

## BOARD OF TRUSTEES

### Budget and Finance Committee

Thursday, August 11, 2022  
9:00 A.M.

BOARD ROOM  
4800 Fournace Place, Bellaire, Texas 77401

The meeting may be viewed online at: <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

- |   |  |
|---|--|
| <b>I. Call to Order and Record of Attendance</b>  | <b>Mr. Lawrence Finder    2 min</b>  |
| <b>II. Approval of the Minutes of Previous Meeting</b> <ul style="list-style-type: none"> <li>• Budget and Finance Committee Meeting – May 12, 2022</li> </ul>  | <b>Mr. Lawrence Finder    2 min</b>  |
| <b>III. Building and Properties</b> <ul style="list-style-type: none"> <li>A. Update Regarding Harris Health’s Capital Program Overview<br/>– <b>Mr. David Attard and Mr. Teong Chai</b></li> <li>B. Consideration of Approval to Amend the Lease with Petereit Investments for the Squatty Lyons Health Center located at 1712 First Street, Humble, Texas 77338 – <b>Mr. David Attard</b></li> </ul>  | <b>Mr. Lawrence Finder    15 min</b><br><br><i>(10 min)</i><br><br><i>(5 min)</i>  |
| <b>IV. Financial Matters</b> <ul style="list-style-type: none"> <li>A. Consideration of Acceptance of the Harris Health System May 2022 Quarterly Financial Report Subject to Audit – <b>Ms. Victoria Nikitin</b></li> <li>B. Consideration of Acceptance of the Harris Health System First Quarter Fiscal 2022 Investment Report – <b>Ms. Victoria Nikitin</b></li> <li>C. Consideration of Acceptance of the Harris Health System Second Quarter Calendar Year 2022 Pension Plan Report – <b>Ms. Victoria Nikitin</b></li> <li>D. Discussion and Possible Recommendation for Action Regarding Harris Health System’s Proposed Updated Fiscal Year 2023 Budget and Tax Rate – <b>Ms. Victoria Nikitin</b></li> </ul> | <b>Mr. Lawrence Finder    70 min</b><br><br><i>(10 min)</i><br><br><i>(10 min)</i><br><br><i>(10 min)</i><br><br><i>(40 min)</i> |
| <b>V. Adjournment</b>   | <b>Mr. Lawrence Finder    1 min</b>  |

**HARRIS HEALTH SYSTEM**  
**MINUTES OF THE BOARD OF TRUSTEES**  
**BUDGET & FINANCE COMMITTEE MEETING**  
**Thursday, May 12, 2022**  
**9:00 AM**

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
<b>I. Call to Order and Record of Attendance</b>	Mr. Lawrence Finder, Chair, called the meeting to order at 9:00 a.m. It was noted there was a quorum present and the attendance was recorded. Mr. Finder announced that while some board members are in the room, others will participate by videoconference as permissible by state law and the Harris Health Videoconferencing Policy. Only participants scheduled to speak have been provided dial in information for the meeting. All others who wish to view the meeting may access the meeting online through the Harris Health website: <a href="http://harrishealthtx.swagit.com/live">http://harrishealthtx.swagit.com/live</a> .	
<b>II. Approval of the Minutes of Previous Meeting</b> Budget and Finance Committee Meeting – February 10, 2022		<b>Moved by Dr. Ewan Johnson, seconded by Dr. Arthur Bracey Johnson, and unanimously approved the minutes of the previous meeting.</b>
<b>III. Financial Matters</b>		
<b>A. Discussion Regarding the Harris Health System February 2022 Quarterly Financial Report Subject to Audit (Previously Approved by the Board of Trustees, March 24, 2022)</b>	Ms. Victoria Nikitin, Executive Vice President & Chief Financial Officer (CFO), led the discussion regarding Harris Health System February 2022 Quarterly Financial Report. She mentioned that the drivers for the positive performance in Q4 were the same observed drivers throughout the fiscal year. Ms. Nikitin reported a net patient revenue, including Health Resources and Services Administration (HRSA) Relief Fund revenue, contributed \$43.4M to the positive variance. The final submission for the Provider Relief Fund was completed and resulted in \$18M in additional COVID CARES Act income recognized. Additionally, The Harris County Hospital District Foundation contributed \$45.9M in capital grants and gifts.	<b>As reported.</b>

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
	<p>Ms. Nikitin reported that Ad valorem taxes contributed \$27.5M to the positive variance, of which \$8.2M was received on property tax year 2020. Overall there was an observed 17% margin for the quarter and a 12% margin for the year. Ms. Nikitin highlighted key themes in the FY 2022 performance. She noted that although the margin was 12% for fiscal year, the System was almost \$200M over budget in terms of expenses; 65% of that amount was attributed to labor and benefits costs and the remaining 35% was attributed to supplies and services. Much of the observed positive variance is attributed to the market conditions especially with nursing and critical clinical staff, as well as inflationary factors. The Cares Act, HRSA, and Medicaid Supplemental Program funding provided flexibility, however most of that funding are “one-time items” that may not occur again. Conversely, at the start of FY 2023, Harris Health received \$21M of Cares Act funding that will be very beneficial to the System. Discussion ensued regarding FY2023 budget activities in collaboration with Harris County, as well as identifying operating efficiencies and their impact on the budget. Dr. Esmaeil Porsa, President &amp; Chief Executive Officer (CEO), stated that reevaluating dependence on contracted labor will assist with reducing costs. A copy of the financial report is available in the permanent record.</p>	
<p><b>B.</b> Consideration of Acceptance of the Harris Health System Fourth Quarter Fiscal 2022 Investment Report</p>	<p>Ms. Nikitin delivered a report on the Harris Health System Fourth Quarter Fiscal 2022 Investment Report. She reminded the Committee that the investment reports come from Harris County who oversees the investments for Harris Health System. She stated over the last quarter there has been an increase of \$400M that was strictly due to the increase in tax collections. Additionally, Ms. Nikitin shared that the interest rate was low for the quarter and the income from that was less than \$300K. The investment report is available in the permanent record.</p>	<p><b>Moved by Dr. Ewan Johnson, seconded by Professor Marcia Johnson, and unanimously accepted that the committee recommends that the Board approve item III.B.</b></p>
<p><b>C.</b> Consideration of Acceptance of the Harris County Hospital District First Quarter 2022 Pension Plan Report</p>	<p>Ms. Nikitin delivered a report on items III.C. and III.D. collectively. She addressed the request for additional funding of \$21M for the Harris County Hospital District Pension Plan for Calendar Year 2022. She stated that over the last few years, the Finance team has taken the approach to request additional funds for the pension. Last year there was a request for the \$20M, however, this year’s request is for \$21M with an inflationary uptick of \$1M.</p>	<p><b>Moved by Dr. Arthur Bracey, seconded by Dr. Ewan Johnson, and unanimously accepted that the committee recommends that the Board approve item III.C.</b></p>

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
	<p>Ms. Nikitin noted that this is a cash flow issue and is already included in the cash flow budget. She mentioned that the additional fund will help the System work toward fully funding the Pension Plan. Ms. Nikitin discussed the Q1 2022 Pension Plan report, stating that the Plan finished FY 2022 with being 86% funded and is currently at 80% due to market fluctuations. A copy of the Pension Plan report is available in the permanent record.</p>	
<p><b>D.</b> Consideration of Approval for Additional Funding of \$21,000,000 for the Harris County Hospital District Pension Plan for Calendar Year 2022</p>		<p><b>Moved by Dr. Ewan Johnson, seconded by Dr. Arthur Bracey, and unanimously accepted that the committee recommends that the Board approve item III.D.</b></p>
<p><b>IV. Executive Session</b></p>	<p>At 9:31 a.m., Mr. Lawrence Finder stated that the Budget &amp; Finance Committee would enter Executive Session as permitted by law under Tex. Gov't Code Ann. §551.085 and Tex. Gov't Code Ann. §551.071.</p>	
<p><b>A.</b> Discussion Regarding Financial Planning Information for Community Health Choice, Inc. and Community Health Choice, Texas, Pursuant to Tex. Gov't Code Ann. §551.085 and Tex. Gov't Code Ann. §551.071.</p>		<p><b>No action taken.</b></p>
<p><b>V. Reconvene</b></p>	<p>At 10:25 a.m., Mr. Lawrence Finder reconvened the meeting; he noted that a quorum was present and stated that no action was taken in Executive Session.</p>	
<p><b>VI. Adjournment</b></p>	<p>Moved by Dr. Ewan Johnson, seconded by Dr. Arthur Bracey, and unanimously approved to adjourn the meeting. There being no further business, the meeting adjourned at 10:25 a.m.</p>	

I certify that the foregoing are the Minutes of the Meeting of the Budget and Finance Committee of the Board of Trustees of the Harris Health System held on May 12, 2022.

Respectfully submitted,

Lawrence Finder, Chair

Recorded by Yasmin Othman

**Thursday, May 12, 2022**

**Harris Health System Board of Trustees Board Meeting – Budget and Finance Committee 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](mailto:BoardofTrustees@harrishealth.org) before close of business the day of the meeting.

BUDGET & FINANCE BOARD MEMBERS PRESENT	BUDGET & FINANCE BOARD MEMBERS ABSENT	OTHER BOARD MEMBERS PRESENT
Lawrence Finder, Chair		Ms. Jennifer Tijerina
Dr. Arthur Bracey (Ex-Officio)		
Dr. Ewan Johnson		
Professor Marcia Johnson		
Ms. Mia Mends		

EXECUTIVE LEADERSHIP
Dr. Esmail Porsa, President & Chief Executive Officer
Ms. Lisa Wright, President & Chief Executive Officer, Community Health Choice
Ms. Amy Smith, Senior Vice President, Transitions & Post-Acute Care
Dr. Ann Barnes, Executive Vice President & Chief Medical Executive
Mr. Anthony Williams, Vice President, Compliance Officer
Ms.Carolynn Jones, Executive Vice President & Chief Compliance and Risk Officer
Mr. David Attard, Senior Vice President, Facilities, Construction and System Engineering
Dr. Glorimar Medina-Rivera, Executive Vice President, Ben Taub Hospital
Mr. Jack Adger, Assistant Purchasing Agent, Harris County Purchasing Office
Dr. Jackie Brock, Executive Vice President & Chief Nursing Executive
Dr. Jennifer Small, Interim Executive Vice President, Ambulatory Care Services
Ms. Kari McMichael, Vice President, Controller
Mr. Louis Smith, Senior Executive Vice President & Chief Operating Officer
Ms. Maria Cowles, Senior Vice President, Chief of Staff
Dr. Matasha Russell, Chief Medical Officer, Ambulatory Care Services
Mr. Michael Nnadi, Senior Vice President & Chief Pharmacy & Lab Officer
Ms. Olga Rodriguez, Vice President, Community Engagement & Corporate Communications
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. Sandeep Markan, Chief of Staff, Ben Taub Hospital
Dr. Steven Brass, Executive Vice President & Chief Medical Executive
Dr. Tien Ko, Chief of Staff, Lyndon B. Johnson Hospital
Ms. Victoria Nikitin, Executive Vice President & Chief Financial Officer

<b>OTHERS PRESENT</b>	
Alison Perez	Nicholas Bell
Cherry Pierson	Paul Lopez
Daniel Smith	Randy Manarang
Ebon Swofford	Sam Karim
Jennifer Zarate	Tai Nguyen
Jerald Summers	Toni Cotton
Karen Quirk	Xylia Rosenzweig
Matthew Schlueter	Yasmin Othman

Thursday, August 11, 2022

Update Regarding Harris Health's Capital Program Overview

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Thursday, August 11, 2022

**Harris Health System Capital Program Overview – Executive Summary**

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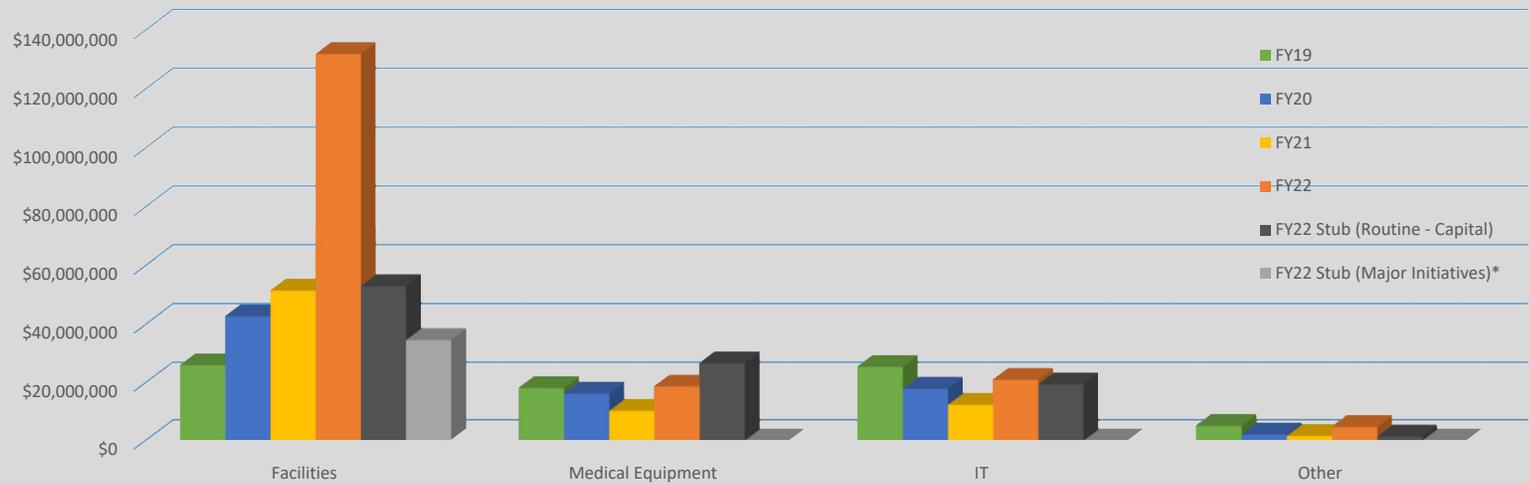
Harris Health System’s fiscal year (FY) 2022 stub year capital budget was approved at \$135,300,000. Consistent with our end of year review in February 2022, all projects submitted for consideration are aligned with the current Organizational Strategic Plan to ensure the program focus supports the Organization’s strategic pillars, goals, key objectives and strategies. The year to date (YTD) capital funding obligations are slightly below the total budgeted amount at \$121,940,000 based on funding commitments and project approvals as of 6/14/2022.

Supply chain constraints continue to create material availability risk and limits cost predictability; human resource capacity (internal and external), and timely issuance of construction permits continue to be factors contributing to delays in project completion. Contractors continue to identify pricing exceptions for project bids because they cannot hold costs or subcontractor labor consistent for more than 30 – 45 days at a time creating cost variability and budget uncertainty for numerous project initiatives. Additionally, contractors are limiting participation in higher risk bid awards that do not provide a higher shared risk, resulting in limited qualified contractors to perform work and lack of competition in bids for cost control. These market dynamics will continue to impact projected budgets and timelines requiring focused prioritization and agility within our program and close alignment with our organizational strategy to ensure resource focus.

The attached charts provide comparative capital allocation for FY 19-22 Stub year for key categories and the current year-to-date (YTD) distribution of capital projects and related costs by strategic goals, capital category, and priority. Asset refresh and modernization for infrastructure, information technology, and medical equipment continues to be a focus for Harris Health as indicated by the funding within Category 1 A/B/C (\$13.9M) and 2A (\$0.2M) projects; category definitions are provided on the associated slides for each commodity noted. This demonstrates application of funding with a strategic, planned approach and improves reliability of our systems. Limited expense within the emergency category supports this statement as well as proactive maintenance strategies to extend and support the health of our equipment and built environment. We continue to invest in our existing locations with modernization and transformation projects to ensure care settings support a safe and modern environment for staff and patients.

As our internal Diversity, Equity and Inclusion (DEI) program develops, data related to HUB/MWBE defined targets for defined capital program participation compliance will be available for future program reporting.

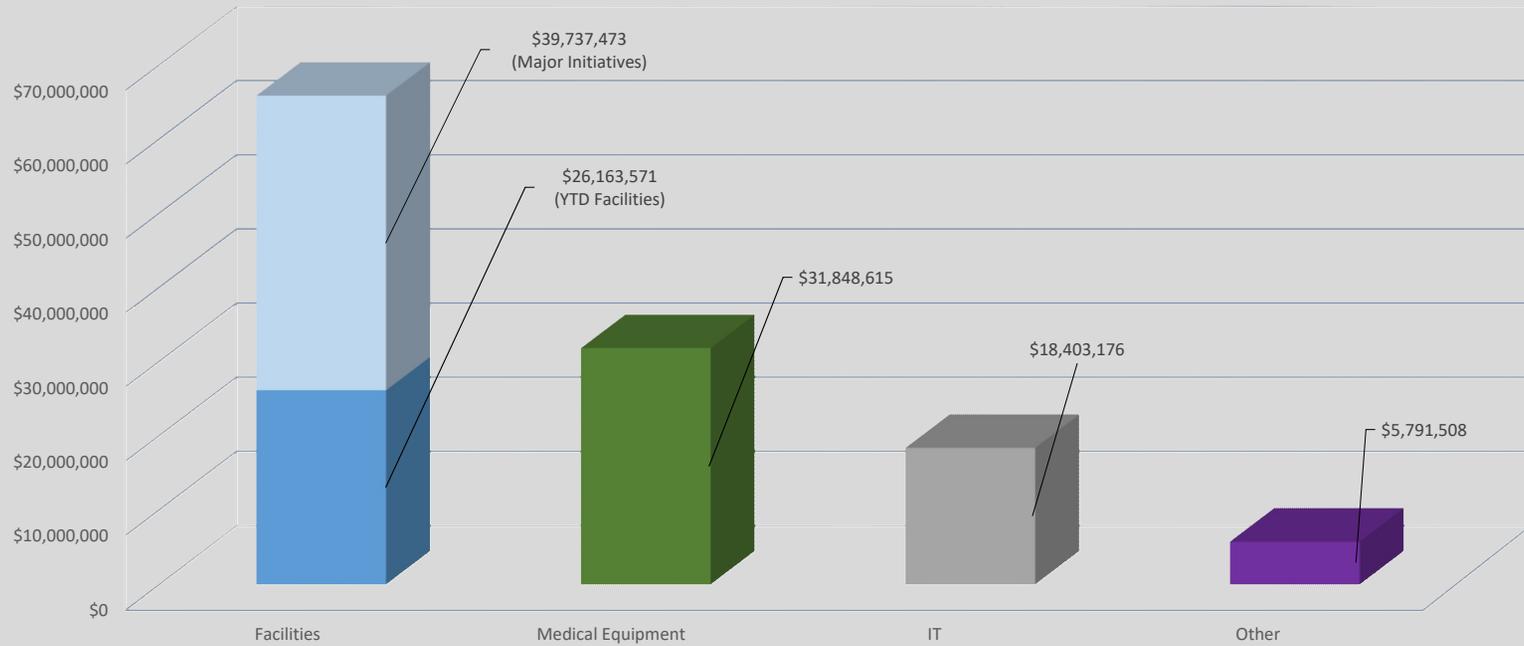
FY19 - FY22 Stub Distribution by Capital Category - Budgeted



	FY19 (\$77.486M)	FY20 (\$81.467M)	FY21 (\$73.8M)	FY22 (\$174.30M)	FY22 Stub (\$100.60M - Routine Capital)	FY22 Stub (\$34.70M - Major Initiatives)*
<b>Facilities</b>	35%	53%	68%	54%	53%	28%
<b>Medical Equipment</b>	24%	21%	13%	19%	27%	0%
<b>IT</b>	34%	23%	17%	22%	19%	0%
<b>Other</b>	7%	3%	2%	5%	1%	0%

