Hill stated that although the capital budget recommendation is \$75.8M, there are currently over \$130M in capital requests that must go through a prioritization process. Mr. Norby explained that the \$75.8M in capital budget is expected to solely come out of operating funds in addition to various other funding sources. Together, the Fiscal Year 2021 Operating Budget and the Fiscal Year 2021 Capital Budget represent Harris Health's unwavering commitment to patient safety and advancement in the health status of the residents of Harris County. 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 1% operating margin of \$16.7M will allow Harris Health System to continue with its infrastructure modernization and delivery of high quality healthcare to Harris County residents. A copy of the presentation is available in the permanent record.

Mr. Finder expressed his concern regarding the Board's fiduciary responsibility and political pressures to add services such as Jail Health without the appropriate support and funding by the County. Ms. Marks and Mrs. Morales recommended presenting their concerns to the State and Commissioners Court. Discussion ensued regarding Harris Health's current challenges and constraints as it relates to the budget.

### III. Adjournment

Moved by Ms. Linda Morales, seconded by Dr. Ewan Johnson, and unanimously accepted to adjourn the meeting.

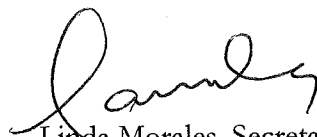
There being no further business, the meeting adjourned at 10:32 a.m.

I certify that the foregoing are the Minutes of the Special Call meeting of the Board of Trustees of the Harris County Hospital District d/b/a Harris Health System held at the Administration Building in Houston, Texas on December 12, 2019.

Respectfully submitted,



Anne Clutterbuck, Chair  
Board of Trustees



Linda Morales, Secretary  
Board of Trustees

Recorded by Yasmin Othman