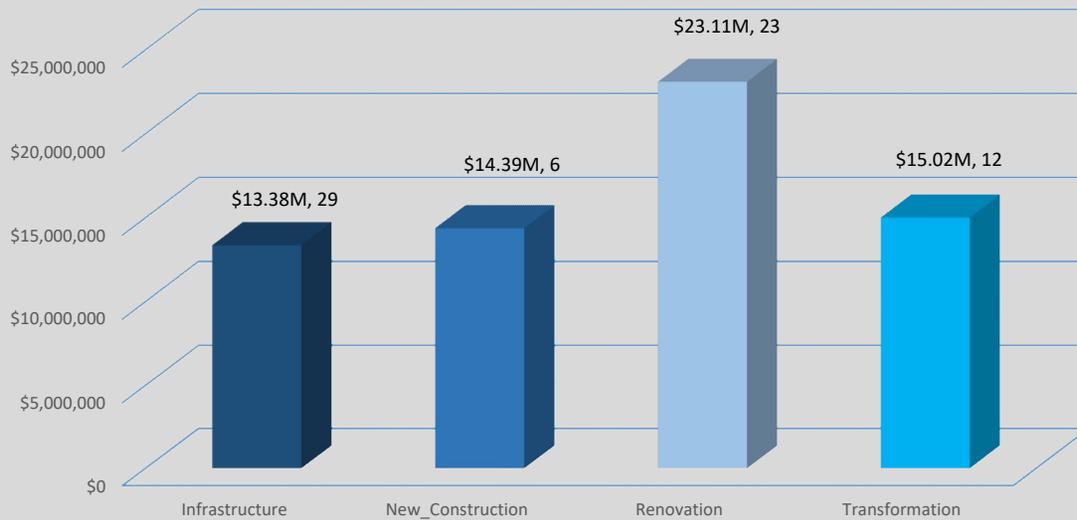
\* FY22 Stub Major Initiatives include: QM Renovation, Casa de Amigos Expansion, LBJ Staff Parking Garage, BT EC Renovation, BT NPC Building 3 &4, LBJ New Hospital

### FY22 Stub YTD Distribution by Capital Category - Actual as 6/14/22



**Total Project Cost = \$121.94M**  
**Total Number of Projects = 326**

**FY22 Stub YTD Distribution - Facilities  
(Project Cost)**



**Total Project Cost = \$65.90M**  
**Total Number of Projects = 70**

**Infrastructure** --- Projects associated with MEP (Mechanical, Electrical, and Plumbing)  
**New Construction** --- Projects that will have an impact on increasing net usable square footage  
**Renovation** --- Refresh/modernization projects  
**Transformation** --- Projects associated with space re-purposing

**Highlighted Projects:**

- Infrastructure
  - BT Replacement Main Air Handling Units – Phase III (\$9.96M)
  - Cleveland ODOM Clinic HVAC Replacement (\$0.65M)
  
- New Construction
  - QM Renovation & QM 5<sup>th</sup> Floor (\$13.59M)
  - LBJ New Hospital (Design/Pre-Construction) (\$3M)
  - Casa de Amigos Expansion (\$1.65M)
  - LBJ Staff Parking Garage (\$1M)
  
- Renovation
  - BT Emergency Center Modernization (\$15M)
  
- Transformation
  - BT NPC Building Level 3 and 4 (\$5.5M)
  - BT Master Plan Phase 3 (\$1.4M)
  - LBJ Master Plan Phase 3 (\$0.6M)

### FY22 Stub YTD Distribution - Infrastructure



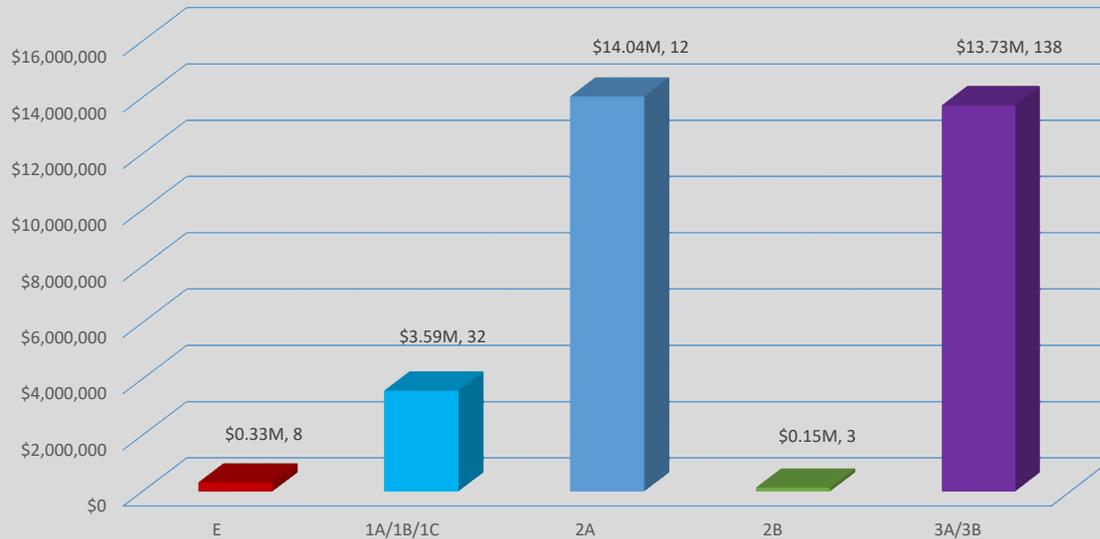
**Total Project Cost = \$13.38M**  
**Total Number of Projects = 29**

<b>E</b> – Emergency	<b>2A</b> – Strategic/Harris Health Initiatives
<b>1A</b> – Regulatory	<b>2B</b> – Pavilion Mission Essentials
<b>1B</b> – Life-Safety/Organic Growth	<b>3A</b> – Refresh/Medium Risk
<b>1C</b> – Non-Support/High Risk/IT Tech Refresh	<b>3B</b> – Pavilion Ranked/Prioritized/Non-Strategic New Request

### Highlighted Projects:

- BT Replacement Main Air Handling Units – Phase 3 (\$9.96M)
- Cleveland ODOM Clinic HVAC Replacement (\$0.65M)
- LBJ Air Handling Unit Refurbishment – Phase 2 (\$0.3M)
- BT Water Softener System (\$0.27M)
- Baytown Electrical Panel Boards (\$0.25M)
- BT IR AHU Modification (\$0.25M)
- BT Hot Water Pumps (\$0.23M)
- LBJ Domestic Water Pumps (\$0.13M)

### FY22 Stub YTD Distribution - Medical Equipment



**Total Project Cost = \$31.85M**  
**Total Number of Projects = 193**

<b>E</b> – Emergency	<b>2A</b> – Strategic/Harris Health Initiatives
<b>1A</b> – Regulatory	<b>2B</b> – Pavilion Mission Essentials
<b>1B</b> – Life-Safety/Organic Growth	<b>3A</b> – Refresh/Medium Risk
<b>1C</b> – Non-Support/High Risk/IT Tech Refresh	<b>3B</b> – Pavilion Ranked/Prioritized/Non-Strategic New Request

### Highlighted Projects:

- Harris Health System Physiological Monitor Upgrade (\$5.4M)
- Harris Health System Ultrasound (\$2.26M)
- LBJ OR Dual Console Robot (\$2.2M)
- BT Mobile Radiology MRI (\$2.0M)
- Harris Health System Infant Incubator (\$1.52M)
- Harris Health System Endoscope Project (\$1.2M)
- Harris Health System Infant Warmers (\$0.90M)
- LBJ GI Lab Radiographic/Fluoroscopic and Bronchoscopy System(\$0.84M)
- Harris Health System Med/Surg Beds (\$0.83M)
- Harris Health System Stretchers (\$0.60M)

### FY22 Stub YTD Distribution - IT



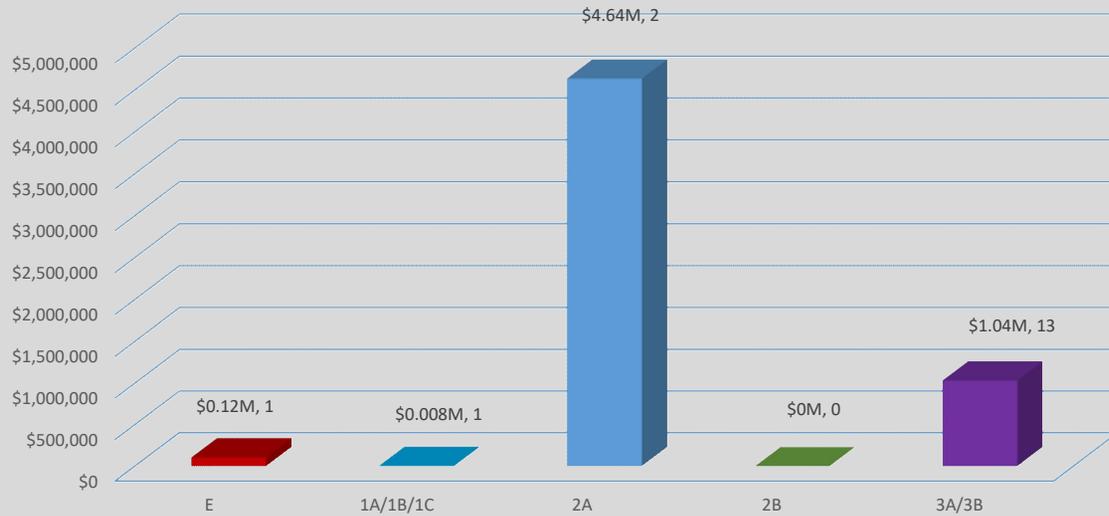
**Total Project Cost = \$31.85M**  
**Total Number of Projects = 193**

<b>E</b> – Emergency	<b>2A</b> – Strategic/Harris Health Initiatives
<b>1A</b> – Regulatory	<b>2B</b> – Pavilion Mission Essentials
<b>1B</b> – Life-Safety/Organic Growth	<b>3A</b> – Refresh/Medium Risk
<b>1C</b> – Non-Support/High Risk/IT Tech Refresh	<b>3B</b> – Pavilion Ranked/Prioritized/Non-Strategic New Request

### Highlighted Projects:

- IT Microsoft Office 365 (\$4.3M)
- IT Workstation-on-Wheel Technology Refresh (\$1.84M)
- IT Epic Lumens (\$1.5M)
- IT LBJ Hospital Network Technology Refresh (\$1.14M)
- IT Wireless Access Point Technology Refresh Phase II (LBJ) (\$1.01M)
- IT Virtual Care Deployment (\$0.71M)
- IT High Performance Storage for Expanding VDI Environment (\$0.66M)
- IT LBJ OPC Network Tech Refresh (\$0.63M)
- IT UCS M4 Server refresh and Consolidation (\$0.59M)
- IT VMWARE Hosts for Harris Health Projects (\$0.57M)
- IT Oracle Database Testing Software (\$0.57M)

### FY22 Stub YTD Distribution - Other



**Total Project Cost = \$5.79M**  
**Total Number of Projects = 17**

- |   |   |
|---|---|
| <b>1A</b> – Regulatory                            | <b>2B</b> – Pavilion Mission Essentials                           |
| <b>1B</b> – Life-Safety/Organic Growth            | <b>3A</b> – Refresh/Medium Risk                                   |
| <b>1C</b> – Non-Support/High Risk/IT Tech Refresh | <b>3B</b> – Pavilion Ranked/Prioritized/Non-Strategic New Request |
| <b>2A</b> – Strategic/Harris Health Initiatives   | <b>E</b> – Emergency  |

### Highlighted Projects:

- Capital Leases – Facilities (\$3.84M)
- Capital Leases – Equipment (\$0.80M)
- HHS System Wide Replacement of Analog CCTV System with IP Based Technology, Phase 1 (\$0.34M)
- HHS System Wide Replacement of Axis Camera System, Phase 1 (\$0.16M)
- BT Heated Food Carts (\$0.13M)
- Admin-Fournace NVR System Replacement, Phase 1 (\$0.12M)
- HHS System Wide Replacement of ACMS ISTART Access Control Panels, Phase 1 (\$0.10M)

Thursday, August 11, 2022

**Consideration of Approval to Amend the Lease with  
Petereit Investments for the Squatty Lyons Health Center located at  
1712 First Street, Humble, Texas 77338**

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Administration recommends Board of Trustees approve an amendment to extend the lease with Petereit Investments for 5-years from October 1, 2022 through September 30, 2027 for the Squatty Lyons Health Center with an initial annual rate of \$289,408.00. This rate includes a current estimate of operating expenses as detailed on the attached Fact Sheet.

Thank you.

BOARD OF TRUSTEES  
 Squatty Lyons Health Center  
 Petereit Investments  
 August 11, 2022  
 Page 2

**Fact Sheet**

**Purpose of Lease:** Medical Clinic  
**Lessor:** Petereit Investments  
**Lessee:** Harris Health System  
**Location of Lease Space:** 1712 First Street  
 Humble, Texas 77338  
**Precinct:** Precinct 4  
**Lease Space:** 15,232 square feet

Lease Year	Monthly Base Rent	*Est. Monthly Operating Expenses	Est. Annual Rent Payment	Est. Annual Lease Rate/SF
10/01/2022-09/30/2023	\$19,040.00	\$5,077.33	\$289,408.00	\$19.00
10/01/2023-09/30/2024	\$19,611.20	\$5,229.65	\$298,090.24	\$19.57
10/01/2024-09/30/2025	\$20,199.54	\$5,386.54	\$307,032.95	\$20.16
10/01/2025-09/30/2026	\$20,805.52	\$5,548.14	\$316,243.94	\$20.76
10/01/2026-09/30/2027	\$21,429.69	\$5,714.58	\$325,731.25	\$21.38

**Termination Option:** If the Board of Trustees for Tenant or the Harris County Commissioners Court determines, in their sole discretion, not to approve additional funding for Tenant’s obligations under this Lease for the upcoming lease year (as documented in writing and delivered to Landlord along with termination notice) (“Required Funding Approval”), then Tenant will have the right to terminate the Lease by providing Landlord no less than four (4) months prior notice. There shall be no termination fee for Tenant’s exercise of this right.

Thursday, August 11, 2022

**Consideration of Acceptance of the Harris Health System May 2022  
Quarterly Financial Report Subject to Audit**

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Attached for your review and consideration is the May 2022 Financial Report for the quarter and three months fiscal year-to-date ended May 31, 2022.

Administration recommends that the Board accept the financial report for the period ended May 31, 2022, subject to final audit.



# Financial Statements

As of the Quarter Ended May 31, 2022



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# Financial Highlights Review

As of the Quarter Ended May 31, 2022

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Operating loss for the quarter ended May 31, 2022 was \$225.1 million compared to budgeted income of \$3.3 million.

Total quarterly net revenue of \$324.0 million was \$234.8 million or 42.0% less than budget. Net patient revenue was \$21.8 million less than planned primarily due to patient volumes being lower than budget and HRSA ending the COVID-19 Uninsured Program in March. Ad valorem tax revenue was \$205.9 million less than budget due to the change in the accounting practice (revenue recognition) related to the fiscal year transition by Harris County and Harris Health System. This transition is required to align the related tax rate approval process in September—October 2022 with the new fiscal year October 2022—September 2023. Because the 2022 tax levy is deemed to cover the new fiscal year above, no ad valorem tax revenue will be recognized during the stub period of March 2022 to September 2022. The change in the accounting practice does not impact the System's ad valorem cash collections practice, which remains unchanged. Detailed discussion of the accounting change adopted by Harris County and Harris Health System was provided by the System's external auditor, BKD CPAs and Advisors, at the May 2022 meeting of the Compliance and Audit Committee.

Total quarterly expenses of \$549.1 million were \$6.4 million or 1.2% less than budget. Contract labor continues to be heavily utilized by nursing to combat the turnover and labor shortages.

For the first quarter, total patient days and average daily census increased 0.4% compared to budget. Inpatient case mix index, a measure of patient acuity, was 5.4% lower; similarly, length of stay was 7.6% lower than budget. Emergency room visits were 0.7% lower than planned for the quarter and year-to-date. Total clinic visits, including telehealth, were 11.5% lower compared to budget; however, births were up 20.0%.

Total cash receipts for the quarter were \$635.1 million. The System has \$1,312.1 million in unrestricted cash, cash equivalents and investments, representing 227.1 days cash on hand. Harris Health System has \$121.5 million in net accounts receivable, representing 64.7 days of outstanding patient accounts receivable at May 31, 2022. The May balance sheet reflects a combined net liability position of \$35.2 million under the various Medicaid Supplemental programs.

The quarterly expenses incurred by Harris Health for Foundation personnel and other costs were \$157,000.

# Income Statement

As of the Quarter Ended May 31, 2022 (In \$ Millions)

	QUARTER-TO-DATE			YEAR-TO-DATE				
	CURRENT YEAR	CURRENT BUDGET	PERCENT VARIANCE	CURRENT YEAR	CURRENT BUDGET	PERCENT VARIANCE	PRIOR YEAR	PERCENT VARIANCE
<b>REVENUE</b>								
Net Patient Revenue	\$ 172.7	\$ 194.5	-11.2%	\$ 172.7	\$ 194.5	-11.2%	\$ 189.1	-8.7%
Medicaid Supplemental Programs	103.6	113.1	-8.3%	103.6	113.1	-8.3%	110.2	-6.0%
Other Operating Revenue	29.0	32.1	-9.6%	29.0	32.1	-9.6%	12.3	136.4%
<b>Total Operating Revenue</b>	<b>\$ 305.3</b>	<b>\$ 339.7</b>	<b>-10.1%</b>	<b>\$ 305.3</b>	<b>\$ 339.7</b>	<b>-10.1%</b>	<b>\$ 311.6</b>	<b>-2.0%</b>
Net Ad Valorem Taxes	(0.5)	205.4	-100.2%	(0.5)	205.4	-100.2%	197.6	-100.3%
Net Tobacco Settlement Revenue	16.7	13.3	26.2%	16.7	13.3	26.2%	13.3	26.2%
Capital Gifts & Grants	-	-	0.0%	-	-	0.0%	-	0.0%
Interest Income & Other	2.4	0.5	432.8%	2.4	0.5	432.8%	0.6	308.5%
<b>Total Nonoperating Revenue</b>	<b>\$ 18.7</b>	<b>\$ 219.2</b>	<b>-91.5%</b>	<b>\$ 18.7</b>	<b>\$ 219.2</b>	<b>-91.5%</b>	<b>\$ 211.4</b>	<b>-91.2%</b>
<b>Total Net Revenue</b>	<b>\$ 324.0</b>	<b>\$ 558.8</b>	<b>-42.0%</b>	<b>\$ 324.0</b>	<b>\$ 558.8</b>	<b>-42.0%</b>	<b>\$ 523.0</b>	<b>-38.1%</b>
<b>EXPENSE</b>								
Salaries and Wages	\$ 220.7	\$ 217.5	-1.5%	\$ 220.7	\$ 217.5	-1.5%	\$ 173.9	-26.9%
Employee Benefits	66.3	71.1	6.8%	66.3	71.1	6.8%	64.5	-2.8%
<b>Total Labor Cost</b>	<b>\$ 286.9</b>	<b>\$ 288.6</b>	<b>0.6%</b>	<b>\$ 286.9</b>	<b>\$ 288.6</b>	<b>0.6%</b>	<b>\$ 238.4</b>	<b>-20.4%</b>
Supply Expenses	68.5	74.1	7.6%	68.5	74.1	7.6%	62.3	-9.9%
Physician Services	107.0	98.4	-8.7%	107.0	98.4	-8.7%	93.4	-14.6%
Purchased Services	65.7	73.6	10.8%	65.7	73.6	10.8%	68.8	4.5%
Depreciation & Interest	20.9	20.7	-0.8%	20.9	20.7	-0.8%	17.3	-20.7%
<b>Total Operating Expense</b>	<b>\$ 549.1</b>	<b>\$ 555.5</b>	<b>1.2%</b>	<b>\$ 549.1</b>	<b>\$ 555.5</b>	<b>1.2%</b>	<b>\$ 480.2</b>	<b>-14.3%</b>
<b>Operating Income (Loss)</b>	<b>\$ (225.1)</b>	<b>\$ 3.3</b>		<b>\$ (225.1)</b>	<b>\$ 3.3</b>		<b>\$ 42.8</b>	
<b>Total Margin %</b>	<b>-69.5%</b>	<b>0.6%</b>		<b>-69.5%</b>	<b>0.6%</b>		<b>8.2%</b>	

# Balance Sheet

As of May 31, 2022 and 2021 (In \$ Millions)

	CURRENT YEAR	PRIOR YEAR
<b><u>CURRENT ASSETS</u></b>		
Cash, Cash Equivalents and Short Term Investments	\$ 1,312.1	\$ 1,067.5
Net Patient Accounts Receivable	121.5	118.6
Net Ad Valorem Taxes, Current Portion	4.2	190.4
Other Current Assets	116.7	187.3
<b>Total Current Assets</b>	<b>\$ 1,554.5</b>	<b>\$ 1,563.8</b>
<b><u>CAPITAL ASSETS</u></b>		
Plant, Property, & Equipment, Net of Accumulated Depreciation	\$ 429.5	\$ 444.1
Construction in Progress	132.4	83.6
Right of Use Assets	46.1	-
<b>Total Capital Assets</b>	<b>\$ 608.0</b>	<b>\$ 527.8</b>
<b><u>ASSETS LIMITED AS TO USE &amp; RESTRICTED ASSETS</u></b>		
Debt Service & Capital Asset Funds	\$ 46.2	\$ 53.2
LPPF Restricted Cash	14.6	274.2
Capital Gift Proceeds	45.0	-
Other - Restricted	1.3	0.9
<b>Total Assets Limited As to Use &amp; Restricted Assets</b>	<b>\$ 107.1</b>	<b>\$ 328.3</b>
Other Assets	20.5	15.6
Deferred Outflows of Resources	152.7	179.3
<b>Total Assets &amp; Deferred Outflows of Resources</b>	<b>\$ 2,442.7</b>	<b>\$ 2,614.7</b>
<b><u>CURRENT LIABILITIES</u></b>		
Accounts Payable and Accrued Liabilities	\$ 242.1	\$ 452.4
Employee Compensation & Related Liabilities	114.6	103.5
Estimated Third-Party Payor Settlements	13.5	8.6
Current Portion Long-Term Debt and Capital Leases	20.0	12.0
<b>Total Current Liabilities</b>	<b>\$ 390.3</b>	<b>\$ 576.5</b>
Long-Term Debt	334.5	308.1
Net Pension & Post Employment Benefits Liability	598.4	735.5
Other Long-Term Liabilities	18.0	24.6
Deferred Inflows of Resources	218.7	112.4
<b>Total Liabilities</b>	<b>\$ 1,559.9</b>	<b>\$ 1,757.1</b>
<b>Total Net Assets</b>	<b>\$ 882.9</b>	<b>\$ 857.6</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 2,442.7</b>	<b>\$ 2,614.7</b>

# Cash Flow Summary



As of the Quarter Ended May 31, 2022 (In \$ Millions)

	QUARTER-TO-DATE		YEAR-TO-DATE	
	CURRENT YEAR	PRIOR YEAR	CURRENT YEAR	PRIOR YEAR
<b>CASH RECEIPTS</b>				
Collections on Patient Accounts	\$ 162.0	\$ 179.4	\$ 162.0	\$ 179.4
Medicaid Supplemental Programs	381.7	213.9	381.7	213.9
Net Ad Valorem Taxes	23.0	43.8	23.0	43.8
Tobacco Settlement	16.7	13.3	16.7	13.3
Other Revenue	51.6	22.1	51.6	22.1
<b>Total Cash Receipts</b>	<b>\$ 635.1</b>	<b>\$ 472.5</b>	<b>\$ 635.1</b>	<b>\$ 472.5</b>
<b>CASH DISBURSEMENTS</b>				
Salaries, Wages and Benefits	\$ 315.2	\$ 259.1	\$ 315.2	\$ 259.1
Supplies	68.0	68.0	68.0	68.0
Physician Services	96.4	90.9	96.4	90.9
Purchased Services	56.5	60.2	56.5	60.2
Capital Expenditures	30.5	21.4	30.5	21.4
Debt and Interest Payments	0.9	0.9	0.9	0.9
Other Uses	(11.6)	(4.9)	(11.6)	(4.9)
<b>Total Cash Disbursements</b>	<b>\$ 555.8</b>	<b>\$ 495.7</b>	<b>\$ 555.8</b>	<b>\$ 495.7</b>
<b>Net Change</b>	<b>\$ 79.2</b>	<b>\$ (23.1)</b>	<b>\$ 79.2</b>	<b>\$ (23.1)</b>

Unrestricted Cash, Cash Equivalents and Investments - February 28, 2022

\$ 1,232.9

Net Change

79.2

**Unrestricted Cash, Cash Equivalents and Investments - May 31, 2022**

**\$ 1,312.1**

# Performance Ratios

As of the Quarter Ended May 31, 2022

	QUARTER-TO-DATE		YEAR-TO-DATE		
	CURRENT YEAR	CURRENT BUDGET	CURRENT YEAR	CURRENT BUDGET	PRIOR YEAR
<b><u>OPERATING HEALTH INDICATORS</u></b>					
Operating Margin %	-69.5%	0.6%	-69.5%	0.6%	8.2%
Run Rate per Day (In\$ Millions)	\$ 5.8	\$ 5.8	\$ 5.8	\$ 5.8	\$ 5.1
Salary, Wages & Benefit per APD	\$ 2,520	\$ 2,409	\$ 2,520	\$ 2,409	\$ 2,149
Supply Cost per APD	\$ 602	\$ 619	\$ 602	\$ 619	\$ 562
Physician Services per APD	\$ 940	\$ 822	\$ 940	\$ 822	\$ 842
<b>Total Expense per APD</b>	<b>\$ 4,823</b>	<b>\$ 4,637</b>	<b>\$ 4,823</b>	<b>\$ 4,637</b>	<b>\$ 4,329</b>
Overtime as a % of Total Salaries	3.4%	3.0%	3.4%	3.0%	3.2%
Contract as a % of Total Salaries	9.8%	5.3%	9.8%	5.3%	2.7%
Full-time Equivalent Employees	9,710	9,995	9,710	9,995	8,744
<b><u>FINANCIAL HEALTH INDICATORS</u></b>					
Quick Ratio			3.9		2.7
Unrestricted Cash (In \$ Millions)			\$ 1,312.1	\$ 913.4	\$ 1,067.5
Days Cash on Hand			227.1	156.4	210.7
Days Revenue in Accounts Receivable			64.7	51.3	57.7
Days in Accounts Payable			45.6		37.6
Capital Expenditures/Depreciation & Amortization			168.9%		146.6%
Average Age of Plant (years)			11.2		12.9

# Harris Health System Key Indicators



# Statistical Highlights

As of the Quarter Ended May 31, 2022

	QUARTER-TO-DATE			YEAR-TO-DATE				
	CURRENT YEAR	CURRENT BUDGET	PERCENT CHANGE	CURRENT YEAR	CURRENT BUDGET	PERCENT CHANGE	PRIOR YEAR	PERCENT CHANGE
Adjusted Patient Days	113,849	119,790	-5.0%	113,849	119,790	-5.0%	110,930	2.6%
Outpatient % of Adjusted Volume	63.2%	63.6%	-0.6%	63.2%	63.6%	-0.6%	63.1%	0.2%
Primary Care Clinic Visits	127,973	132,309	-3.3%	127,973	132,309	-3.3%	89,392	43.2%
Specialty Clinic Visits	61,780	65,996	-6.4%	61,780	65,996	-6.4%	56,165	10.0%
Telehealth Clinic Visits	36,535	57,349	-36.3%	36,535	57,349	-36.3%	87,989	-58.5%
<b>Total Clinic Visits</b>	<b>226,288</b>	<b>255,654</b>	<b>-11.5%</b>	<b>226,288</b>	<b>255,654</b>	<b>-11.5%</b>	<b>233,546</b>	<b>-3.1%</b>
Emergency Room Visits - Outpatient	33,053	33,368	-0.9%	33,053	33,368	-0.9%	32,440	1.9%
Emergency Room Visits - Admitted	4,713	4,647	1.4%	4,713	4,647	1.4%	4,649	1.4%
<b>Total Emergency Room Visits</b>	<b>37,766</b>	<b>38,015</b>	<b>-0.7%</b>	<b>37,766</b>	<b>38,015</b>	<b>-0.7%</b>	<b>37,089</b>	<b>1.8%</b>
Surgery Cases - Outpatient	2,828	3,187	-11.3%	2,828	3,187	-11.3%	2,482	13.9%
Surgery Cases - Inpatient	2,338	2,395	-2.4%	2,338	2,395	-2.4%	2,208	5.9%
<b>Total Surgery Cases</b>	<b>5,166</b>	<b>5,582</b>	<b>-7.5%</b>	<b>5,166</b>	<b>5,582</b>	<b>-7.5%</b>	<b>4,690</b>	<b>10.1%</b>
<b>Total Outpatient Visits</b>	<b>377,571</b>	<b>461,301</b>	<b>-18.2%</b>	<b>377,571</b>	<b>461,301</b>	<b>-18.2%</b>	<b>484,018</b>	<b>-22.0%</b>
Inpatient Cases (Discharges)	7,361	7,077	4.0%	7,361	7,077	4.0%	6,814	8.0%
Outpatient Observation Cases	3,628	3,306	9.7%	3,628	3,306	9.7%	3,642	-0.4%
<b>Total Cases Occupying Patient Beds</b>	<b>10,989</b>	<b>10,383</b>	<b>5.8%</b>	<b>10,989</b>	<b>10,383</b>	<b>5.8%</b>	<b>10,456</b>	<b>5.1%</b>
Births	1,228	1,023	20.0%	1,228	1,023	20.0%	1,026	19.7%
Inpatient Days	41,903	43,602	-3.9%	41,903	43,602	-3.9%	40,981	2.2%
Outpatient Observation Days	11,481	9,576	19.9%	11,481	9,576	19.9%	10,611	8.2%
<b>Total Patient Days</b>	<b>53,384</b>	<b>53,178</b>	<b>0.4%</b>	<b>53,384</b>	<b>53,178</b>	<b>0.4%</b>	<b>51,592</b>	<b>3.5%</b>
Average Daily Census	580.3	578.0	0.4%	580.3	578.0	0.4%	560.8	3.5%
Average Operating Beds	698	689	1.3%	698	689	1.3%	665	5.0%
Bed Occupancy %	83.1%	83.9%	-0.9%	83.1%	83.9%	-0.9%	84.3%	-1.4%
Inpatient Average Length of Stay	5.69	6.16	-7.6%	5.69	6.16	-7.6%	6.01	-5.3%
Inpatient Case Mix Index (CMI)	1.701	1.799	-5.4%	1.701	1.799	-5.4%	1.775	-4.2%
<b>Payor Mix (% of Charges)</b>								
Charity & Self Pay	47.6%	47.8%	-0.4%	47.6%	47.8%	-0.4%	48.5%	-1.9%
Medicaid & Medicaid Managed	21.8%	20.5%	6.4%	21.8%	20.5%	6.4%	21.1%	3.5%
Medicare & Medicare Managed	10.6%	12.4%	-14.5%	10.6%	12.4%	-14.5%	12.3%	-14.1%
Commercial & Other	20.0%	19.2%	4.1%	20.0%	19.2%	4.1%	18.1%	10.7%
<b>Total Unduplicated Patients - Rolling 12</b>				<b>251,972</b>			<b>250,119</b>	<b>0.7%</b>
<b>Total New Patient - Rolling 12</b>				<b>83,303</b>			<b>73,286</b>	<b>13.7%</b>

# Harris Health System

## Statistical Highlights

As of the Quarter Ended May 31, 2022

### Cases Occupying Beds - Q1

Actual	Budget	Prior Year
10,989	10,383	10,456

### Cases Occupying Beds - YTD

Actual	Budget	Prior Year
10,989	10,383	10,456

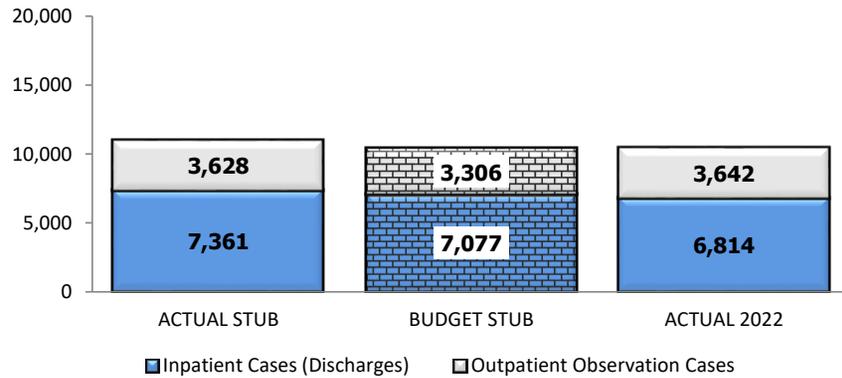
### Emergency Visits - Q1

Actual	Budget	Prior Year
37,766	38,015	37,089

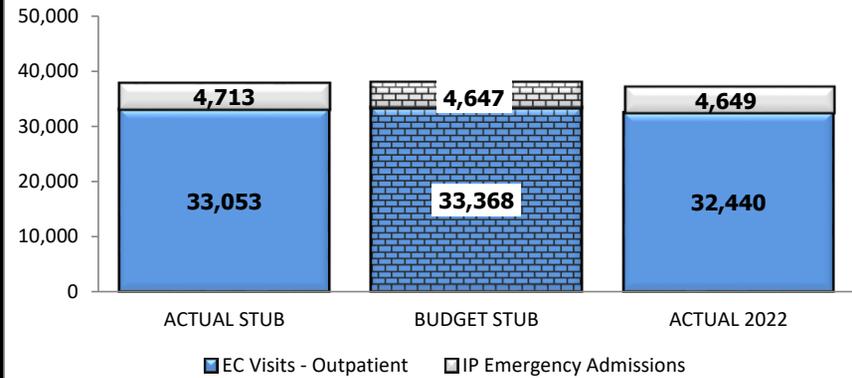
### Emergency Visits - YTD

Actual	Budget	Prior Year
37,766	38,015	37,089

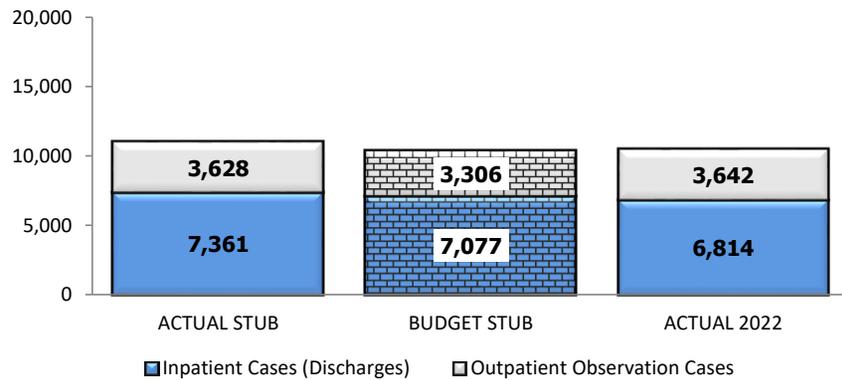
### Cases Occupying Beds - Quarter End



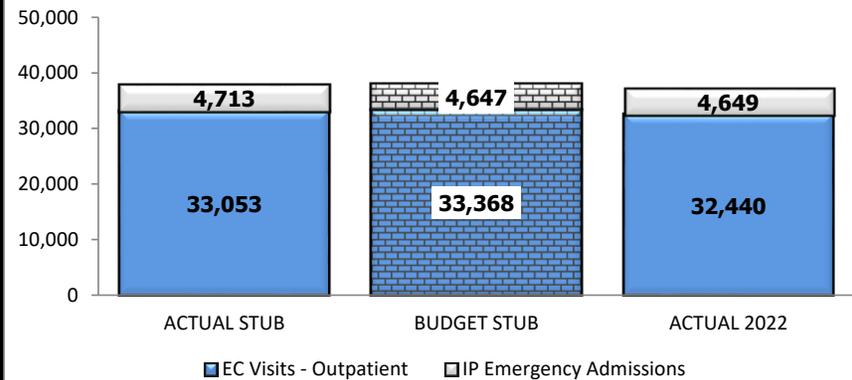
### Emergency Visits - Quarter End



### Cases Occupying Beds - YTD



### Emergency Visits - YTD



# Harris Health System

## Statistical Highlights

As of the Quarter Ended May 31, 2022

### Surgery Cases - Q1

Actual	Budget	Prior Year
5,166	5,582	4,690

### Surgery Cases - YTD

Actual	Budget	Prior Year
5,166	5,582	4,690

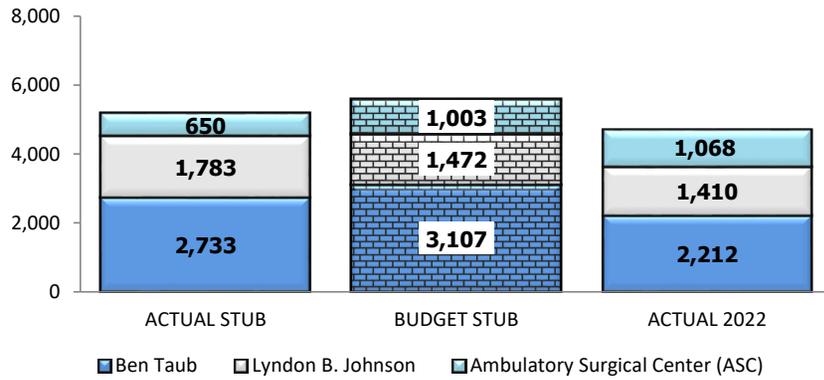
### Clinic Visits - Q1

Actual	Budget	Prior Year
226,288	255,654	233,546

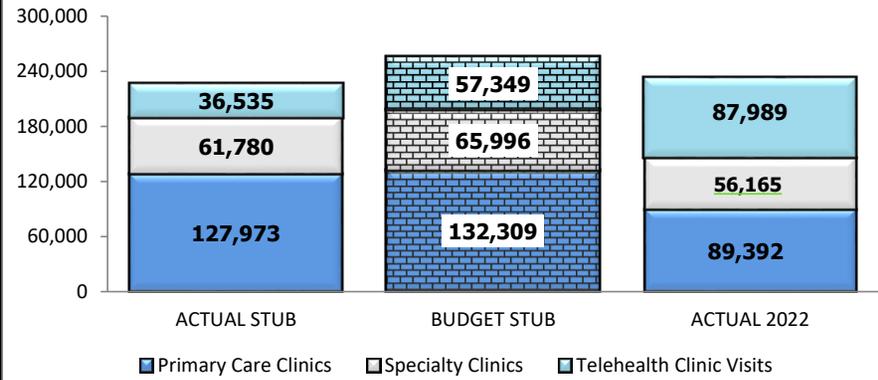
### Clinic Visits - YTD

Actual	Budget	Prior Year
226,288	255,654	233,546

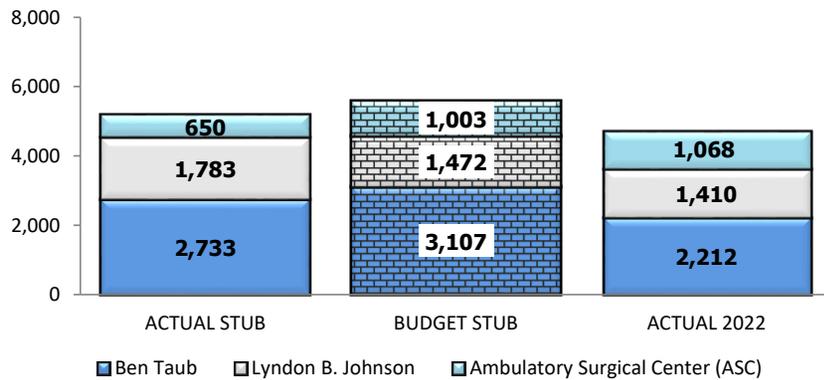
### Surgery Cases - Quarter End



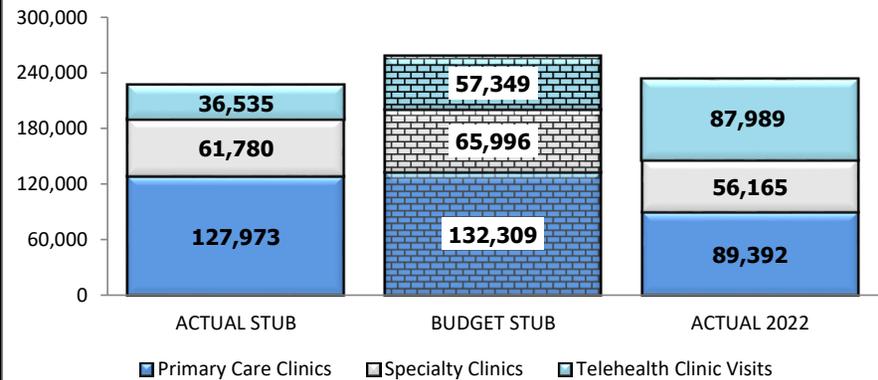
### Clinic Visits - Quarter End



### Surgery Cases - YTD



### Clinic Visits - YTD



# Harris Health System

## Statistical Highlights

As of the Quarter Ended May 31, 2022

### Adjusted Patient Days - Q1

113,849

### Adjusted Patient Days - YTD

113,849

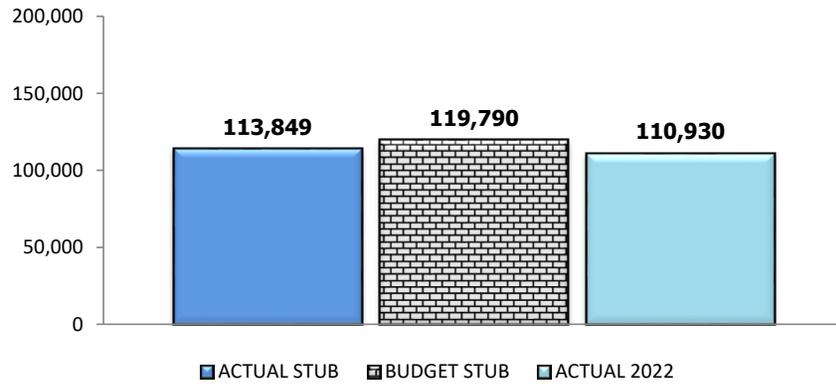
### Average Daily Census - Q1

580.3

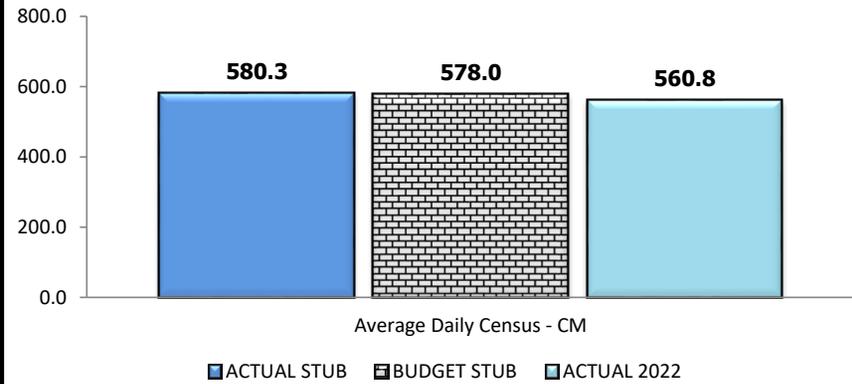
### Average Daily Census - YTD

580.3

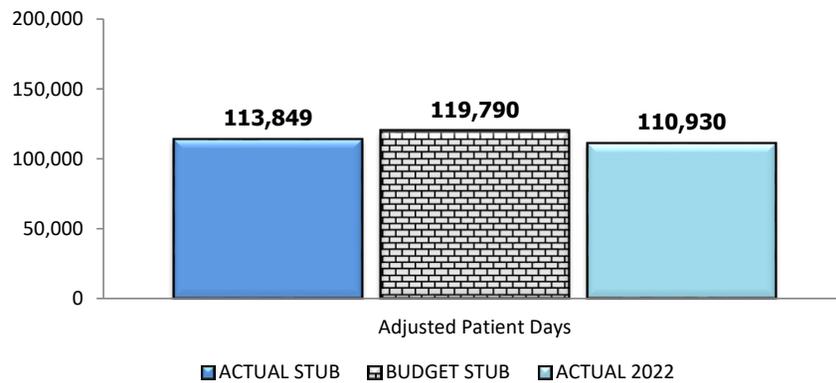
### Adjusted Patient Days - Quarter End



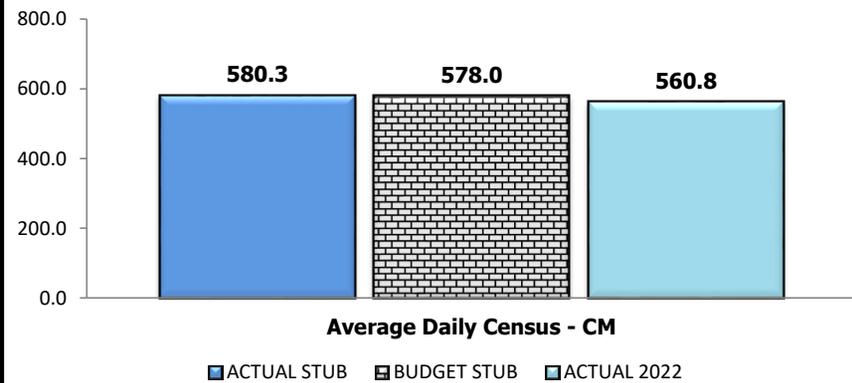
### Average Daily Census - Quarter End



### Adjusted Patient Days - YTD



### Average Daily Census - YTD



# Harris Health System

## Statistical Highlights

As of the Quarter Ended May 31, 2022

### Inpatient ALOS - Q1

5.69

### Inpatient ALOS - YTD

5.69

### Case Mix Index - Q1

Overall  
1.701

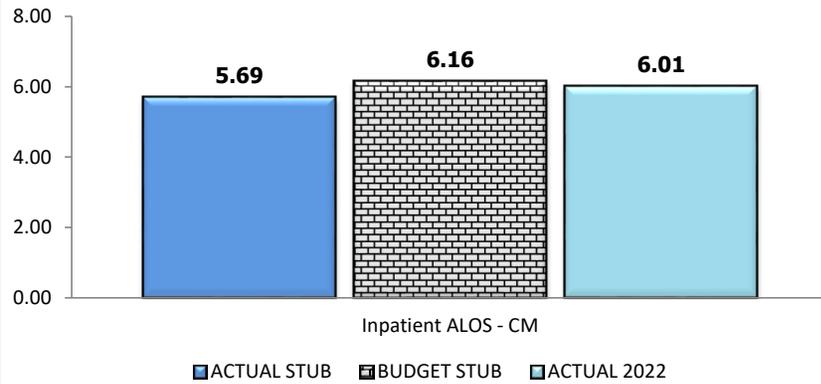
Excl. Obstetrics  
1.863

### Case Mix Index (CMI) - YTD

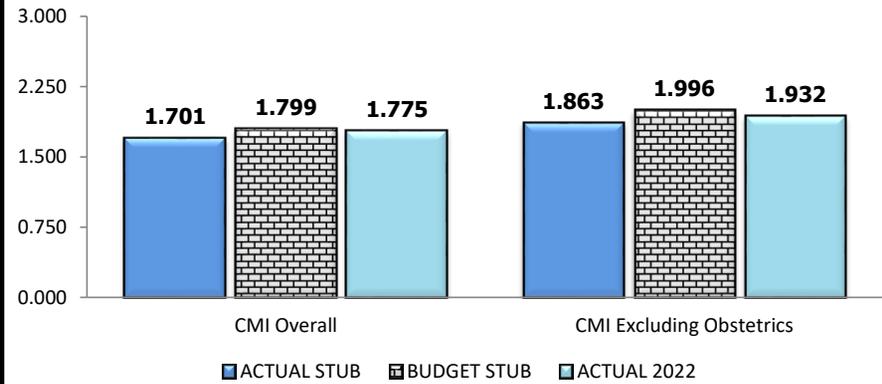
Overall  
1.701

Excl. Obstetrics  
1.863

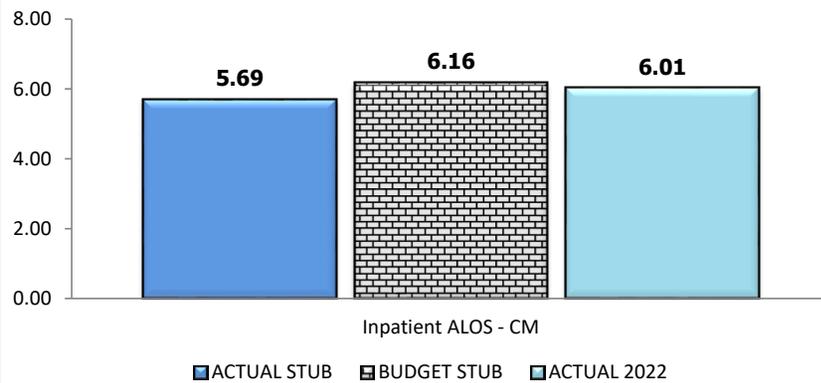
### Inpatient ALOS - Quarter End



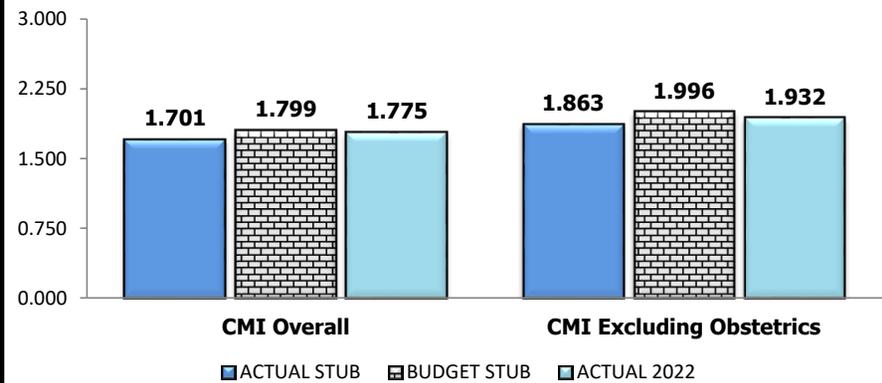
### Case Mix Index - Quarter End



### Inpatient ALOS - YTD



### Case Mix Index - YTD



# Harris Health System

## Statistical Highlights - Cases Occupying Beds

As of the Quarter Ended May 31, 2022

### BT Cases Occupying Beds - Q1

Actual	Budget	Prior Year
6,481	6,284	6,386

### BT Cases Occupying Beds - YTD

Actual	Budget	Prior Year
6,481	6,284	6,386

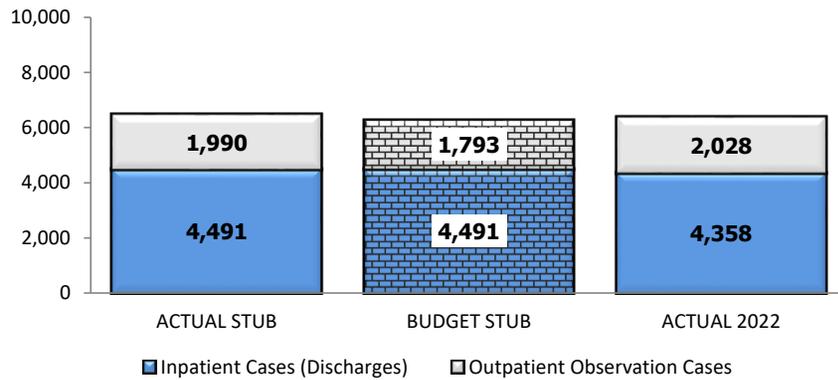
### LBJ Cases Occupying Beds - Q1

Actual	Budget	Prior Year
4,508	4,099	4,070

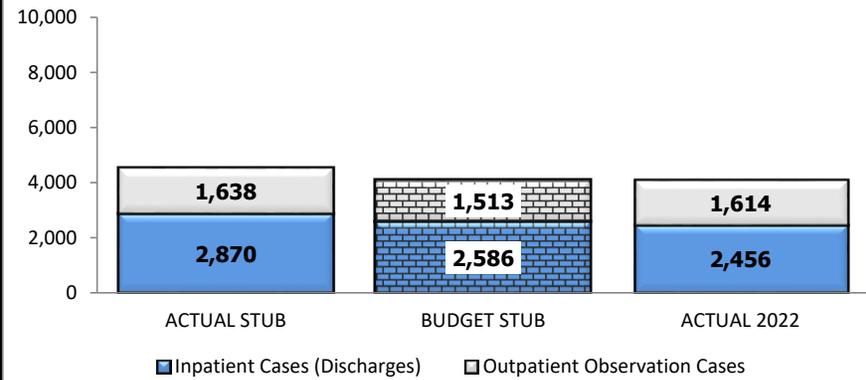
### LBJ Cases Occupying Beds - YTD

Actual	Budget	Prior Year
4,508	4,099	4,070

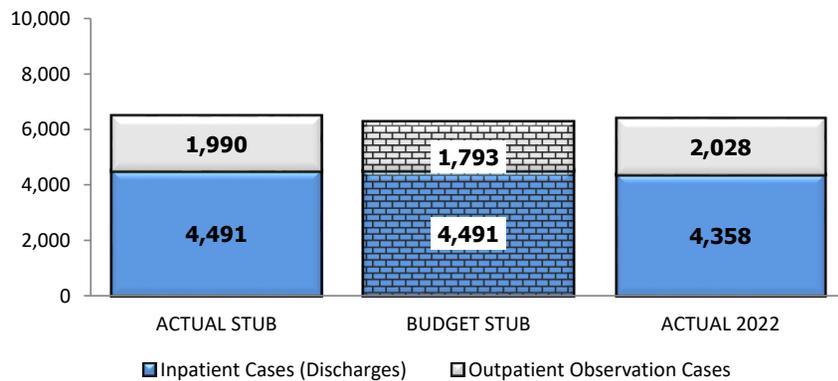
### Ben Taub Cases - Quarter End



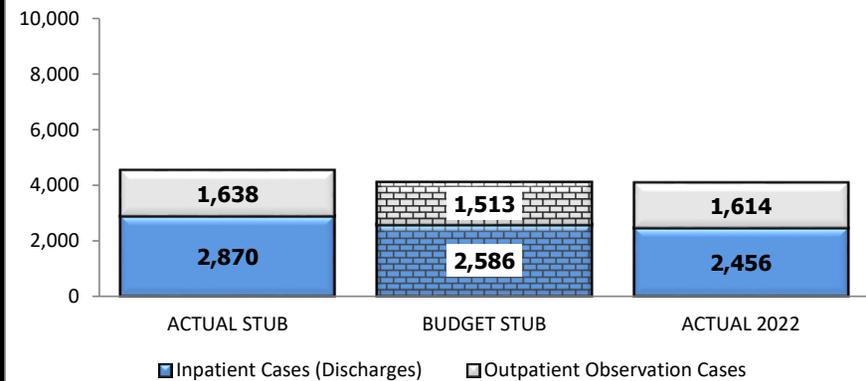
### Lyndon B. Johnson Cases - Quarter End



### Ben Taub Cases - YTD



### Lyndon B. Johnson Cases - YTD



# Harris Health System

## Statistical Highlights - Surgery Cases

As of the Quarter Ended May 31, 2022

### BT Surgery Cases - Q1

Actual	Budget	Prior Year
2,733	3,107	2,212

### BT Surgery Cases - YTD

Actual	Budget	Prior Year
2,733	3,107	2,212

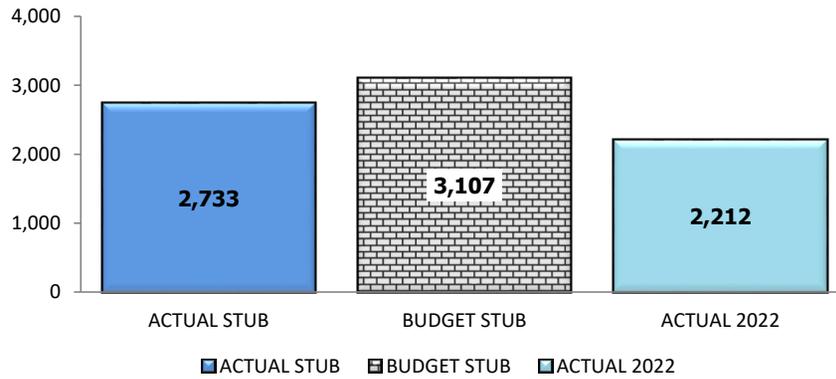
### LBJ Surgery Cases - Q1

Actual	Budget	Prior Year
2,433	2,475	2,478

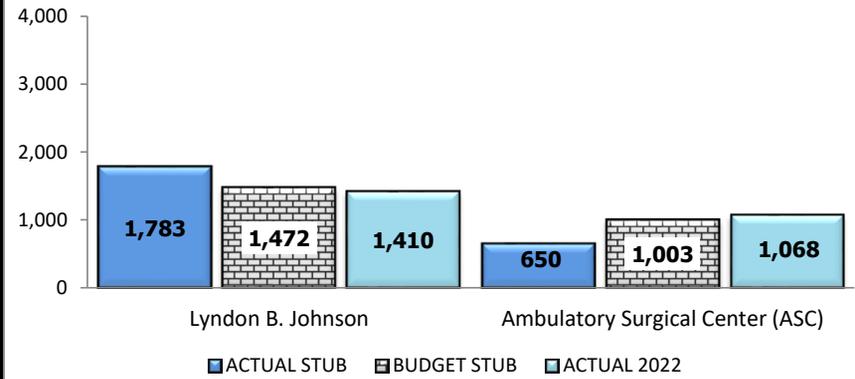
### LBJ Surgery Cases - YTD

Actual	Budget	Prior Year
2,433	2,475	2,478

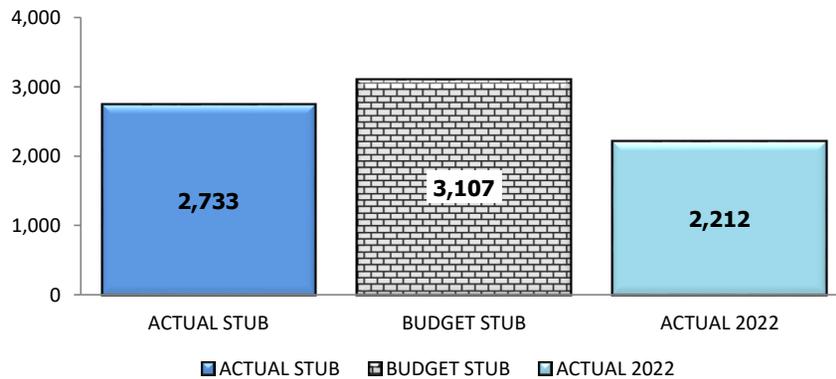
### Ben Taub OR Cases - Quarter End



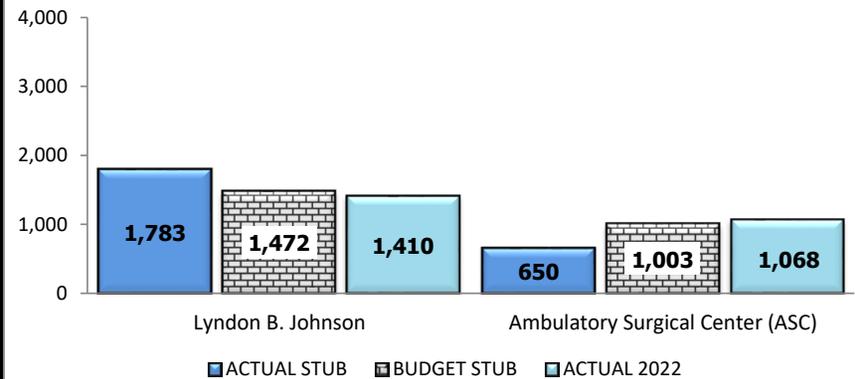
### Lyndon B. Johnson OR Cases - Quarter End



### Ben Taub OR Cases - YTD



### Lyndon B. Johnson OR Cases - YTD

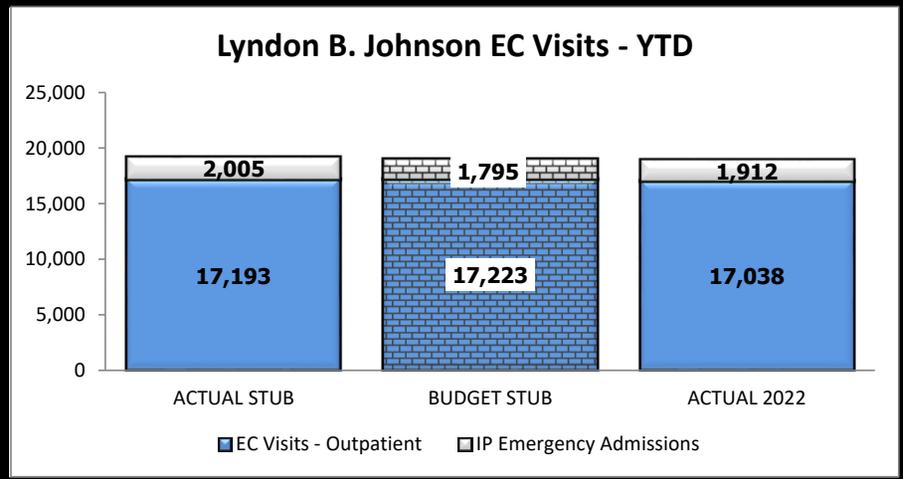
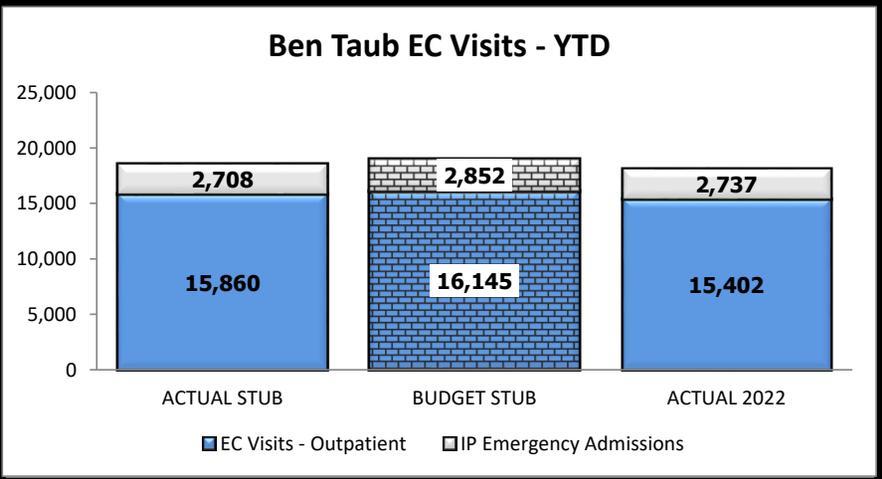
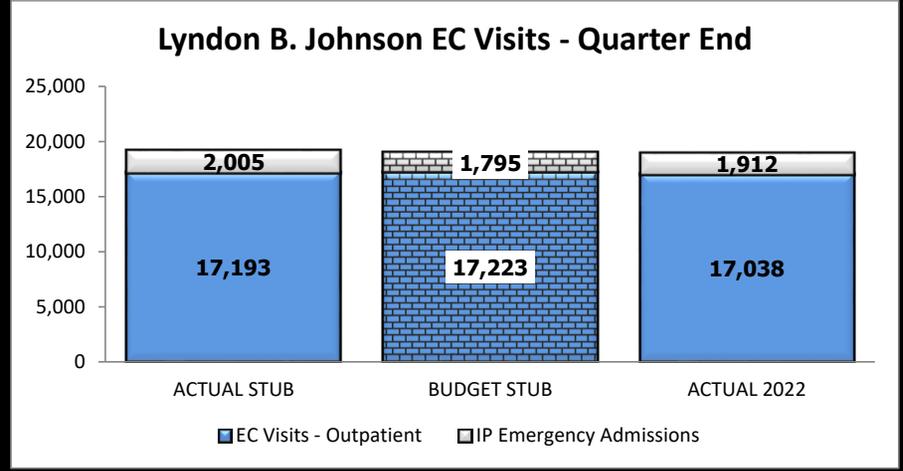
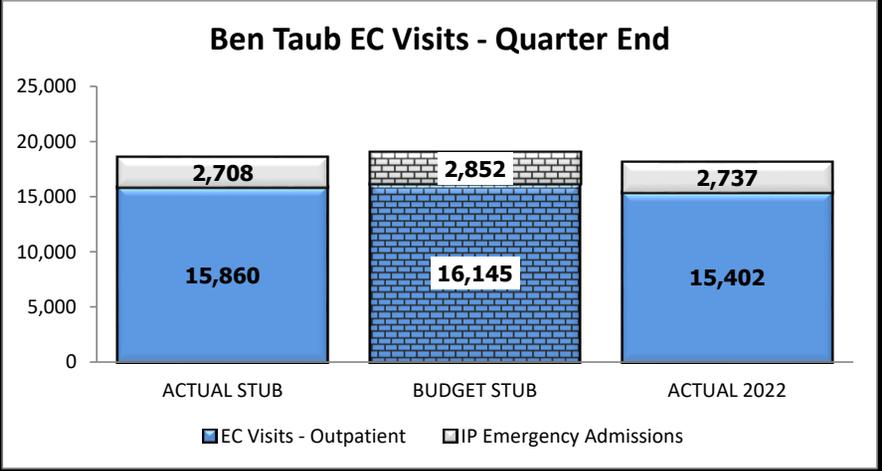


# Harris Health System

## Statistical Highlights - Emergency Room Visits

As of the Quarter Ended May 31, 2022

<u>BT Emergency Visits - Q1</u>			<u>BT Emergency Visits - YTD</u>			<u>LBJ Emergency Visits - Q1</u>			<u>LBJ Emergency Visits - YTD</u>		
Actual	Budget	Prior Year	Actual	Budget	Prior Year	Actual	Budget	Prior Year	Actual	Budget	Prior Year
18,568	18,997	18,139	18,568	18,997	18,139	19,198	19,018	18,950	19,198	19,018	18,950



# Harris Health System

## Statistical Highlights - Births

As of the Quarter Ended May 31, 2022

### BT Births - Q1

Actual	Budget	Prior Year
708	647	617

### BT Births - YTD

Actual	Budget	Prior Year
708	647	617

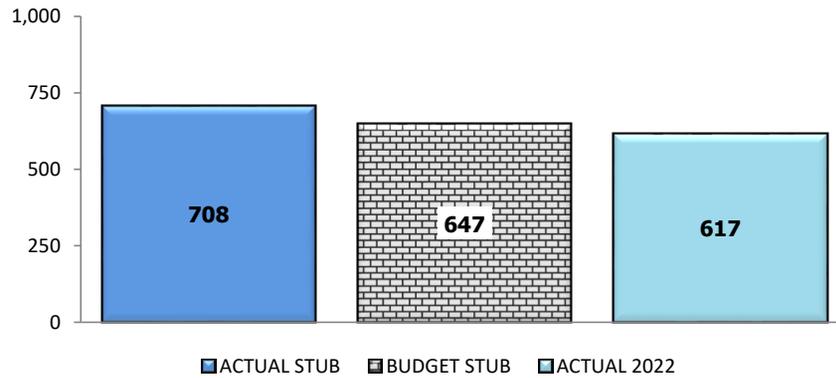
### LBJ Births - Q1

Actual	Budget	Prior Year
520	376	409

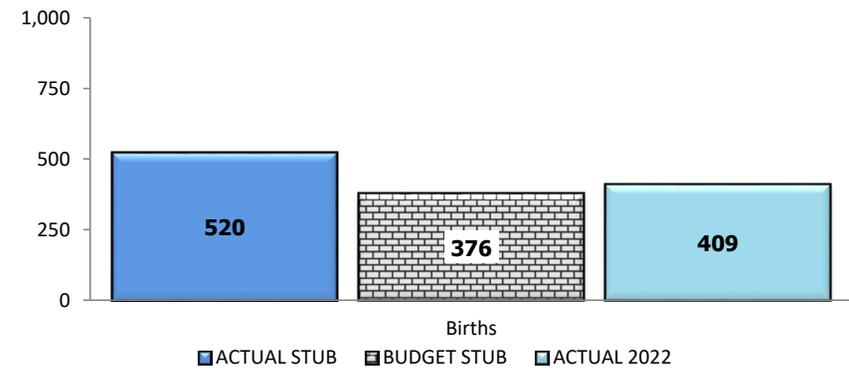
### LBJ Births - YTD

Actual	Budget	Prior Year
520	376	409

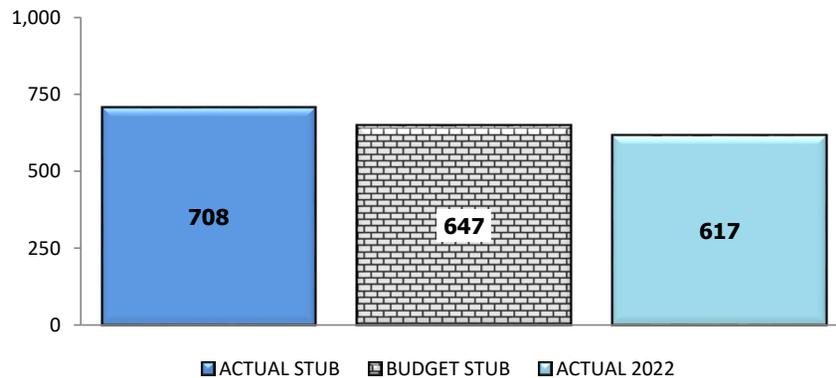
### Ben Taub Births - Quarter End



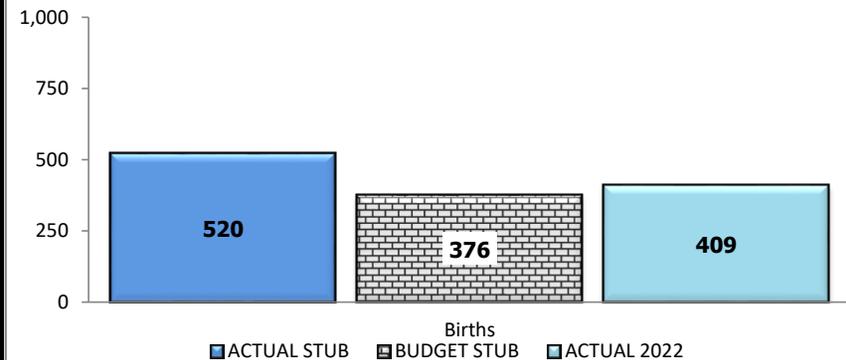
### Lyndon B. Johnson Births - Quarter End



### Ben Taub Births - YTD



### Lyndon B. Johnson Births - YTD



# Harris Health System

## Statistical Highlights - Adjusted Patient Days

As of the Quarter Ended May 31, 2022

**BT Adjusted Patient Days - Q1**

56,804

**BT Adjusted Patient Days - YTD**

56,804

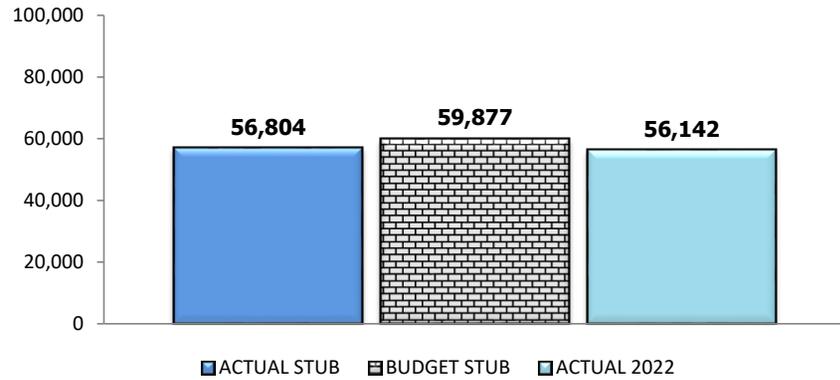
**LBJ Adjusted Patient Days - Q1**

37,379

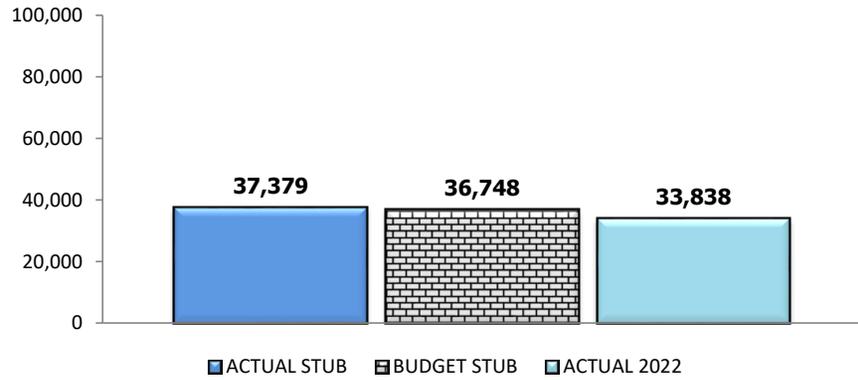
**LBJ Adjusted Patient Days - YTD**

37,379

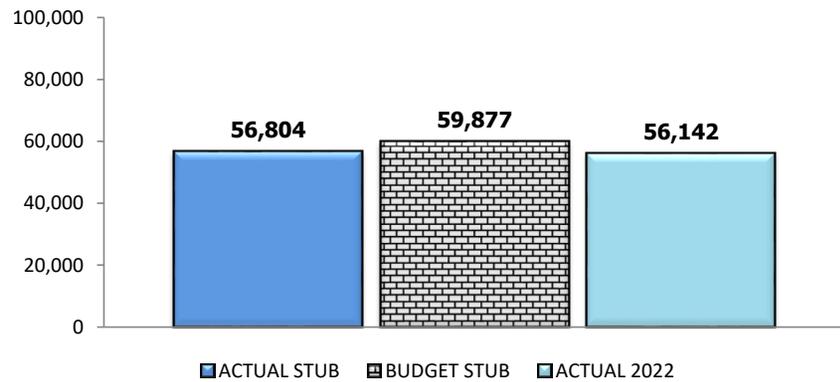
**Ben Taub APD - Quarter End**



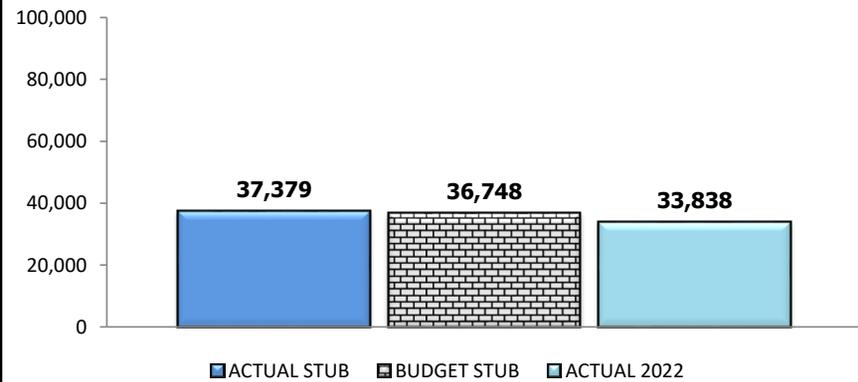
**Lyndon B. Johnson APD - Quarter End**



**Ben Taub APD - YTD**



**Lyndon B. Johnson APD - YTD**

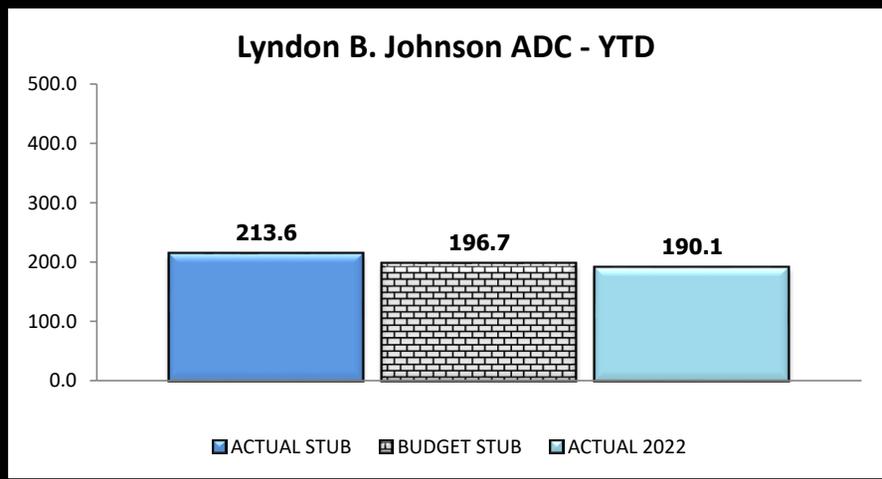
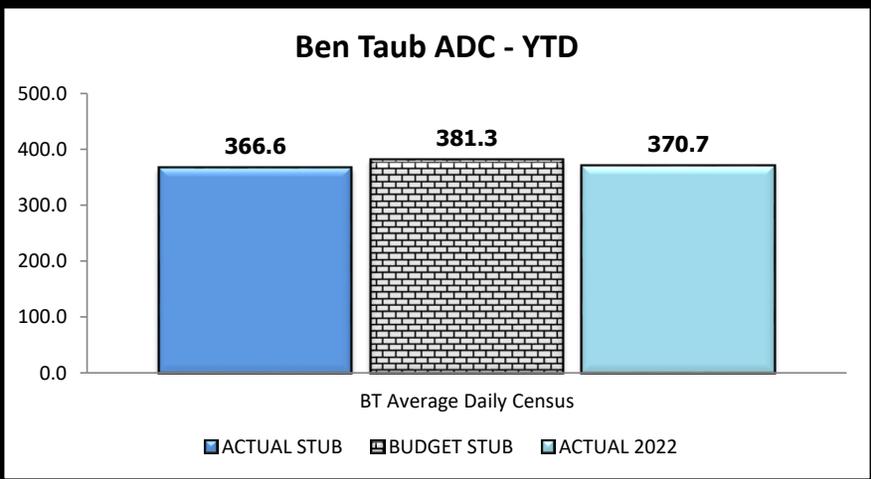
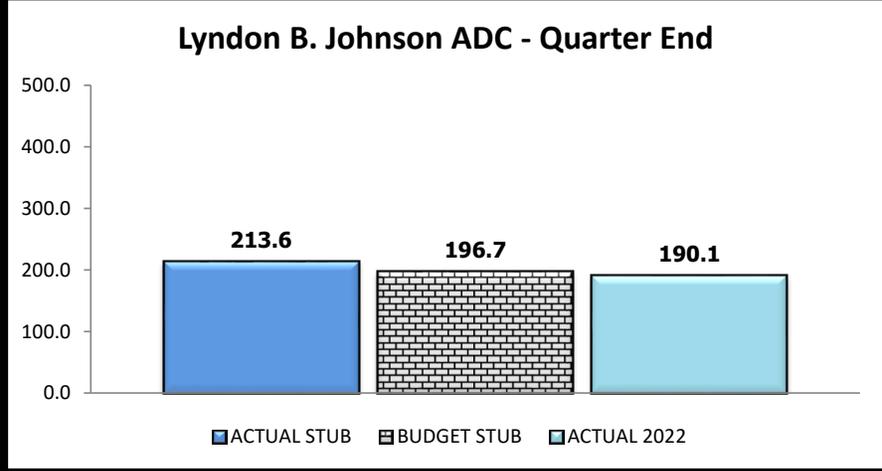
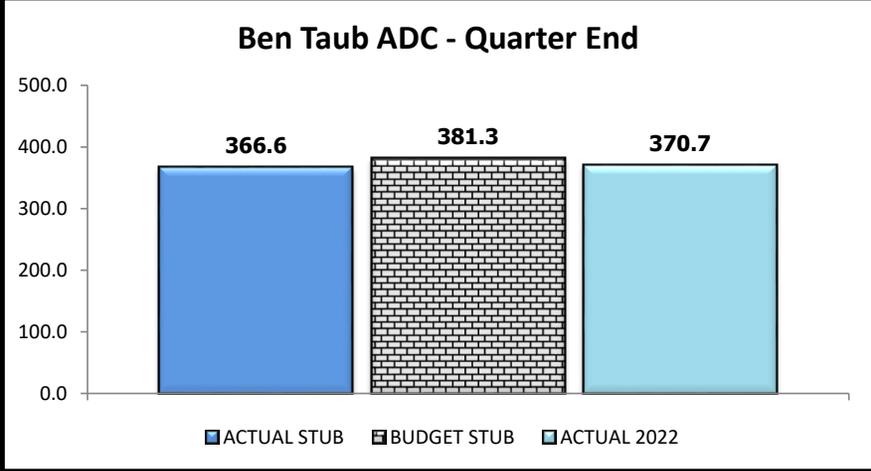


# Harris Health System

## Statistical Highlights - Average Daily Census (ADC)

As of the Quarter Ended May 31, 2022

<b><u>BT Average Daily Census - Q1</u></b>	<b><u>BT Average Daily Census - YTD</u></b>	<b><u>LBJ Average Daily Census - YTD</u></b>	<b><u>LBJ Average Daily Census - YTD</u></b>
366.6	366.6	213.6	213.6



# Harris Health System

## Statistical Highlights - Inpatient Average Length of Stay (ALOS)

As of the Quarter Ended May 31, 2022

### BT Inpatient ALOS - Q1

6.04

### BT Inpatient ALOS - YTD

6.04

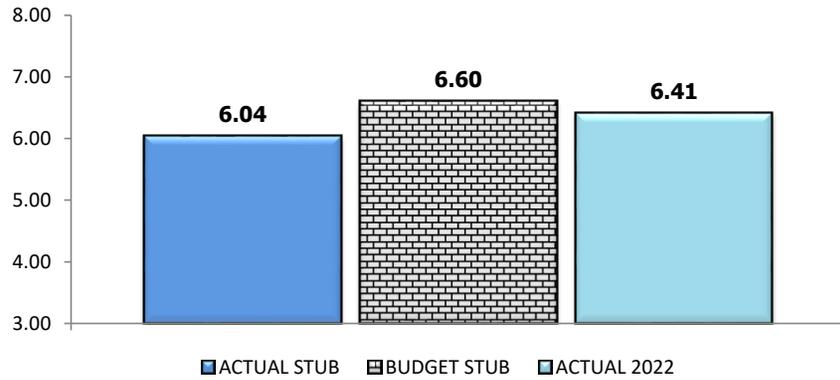
### LBJ Inpatient ALOS - Q1

5.15

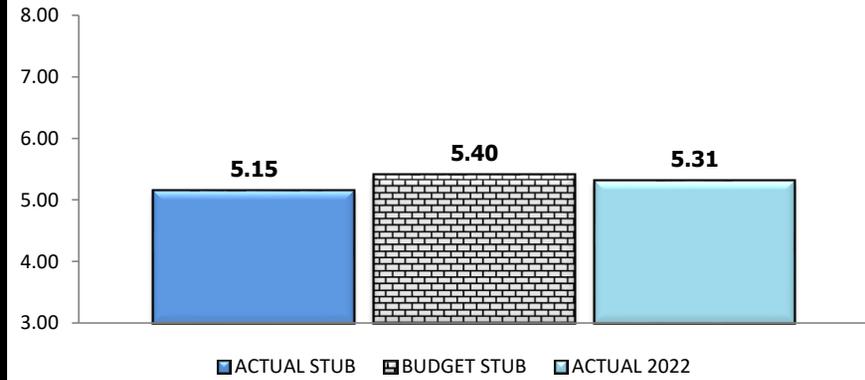
### LBJ Inpatient ALOS - YTD

5.15

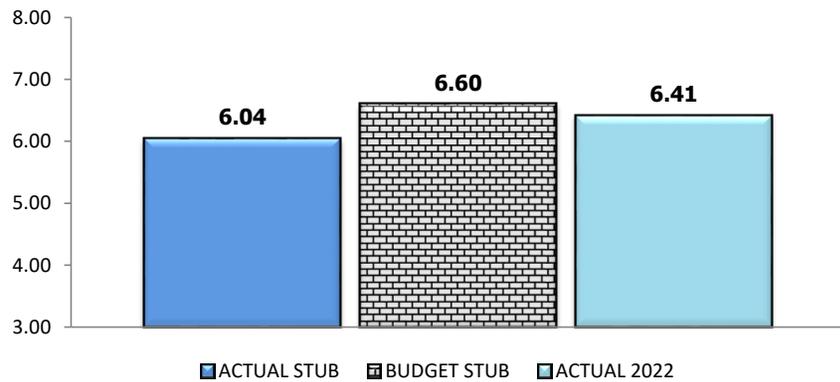
**Ben Taub ALOS - Quarter End**



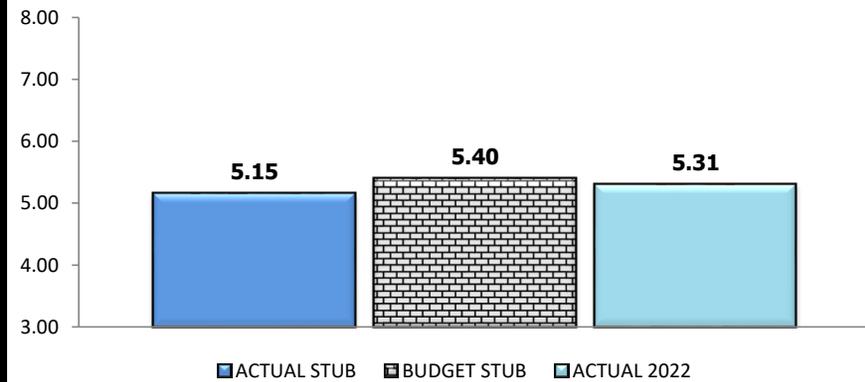
**Lyndon B. Johnson ALOS - Quarter End**



**Ben Taub ALOS - YTD**



**Lyndon B. Johnson ALOS - YTD**



# Harris Health System

## Statistical Highlights - Case Mix Index (CMI)

As of the Quarter Ended May 31, 2022

### BT Case Mix Index (CMI) - Q1

Overall	Excl. Obstetrics
1.792	1.954

### BT Case Mix Index (CMI) - YTD

Overall	Excl. Obstetrics
1.792	1.954

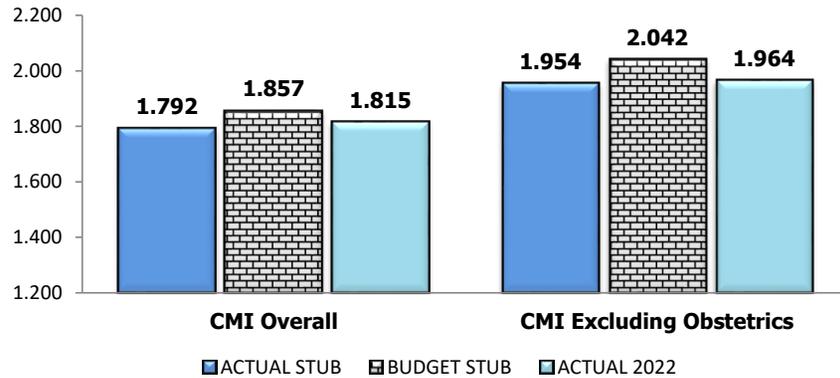
### LBJ Case Mix Index (CMI) - Q1

Overall	Excl. Obstetrics
1.559	1.718

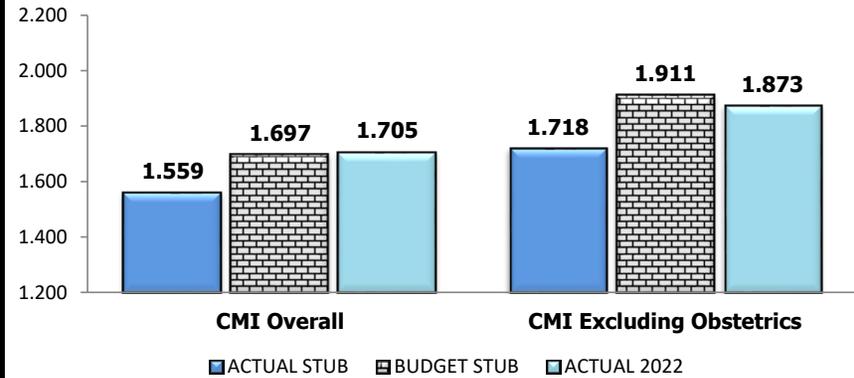
### LBJ Case Mix Index (CMI) - YTD

Overall	Excl. Obstetrics
1.559	1.718

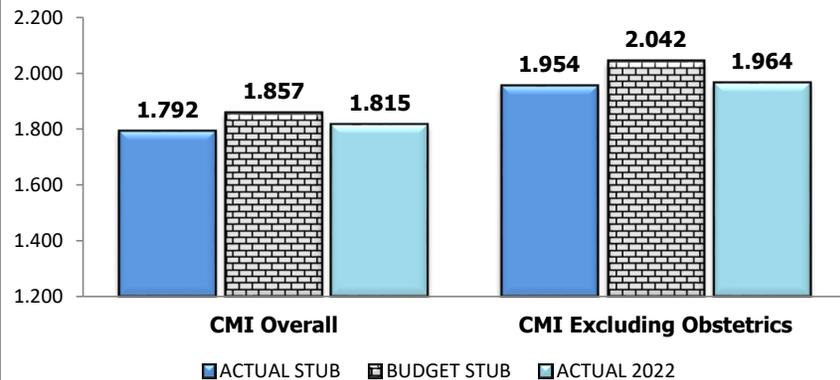
#### Ben Taub CMI - Quarter End



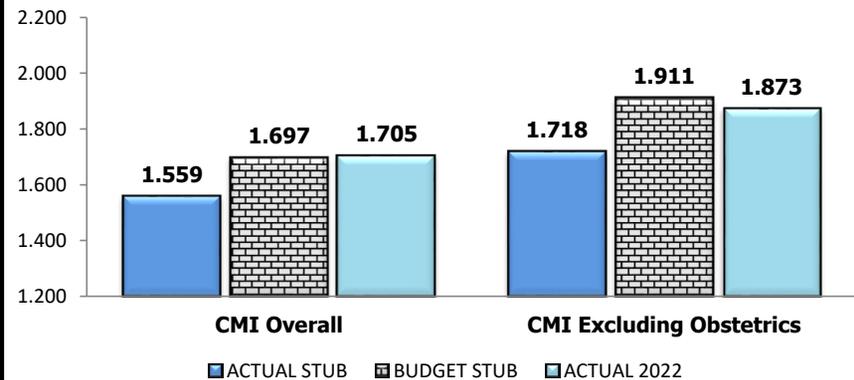
#### Lyndon B. Johnson CMI - Quarter End



#### Ben Taub CMI - YTD



#### Lyndon B. Johnson CMI - YTD



Thursday, August 11, 2022

Consideration of Acceptance of the Harris Health System  
First Quarter Fiscal 2022 Investment Report

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Attached for your review and acceptance is the First Quarter Fiscal Year 2022 Investment Report for the period March – May 2022.

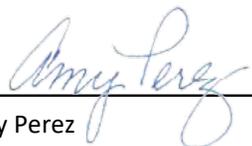
Administration recommends that the Board accept the First Quarter Investment Report for the period ended May 31, 2022.

# HARRIS HEALTH SYSTEM

## QUARTERLY INVESTMENT REPORT FIRST QUARTER 2022

PREPARED BY:  
OFFICE OF MANAGEMENT AND BUDGET  
FINANCIAL MANAGEMENT

The report is presented in accordance with the Texas Government Code - Public Funds Investment Act, Section 2256.023. Financial Management certifies that to the best of our knowledge that Harris Health System is in compliance with the provisions of Government Code 2256 and with the stated policies and strategies of Harris Health System.

  
\_\_\_\_\_  
Amy Perez  
Deputy Executive Director, OMB

  
\_\_\_\_\_  
Diana Elizondo  
Investment Manager

  
\_\_\_\_\_  
Mark LaRue  
Financial Analyst

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**Section I: Summary of Portfolio Balances & Characteristics**

**Section II: Total Rate of Return vs. Benchmark**

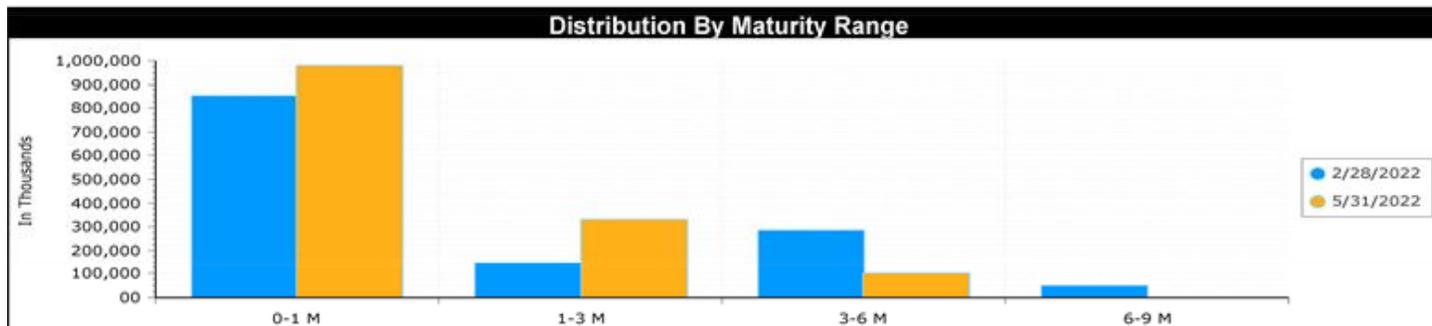
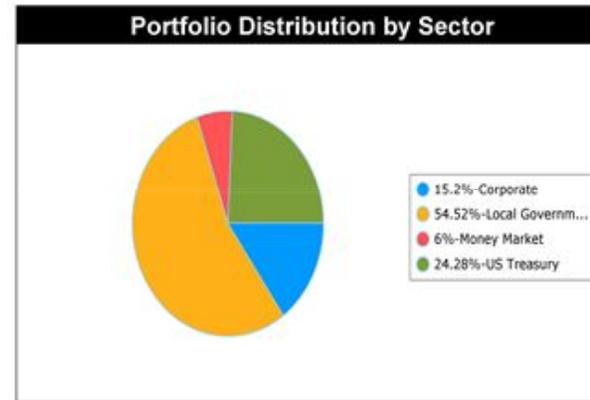
**Section III: Current Portfolio Holdings & Quarterly Income**

## Summary of Portfolio Balances & Characteristics

February 28, 2022 through May 31, 2022

Book & Market Value Comparison							
Month	Market Value	Book Value	Unrealized Gain/Loss	YTM @ Cost	YTM @ Market	Duration	Days To Maturity
Beginning	1,334,653,106.84	1,334,857,758.30	-204,651.46	0.186	0.23	0.12	44
3/31/2022	1,624,157,158.43	1,624,530,770.95	-373,612.52	0.37	0.45	0.10	37
4/30/2022	1,532,750,478.30	1,533,182,637.75	-432,159.45	0.47	0.58	0.09	32
5/31/2022	1,411,188,193.99	1,411,526,577.02	-338,383.03	0.67	0.79	0.06	24
<b>Average</b>	<b>1,522,698,610.24</b>	<b>1,523,079,995.24</b>	<b>-381,385.00</b>	<b>0.50</b>	<b>0.61</b>	<b>0.08</b>	<b>31</b>

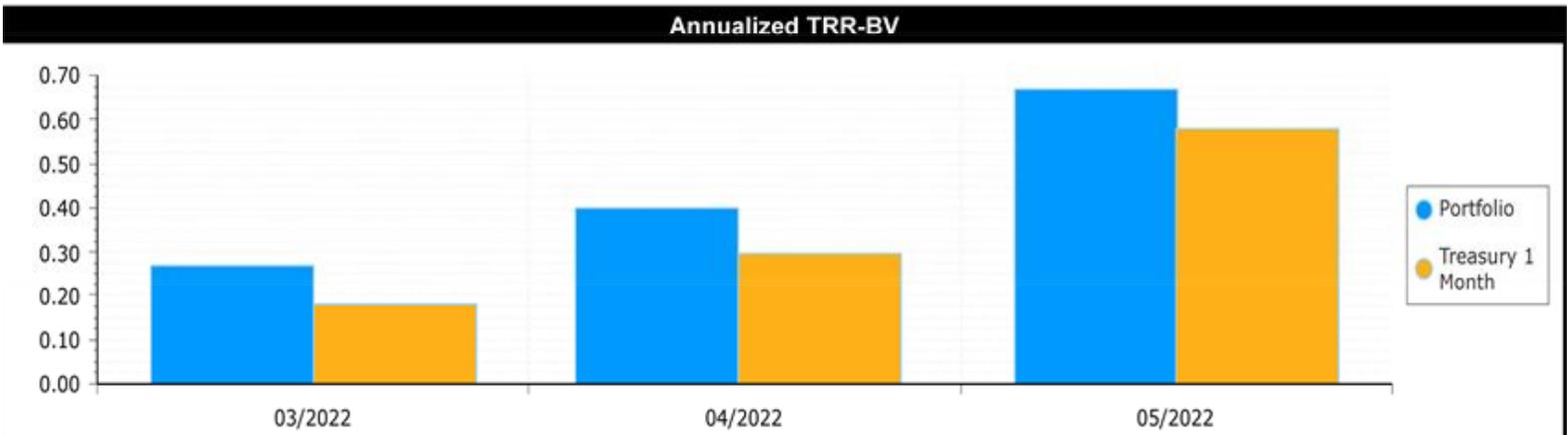
Quarterly Investment Income By Sector		
	Ending BV + Accrued Interest	Investment Income-BV
Certificate of Deposit	\$0.00	\$0.00
Corporate	\$214,645,047.22	\$442,583.33
Local Government Investment Pool	\$769,322,700.64	\$778,916.36
Money Market	\$84,702,783.75	\$72,046.89
Municipal	\$0.00	\$0.00
US Agency	\$0.00	\$0.00
US Treasury	\$342,856,045.41	\$416,125.81
<b>Total</b>	<b>\$1,411,526,577.02</b>	<b>\$1,709,672.39</b>



## Total Rate of Return vs. Benchmark 1 Month Treasury

February 28, 2022 through May 31, 2022

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Average Capital Base-BV	TRR-BV	Annualized TRR-BV	Treasury 1 Month
Beginning	1,206,128,999.19	155,929.03	0.00	155,929.03	1,460,234,960.02	0.01	0.13	0.04
3/31/2022	1,334,857,758.30	360,241.71	0.00	360,241.71	1,578,494,007.08	0.02	0.27	0.18
4/30/2022	1,624,530,770.95	522,540.35	0.00	522,540.35	1,570,467,401.65	0.03	0.40	0.30
5/31/2022	1,533,182,637.75	826,890.33	0.00	826,890.33	1,484,788,321.06	0.06	0.67	0.58
<b>Total/Average</b>	<b>1,497,523,722.33</b>	<b>1,709,672.39</b>	<b>0.00</b>	<b>1,709,672.39</b>	<b>1,544,583,243.26</b>	<b>0.04</b>	<b>0.45</b>	<b>0.35</b>



## Current Portfolio Holdings and Earnings

Begin Date: 2/28/2022, End Date: 5/31/2022

Description	CUSIP/Ticker	Ending Face Amount/Shares	Beginning MV	Ending MV	Ending BV	Investment Income-BV	Ending YTM @ Cost	Maturity Date
<b>H9902 Hospital - General Fund</b>								
H9902 Hospital - Unrestricted Donations DDA MM	D1359	1,544.02	0.00	1,544.02	1,544.02	0.07	0.040	N/A
H9902 Hospital - Cadence General Funds DDA MM	D3837	50,024,900.91	50,535,197.19	50,024,900.91	50,024,900.91	5,041.32	0.040	N/A
LoneStar Gov   H9902 LGIP	LONESTARGH9902	172,637,033.22	125,002,320.01	172,637,033.22	172,637,033.22	134,713.21	0.580	N/A
LoneStar   H9902 LGIP	LONESTARH9902	185,292,448.02	127,562,827.97	185,292,448.02	185,292,448.02	229,620.05	0.820	N/A
H9902 Hospital - Cadence General Funds MMF MM	M3837	20,803,385.00	165,127,444.14	20,803,385.00	20,803,385.00	45,148.39	0.750	N/A
H9902 Hospital - HRA Sweep MMF MM	M3845	217,812.67	291,818.34	217,812.67	217,812.67	96.11	0.750	N/A
H9902 Hospital - Cigna Health Benefits MMF MM	M3944	12,683,730.24	1,825,656.56	12,683,730.24	12,683,730.24	3,251.89	0.750	N/A
H9902 Hospital - FSA Plan MMF MM	M3951	401,151.84	768,827.34	401,151.84	401,151.84	174.87	0.750	N/A
H9902 Hospital - Donations Sweep MM	M5899	84,493.90	6,265.87	84,493.90	84,493.90	658.91	0.740	N/A
TexasCLASS Gov   H9902 LGIP	TXCLASSGOVH9902	183,901,570.25	136,266,225.85	183,901,570.25	183,901,570.25	135,344.40	0.526	N/A
TexasCLASS   H9902 LGIP	TXCLASSH9902	169,000,765.22	111,280,190.21	169,000,765.22	169,000,765.22	220,575.01	0.813	N/A
TMCC DISC CP 0 3/10/2022	89233HCA0	0.00	39,999,080.00	0.00	0.00	1,333.33		3/10/2022
NATX DISC CP 0 4/1/2022	63873KD12	0.00	29,991,960.00	0.00	0.00	4,000.00		4/1/2022
TMCC DISC CP 0 4/1/2022	89233HD19	0.00	29,992,860.00	0.00	0.00	4,000.00		4/1/2022
TMCC DISC CP 0 4/8/2022	89233HD84	0.00	29,990,550.00	0.00	0.00	4,550.00		4/8/2022
T-Bill 0 5/3/2022	912796U72	0.00	0.00	0.00	0.00	14,641.25		5/3/2022
TMCC DISC CP 0 5/9/2022	89233HE91	0.00	29,973,750.00	0.00	0.00	8,750.00		5/9/2022
NATX DISC CP 0 5/27/2022	63873KET0	0.00	29,961,420.00	0.00	0.00	24,933.33		5/27/2022
T-Bill 0 6/7/2022	912796V89	50,000,000.00	49,947,050.00	49,995,800.00	49,996,354.16	47,916.66	0.381	6/7/2022
T-Bill 0 6/9/2022	912796R35	45,000,000.00	0.00	44,994,510.00	44,995,837.50	37,462.50	0.375	6/9/2022
NATX DISC CP 0 6/24/2022	63873KFQ5	30,000,000.00	29,939,370.00	29,980,830.00	29,991,600.00	32,200.00	0.421	6/24/2022
T-Bill 0 7/7/2022	912796R68	45,000,000.00	44,918,370.00	44,966,835.00	44,979,418.75	51,175.00	0.452	7/7/2022
BNP DISC CP 0 7/8/2022	09659CG85	50,000,000.00	0.00	49,945,600.00	49,947,222.22	113,888.89	1.003	7/8/2022
T-Bill 0 7/21/2022	912796S42	50,000,000.00	49,893,850.00	49,941,500.00	49,975,651.04	43,923.61	0.349	7/21/2022
T-Bill 0 7/28/2022	912796S59	40,000,000.00	39,905,480.00	39,946,800.00	39,967,262.22	51,928.89	0.516	7/28/2022
TMCC DISC CP 0 8/5/2022	89233HH56	25,000,000.00	0.00	24,941,425.00	24,946,375.00	39,000.00	1.174	8/5/2022
BNP DISC CP 0 8/9/2022	09659CH92	50,000,000.00	0.00	49,876,500.00	49,892,083.34	126,416.67	1.115	8/9/2022
T-Bill 0 8/11/2022	912796L64	30,000,000.00	29,914,740.00	29,938,950.00	29,965,500.00	44,083.33	0.585	8/11/2022
NATX DISC CP 0 8/26/2022	63873KHS9	40,000,000.00	39,833,720.00	39,855,640.00	39,942,966.66	60,311.11	0.592	8/26/2022
MUFG BK CP 0 9/2/2022	62479MJ20	20,000,000.00	0.00	19,914,180.00	19,924,800.00	23,200.00	1.447	9/2/2022
T-Bill 0 9/8/2022	912796M71	30,000,000.00	29,895,510.00	29,906,040.00	29,953,666.67	42,626.67	0.566	9/8/2022
T-Bill 0 10/6/2022	912796M89	20,000,000.00	19,914,840.00	19,909,060.00	19,957,244.45	30,730.56	0.612	10/6/2022
<b>Sub Total/Average H9902 Hospital - General Fund</b>		<b>1,320,048,835.29</b>	<b>1,242,739,323.48</b>	<b>1,319,162,505.29</b>	<b>1,319,484,817.30</b>	<b>1,581,696.03</b>	<b>0.648</b>	
<b>H9906 Hospital - SPFC</b>								
H9906 Hospital - SPFC Money Market MM	M3936	50,812.57	50,793.86	50,812.57	50,812.57	18.71	0.750	N/A
TexasCLASS   H9906 LGIP	TXCLASSH9906	873,621.73	872,468.43	873,621.73	873,621.73	1,153.30	0.813	N/A
<b>Sub Total/Average H9906 Hospital - SPFC</b>		<b>924,434.30</b>	<b>923,262.29</b>	<b>924,434.30</b>	<b>924,434.30</b>	<b>1,172.01</b>	<b>0.810</b>	
<b>H9917 Hospital - Debt Service 2010</b>								
H9917 Hospital - Series 2010 DS Sweep MMF MM	M3993	29,233.44	393,179.62	29,233.44	29,233.44	96.86	0.750	N/A

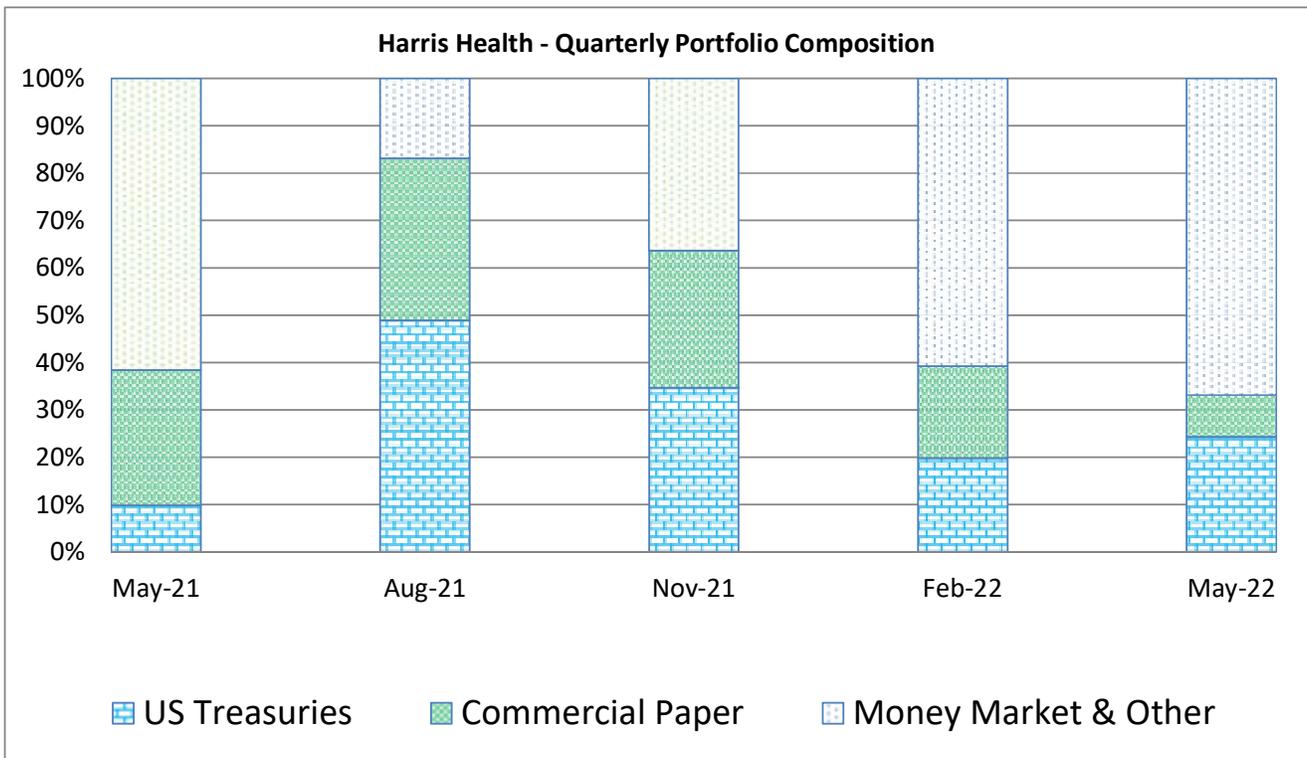
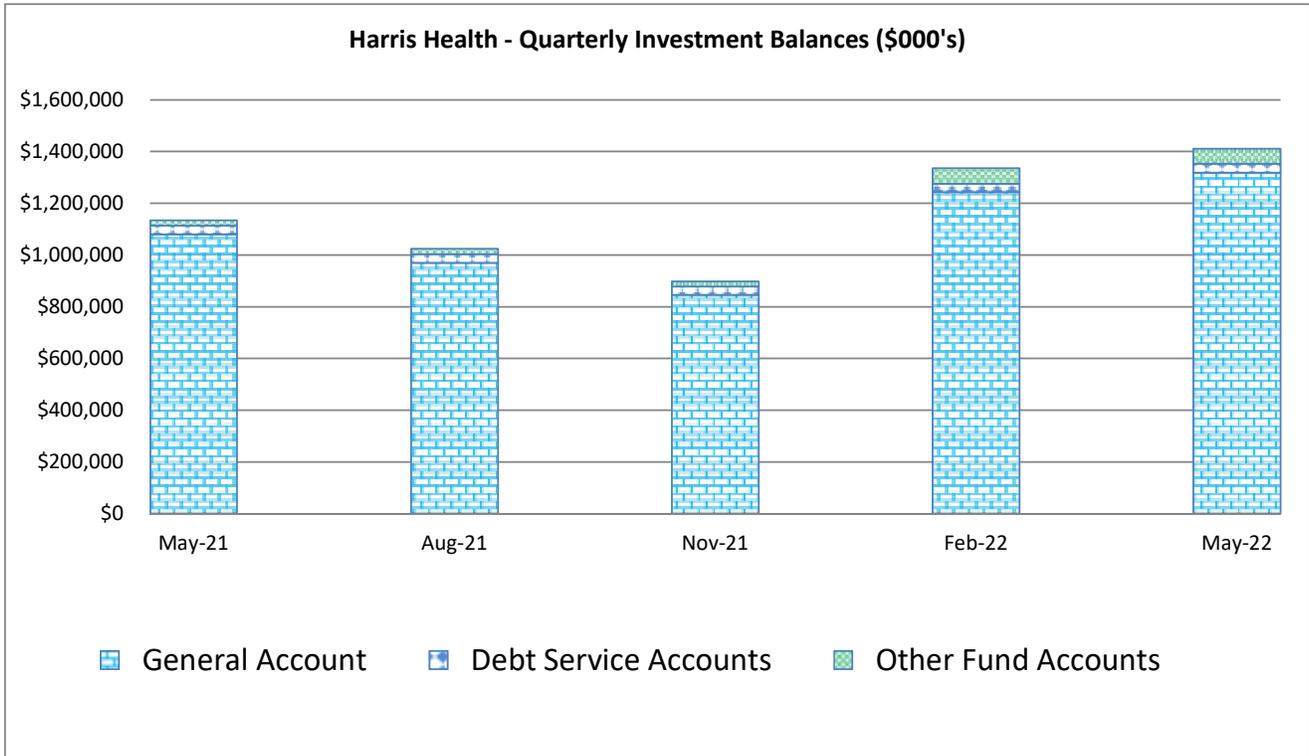
Description	CUSIP/Ticker	Ending Face Amount/Shares	Beginning MV	Ending MV	Ending BV	Investment Income-BV	Ending YTM @ Cost	Maturity Date
TexasCLASS   H9917 LGIP	TXCLASSH9917	20,185.58	6,017,839.35	20,185.58	20,185.58	2,346.23	0.813	N/A
T-Bill 0 10/6/2022	912796M89	6,400,000.00	0.00	6,370,899.20	6,373,997.23	9,954.19	1.165	10/6/2022
<b>Sub Total/Average H9917 Hospital - Debt Service 2010</b>		<b>6,449,419.02</b>	<b>6,411,018.97</b>	<b>6,420,318.22</b>	<b>6,423,416.25</b>	<b>12,397.28</b>	<b>1.162</b>	
<b>H9918 Hospital - Debt Service Reserve 2010</b>								
H9918 Hospital - Series 2010 DSR Sweep MMF MM	M4017	43,420.05	209,657.99	43,420.05	43,420.05	52.41	0.750	N/A
TexasCLASS   H9918 LGIP	TXCLASSH9918	22,486.08	5,820,214.08	22,486.08	22,486.08	2,272.00	0.813	N/A
T-Bill 0 10/6/2022	912796M89	6,000,000.00	0.00	5,972,718.00	5,975,622.40	9,332.05	1.165	10/6/2022
<b>Sub Total/Average H9918 Hospital - Debt Service Reserve 2010</b>		<b>6,065,906.13</b>	<b>6,029,872.07</b>	<b>6,038,624.13</b>	<b>6,041,528.53</b>	<b>11,656.46</b>	<b>1.161</b>	
<b>H9920 Hospital - Debt Service 2016 Rev &amp; Ref</b>								
H9920 Hospital - Series 2016 DS Sweep MMF MM	M4009	67,497.66	3,209,555.36	67,497.66	67,497.66	635.90	0.750	N/A
TexasCLASS   H9920 LGIP	TXCLASSH9920	23,549.93	7,020,812.63	23,549.93	23,549.93	2,737.30	0.813	N/A
T-Bill 0 10/6/2022	912796M89	10,200,000.00	0.00	10,153,620.60	10,158,558.08	15,864.48	1.165	10/6/2022
<b>Sub Total/Average H9920 Hospital - Debt Service 2016 Rev &amp; Ref</b>		<b>10,291,047.59</b>	<b>10,230,367.99</b>	<b>10,244,668.19</b>	<b>10,249,605.67</b>	<b>19,237.68</b>	<b>1.162</b>	
<b>H9921 Hospital - Debt Service Reserve 2016 Rev &amp; am</b>								
H9921 Hospital - Series 2016 DSR Sweep MMF MM	M4033	119,456.36	10,657,596.23	119,456.36	119,456.36	2,306.42	0.750	N/A
T-Bill 0 10/6/2022	912796M89	10,600,000.00	0.00	10,551,801.80	10,556,932.91	16,486.62	1.165	10/6/2022
<b>Sub Total/Average H9921 Hospital - Debt Service Reserve 2016 Rev &amp; am</b>		<b>10,719,456.36</b>	<b>10,657,596.23</b>	<b>10,671,258.16</b>	<b>10,676,389.27</b>	<b>18,793.04</b>	<b>1.160</b>	
<b>H9924 Hospital - Capital Assets Series 2020</b>								
H9924 Hospital - Capital Assets Ser 2020 Sweep MMF	M6228	160,841.15	160,780.06	160,841.15	160,841.15	61.09	0.740	N/A
TexasCLASS   H9924 LGIP	TXCLASSH9924	12,517,410.61	12,500,885.75	12,517,410.61	12,517,410.61	16,524.86	0.813	N/A
<b>Sub Total/Average H9924 Hospital - Capital Assets Series 2020</b>		<b>12,678,251.76</b>	<b>12,661,665.81</b>	<b>12,678,251.76</b>	<b>12,678,251.76</b>	<b>16,585.95</b>	<b>0.812</b>	
<b>H9925 Hospital - Capital Gift Proceeds</b>								
H9925 Hospital - Capital Gift Proceeds Sweep MM	M1367	14,503.94	45,000,000.00	14,503.94	14,503.94	14,503.94	0.750	N/A
TexasCLASS   H9925 LGIP	TXCLASSH9925	45,033,630.00	0.00	45,033,630.00	45,033,630.00	33,630.00	0.813	N/A
<b>Sub Total/Average H9925 Hospital - Capital Gift Proceeds</b>		<b>45,048,133.94</b>	<b>45,000,000.00</b>	<b>45,048,133.94</b>	<b>45,048,133.94</b>	<b>48,133.94</b>	<b>0.813</b>	
<b>Total / Average</b>		<b>1,412,225,484.39</b>	<b>1,334,653,106.84</b>	<b>1,411,188,193.99</b>	<b>1,411,526,577.02</b>	<b>1,709,672.39</b>	<b>0.667</b>	

**HARRIS COUNTY HOSPITAL DISTRICT  
dba HARRIS HEALTH SYSTEM**

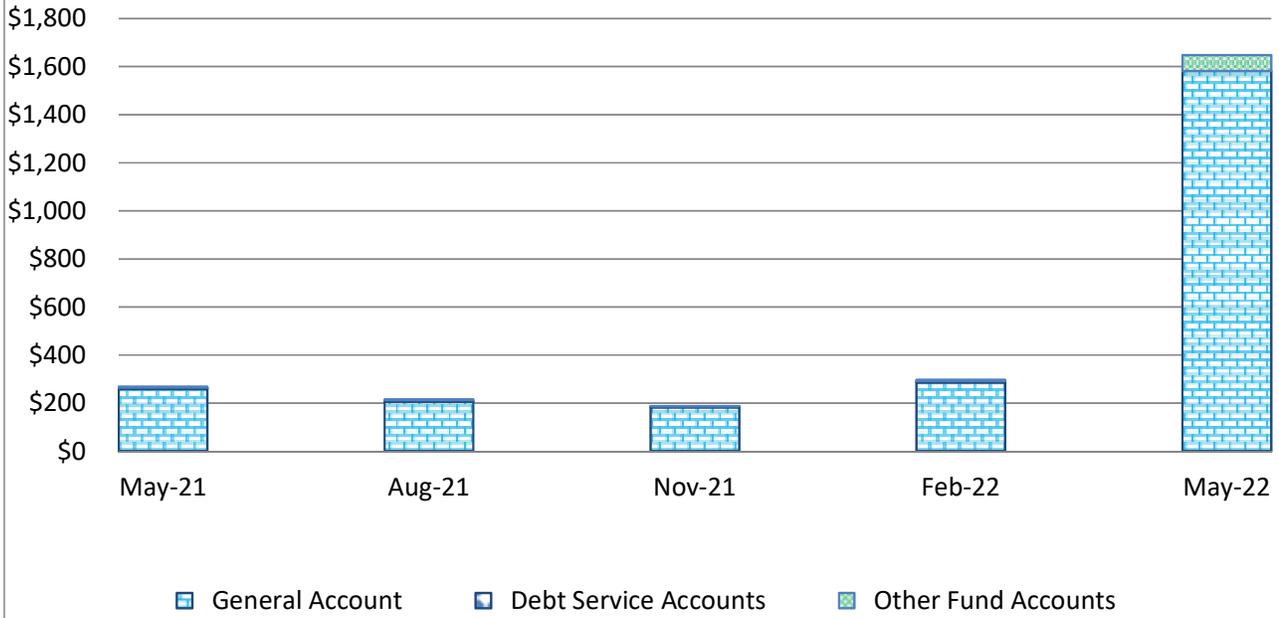
**INVESTMENT REPORT**

**As of May 31, 2022**

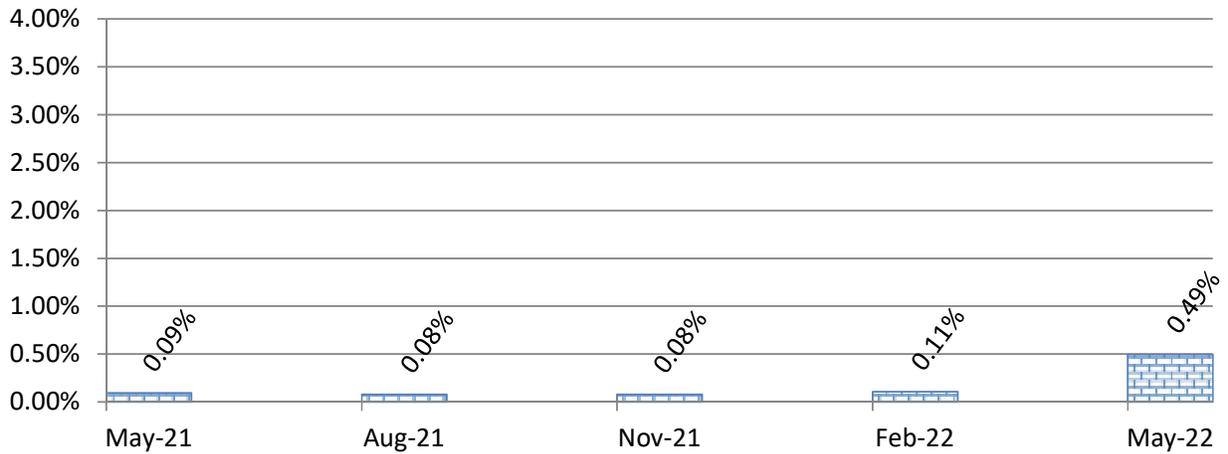
- Executive Summary Charts and Quarterly Trend Schedule for Harris Health System
- Quarter End Investment Report from Harris County Office of Financial Management



### Harris Health - Quarterly Earnings (\$000's)



### Harris Health - Quarterly Average Earnings %



**Thursday, August 11, 2022**

**Consideration of Acceptance of the Harris Health System Second Quarter  
Calendar Year 2022 Pension Plan Report.**

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Attached for your review and acceptance is the Second Quarter Calendar Year 2022 Pension Plan Report for the period April – June 2022.

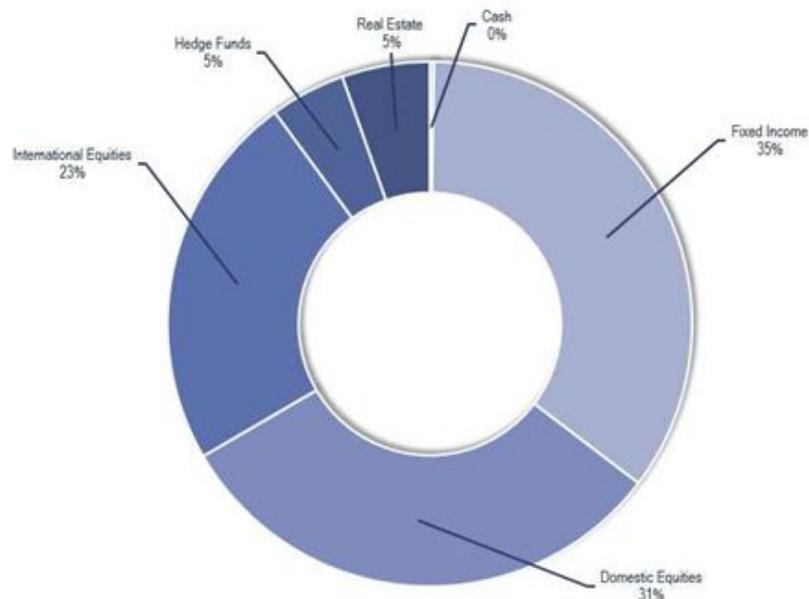
Administration recommends that the Board accept the Second Quarter Pension Plan Report for the period ended June 30, 2022.

# Pension Plan Summary

For the Quarter Ended and Year to Date June 30, 2022

	YEAR-TO-DATE	QUARTERLY		YEAR-TO-DATE
	12/31/21	03/31/22	06/30/22	06/30/22
Investment Return	9.7%	-5.9%	-11.4%	-17.2%
Market Value of Assets (in millions)	\$ 966.4	\$ 911.6	\$ 808.9	\$ 808.9
Employer Contributions (in millions)	\$ 57.0	\$ 14.7	\$ 9.9	\$ 24.6
Benefit Payments (in millions)	\$ 53.3	\$ 13.8	\$ 14.1	\$ 27.9
Funded Ratio	86.2%	80.8%	71.3%	80.8%

## Current Asset Allocation:



## Market Updates:

The market value of the Plan assets decreased \$102.7 million this quarter and \$157.4 million since the beginning of the calendar year. Investment return was -11.4% for the quarter ended June 30, 2022, due to the following market conditions:

- Global stocks fell sharply during the second quarter as rising inflation, higher interest rates, and the war in Ukraine combined to push markets around the world into bear territory. Slowing global economic growth and fears of a potential recession further weighed on markets, accelerating a broad selloff that commenced shortly after the start of the year.
- All major stock indices posted negative returns for the second straight quarter, with a continued rotation away from high valuation, growth-sensitive stocks. Foreign markets outperformed U.S. markets as foreign central banks are expected to be less aggressive with future rate increases compared to the Federal Reserve.
- Bond markets also tumbled around the world as the Federal Reserve, along with many other central banks, moved to tighten monetary policy, raising key policy rates significantly during the first half causing downward pressure on bond prices.

\*The Plan was in compliance with target asset allocations per the Board approved Pension Plan Investment Policy.

Thursday, August 11, 2022

**Discussion Regarding Harris Health System's  
Proposed Updated FY 2023 Budget**

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Attached for your review are discussion materials related to the updated FY 2023 operating and capital budgets.

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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**October 1, 2022 through September 30, 2023**

### **Executive Summary**

Consistent with its strategic goal of delivering a 2.0 percent operating margin, Harris Health System originally proposed the same target for its FY 2023 planning budget presented to the Board in January 2022. Over the past few months, Harris Health Finance has partnered with executive leadership and operational leaders across the system to update the budget originally presented. The updated FY 2023 budget is informed by current market conditions, operational needs and strategic initiatives. The updated FY 2023 budget described in this document is intended to inform the Board of the projected changes to the financial picture in order to guide discussions and determine next steps as to the way forward. Proposed changes to the FY 2023 planning budget reflected in the updated scenario include the following adjustments.

#### **Revenues: \$6.2 million reduction from the FY23 planning budget**

Harris Health System revenue in the updated FY 2023 budget is projected to be \$2.3 billion, a decrease of \$6.2 million from the original planning budget. Consistent with the original FY 2023 planning budget, Harris Health is preparing for significant decreases in patient revenues resulting from the 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. The combined annual impact of these reductions to Harris Health's net patient revenue budget is \$98 million, with an overall revenue decrease of over \$120 million from FY 2022. Of note, this figure excludes \$84.8 million for correctional health services to be reimbursed by the County.

#### **❖ Ad Valorem Tax: \$7.1 million reduction from the FY23 planning budget**

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. Net ad valorem tax revenues have been updated based on the final calendar 2021 tax collections and reflect a 2.0 percent increase in Harris County property values consistent with prior

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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historical trends. This resulted in a decrease in previously projected ad valorem revenue of \$7.1 million and represents an area of concern and needed upward revision.

❖ **Medicaid Supplemental Payments: \$2.1 million reduction from the FY23 planning budget**

The aggregate Medicaid Supplemental Programs revenue is budgeted at \$614 million in the FY 2023 planning budget. The aforementioned budget was, in part, contingent on the successful extension of the DSRIP funding authorized under the 1115 Waiver, which officially expired on September 30, 2021. Ultimately, Texas Health and Human Services Commission (HHCS) made a decision not to petition for a one-year DSRIP funding extension to CMS. However, the Hospital Augmented Reimbursement Program (HARP), a new statewide supplemental program providing Medicaid payments to hospitals for inpatient and outpatient services that serve Texas Medicaid fee-for-service (FFS) patients, is currently pending approval by CMS. This program will bring approximately \$120 million in additional Medicaid supplemental revenue to Harris Health. It has a reasonably high possibility of approval and is being included in the budget. The combined effect of these two programmatic changes is a revenue decrease of \$42.1 million.

Concurrently, as part of the 1115 Waiver negotiations with CMS, HHSC petitioned for a larger, resized UC pool based on the reassessment of the charity care provided by the Texas hospitals. At the time when the FY 2023 planning budget was developed, a decision at the federal level was still pending. In June 2022, this proposal has been approved by CMS and previous projections have been revised to reflect a net benefit to Harris Health of \$40 million, essentially offsetting the decrease in DSRIP funding.

❖ **Other Revenue: \$3.0 million increase from the FY23 planning budget**

Other revenues are projected at an annualized level of \$47 million in the FY 2023 planning budget. The largest, annual tobacco settlement revenue, is projected to continue at \$13 million in FY 2023. An additional \$3 million has been added to Interest Income in the updated FY2023 budget as a result of improving interest rates.

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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**Expenses: \$56.0 million increase from the FY23 planning budget**

The updated operating expense for FY 2023 reflects efforts to address issues currently impacting the healthcare market environment with regards to compensation, recruitment and retention as well as strategic priorities of the System. The FY 2023 updated planning budget is informed by the most current run rate coupled with adjustments needed to mitigate ongoing staffing challenges and support strategic initiatives reflected in the Strategic Plan 2021-2025.

❖ **Compensation Cost: \$63.6 M increase from the FY23 planning budget**

The cost of the total compensation portfolio in the FY 2023 budget is projected at \$1.2 billion, of which \$54.5 million is attributed to Correctional Health which is to be reimbursed by the County. Salaries and wages comprise 51.0 percent of the total expense budget. Proposed changes to the FY 2023 planning budget reflect the following updates:

- Market adjustments originally projected at \$2.3 million for FY2023 have been revised upward based on current market surveys to reflect a total need of \$16.1 million. The result is an increase of \$13.8 million over original estimates included in the FY2023 planning budget.
- Paid Holiday conversion to extend premiums paid to eligible staff working during the holidays from three to nine paid holidays contributes an additional \$2.1 million to salary expense in the updated FY 2023 budget. This change is recommended to align Harris Health System with other healthcare facilities within the Texas Medical Center.
- Planned retention bonus payments totaling \$21 million for year two of the program were included as part of the original FY 2023 planning budget. These payments remain in the updated FY 2023 budget representing an increase of \$5 million over current run rate. This is due to the expanded payments earned in year two of the program at \$3,000 and \$5,000.
- Contract labor has increased significantly since the original FY 2023 planning budget was developed. The planning budget was predicated on the average run rate of \$5 million per month in FY 2022 compared to the updated run rate of \$9 million per month. This reflects the most significant addition to the updated FY2023 budget at approximately \$40 million annually.

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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Mitigation strategies have been deployed throughout the organization to reduce this expense though recruitment and retention challenges continue dictate its continued use.

- Benefits associated with the aforementioned salary adjustments contribute an additional \$4.6 million to the updated FY 2023 budget.

### ❖ **Non-Labor Expense: \$7.6 M reduction from the FY23 planning budget**

Non-labor expense totals \$ 1.1 billion in the FY 2023 budget, of which \$30.3 million is attributed to Correctional Health which is to be reimbursed by the County. In addition to general inflationary increases built in to the FY 2023 planning budget, the updated FY 2023 budget includes the following adjustments:

- Physician Services fees were revised upward based on the most recent staffing plans, resulting in an additional \$17.4 million in expense over and above the original FY 2023 planning budget.
- The Marketplace premium subsidy program for Financial Assistance Policy patients at Harris Health currently subsidizes the individual premiums for approximately 24 thousand individuals. The announced non-renewal of enhanced subsidies associated with the Public Health Emergency is projected to increase costs by \$8.9 million in FY 2023. The final decision is pending in the US Congress at this time.
- Supplies, depreciation and interest and other purchased services are currently tracking less than originally projected in the FY 2023 planning budget thus helping to offset the additional cost outlined above.

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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**Strategic Initiatives: \$28.0 million increase from the FY23 planning budget**

The Harris Health System Strategic Plan reflects the operational priorities of the health system over the next five years. Operating expense needed to support these initiatives is incremental to the baseline budget. These costs continue to be refined and the timing of projects evaluated for inclusion in the FY 2023 operating budget based on the availability of funds. Major initiatives being evaluated for inclusion in the multi-year financial plan are outlined below. Of note, Pillar 2: People is not represented below as it is already incorporated into the baseline labor budget discussed earlier.

### ❖ **Pillar 1: 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. Major initiatives include the following:

- Implement 4-tier safety huddles to identify, review and resolve near misses and system issues while addressing human error, at risk or reckless behavior.
- Implement all agreed upon Relia and A&M recommendations related to Quality and Patient Safety to address any identified system issues.
- Develop a standardized approach that embeds Just and Accountable Culture principles among the leadership of all staffing groups with an increased focus on staff willingness to report patient safety events.

### ❖ **Pillar 3: One Harris Health System**

Harris Health will act as one system in its approach to management and delivery of healthcare. Major initiatives include:

- Improve throughput by ensuring seamless patient transitions in care and post discharge processing for ambulatory care through the addition of Patient Access Specialty Care Reps
- Promote alternatives to emergency room care through the modification of Same Day/Urgent Care hours of operation

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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### ❖ **Pillar 4: 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 preventative, virtual and community-based services, deployed in coordination with clinical and social services partners, and underwritten by actionable population health analytics and technology. Major initiatives include:

- Improve access to specialty care through expansion of services throughout our network of ambulatory sites.
- Improve the effectiveness and efficiency of virtual care delivery.
- Advance the remote monitoring program for general wellness and chronic disease management.

### ❖ **Pillar 5: 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 we serve. Major initiatives include:

- Complete phase 3 of Facility Master Plan for LBJ and Ben Taub.
- Complete Ambulatory Care Facility Plan.
- Implement advanced perimeter defense mechanisms for prevention and protection against cybersecurity related attacks.
- Implement/promote Epic in FQHC and non-FQHC community-based clinics/departments to support provision of a single electronic medical record (Epic) in the community.

Of note, Pillar 5 initiatives related to LBJ include only the operating cost associated with completing the Facility Master Plan. Additional costs associated with operating a new, expanded facility are not expected to be incurred until FY 2027-2028 and are currently pending assessment.

In summary, the baseline operating expense budget for Harris Health System, originally projected at \$2.26 billion for FY 2023, is proposed to increase by \$56 million for a total of \$2.32 billion following the discussed updates. This includes an estimated \$89.3 million annual budget for Correctional Health which is to be

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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reimbursed by the County. The resulting margin, before strategic initiatives, is a net loss of \$16.8 million or (0.7) percent. After inclusion of the Strategic Plan initiatives currently under consideration the resulting operating loss increases to \$44.8 million or (1.9) percent.

### **Cost Mitigation Strategies**

In an effort to minimize or alleviate the resulting \$44.8 million loss to Harris Health System in FY 2023, the following mitigation strategies are presented for discussion and consideration:

#### **❖ Break-even Margin**

In light of current market conditions and operational needs, Harris Health System will commit to achieving a break-even margin as opposed to the 2.0 percent margin originally presented for FY 2023. Anything less than a break-even margin will effectively trigger a downgrade concern by the three main rating agencies leading to a serious challenge related to accessing capital markets for the strategic bond issuance.

#### **❖ Labor Management**

As previously mentioned, cost mitigation strategies have been deployed across the organization to manage and minimize contract labor expense. Contract labor is being monitored and strategies put in place to ensure appropriate review and approval of any contract labor in an effort to achieve a 5 - 10 percent reduction in utilization. Additional efforts are underway to evaluate staffing and bring it in alignment with benchmark targets where possible.

#### **❖ Service Reductions**

The System is currently evaluating services for reduction or elimination in order to decrease projected operating losses.

#### **❖ Ad Valorem Tax Increase**

While the cost of health care in terms of staffing and medical supplies has dramatically increased over the past three years, during the same time Harris Health System's effective tax rate has been cut twice resulting in an annual decreased revenue of at least \$50 million. This occurred at the

# Harris Health System

## FISCAL 2023 OPERATING BUDGET

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same time as Harris Health System continues to rank at the bottom of other large public health systems in Texas with respect to ad valorem property tax support per county resident or per uninsured resident.

Further erosion of the tax rate for management and operations leads to inability by Harris Health to operate “in the black” and deliver uninterrupted clinical services to the residents of Harris County. If continued at the current rate, insufficient tax revenue will disrupt the multi-year positive operating performance by the System that allowed for stable, favorable bond ratings and easy access to capital. Without a strong balance sheet that Harris Health boasts today, its bond ratings will fall, the cost of capital will rise, and strategic hospital replacement will become a very costly proposition for the tax payers of the Harris County. As a result, patient care for the most vulnerable residents in the fourth most populous county in the nation will suffer a heavy setback.

# Harris Health System FISCAL 2023 OPERATING BUDGET

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## Appendix A

# Harris Health System

## Statement of Revenues and Expenses

### Fiscal 2023 Operating Budget (In Millions)

	Actual Audited Financials FY 2022	Planning Budget incl. Correctional Health FY 2023	Revised Budget incl. Correctional Health FY 2023	Variance to Planning Budget FY 2023
<b>Revenue:</b>				
1	\$ 822.0	\$ 723.7	\$ 723.7	\$ -
2	561.1	614.3	612.2	(2.1)
3	81.7	116.8	116.8	0.0
4	<b>1,510.8</b>	<b>1,454.8</b>	<b>1,452.7</b>	<b>(2.1)</b>
5	814.8	838.2	831.1	(7.1)
6	13.3	13.3	13.3	0.0
7	1.6	2.0	5.0	3.0
8	<b>829.7</b>	<b>853.4</b>	<b>849.3</b>	<b>(4.1)</b>
9	<b>\$ 2,340.4</b>	<b>\$ 2,308.2</b>	<b>\$ 2,302.0</b>	<b>\$ (6.2)</b>
<b>Expense:</b>				
10	\$ 792.7	\$ 863.2	\$ 922.2	\$ 59.0
11	259.4	288.8	293.4	4.6
12	<b>1,052.1</b>	<b>1,152.0</b>	<b>1,215.6</b>	<b>63.6</b>
13	271.5	298.7	282.7	(16.0)
14	370.1	425.6	443.0	17.4
15	280.6	293.2	289.0	(4.2)
16	71.9	93.5	88.6	(4.9)
17	<b>\$ 2,046.2</b>	<b>\$ 2,262.9</b>	<b>\$ 2,318.9</b>	<b>\$ 56.0</b>
18	<b>\$ 294.2</b>	<b>\$ 45.4</b>	<b>\$ (16.8)</b>	<b>\$ (62.2)</b>
19	<b>12.6%</b>	<b>2.0%</b>	<b>-0.7%</b>	<b>-2.7%</b>

<b>Impact of Identified Strategic Initiatives:</b>				
20	Pillar 1 - Quality & Patient Safety	0.0	0.4	0.0
21	Pillar 2 - People	in baseline	in baseline	0.0
22	Pillar 3 - One Harris Health	0.0	5.4	5.4
23	Pillar 4 - Population Health Management	0.0	12.5	12.5
24	Pillar 5 - Infrastructure Optimization	0.0	9.7	9.7
25	<b>Incremental Operating Expense</b>	<b>0.0</b>	<b>28.0</b>	<b>28.0</b>
26	<b>Combined Operating Income (Loss) Including Strategic Initiatives</b>	<b>\$ 45.4</b>	<b>\$ (44.8)</b>	<b>\$ (90.2)</b>
27	<b>Combined Total Margin</b>	<b>2.0%</b>	<b>-1.9%</b>	

# Harris Health System Strategic Financial Plan FISCAL 2023-2027 (in Millions)

	Planning Budget incl. Correctional Health FY 2023	Revised Budget incl. Correctional Health FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027	
<b>Revenue:</b>							
1	Net Patient Service Revenue	\$ 723.7	\$ 723.7	\$ 735.4	\$ 747.4	\$ 759.6	\$ 772.1
2	Medicaid Supplemental Programs	614.3	612.2	615.9	619.7	623.4	627.2
3	<b>Other Operating Revenue</b>	116.8	116.8	120.1	123.5	127.1	130.8
4	<b>Total Operating Revenue</b>	<b>1,454.8</b>	<b>1,452.7</b>	<b>1,471.4</b>	<b>1,490.6</b>	<b>1,510.1</b>	<b>1,530.1</b>
5	Net Ad Valorem Tax Revenue	838.2	831.1	847.7	864.7	882.0	899.6
6	Net Tobacco Settlement Revenue	13.3	13.3	13.3	13.3	13.3	13.3
7	Interest Income & Other	2.0	5.0	5.1	5.2	5.3	5.4
8	<b>Total Non-operating Revenue</b>	<b>853.4</b>	<b>849.3</b>	<b>866.1</b>	<b>883.1</b>	<b>900.5</b>	<b>918.3</b>
9	<b>Total Net Revenue</b>	<b>\$2,308.2</b>	<b>\$2,302.0</b>	<b>\$2,337.5</b>	<b>\$2,337.5</b>	<b>\$2,410.6</b>	<b>\$2,448.4</b>
<b>Expense:</b>							
10	Salaries and Wages	\$863.2	\$922.2	\$954.4	\$987.8	\$1,022.4	\$1,058.2
11	Employee Benefits	288.8	293.4	305.2	317.4	330.1	343.3
12	<b>Total Labor Cost</b>	<b>1,152.0</b>	<b>1,215.6</b>	<b>1,259.6</b>	<b>1,305.2</b>	<b>1,352.5</b>	<b>1,401.5</b>
13	Supplies	298.7	282.7	294.0	305.8	318.0	330.7
14	Physician Services	425.6	443.0	465.1	488.4	512.8	538.4
15	Purchased Services	293.2	289.0	300.6	312.6	325.1	338.1
16	Depreciation, Amortization & Interest	93.5	88.6	93.9	99.5	105.5	111.8
17	<b>Total Operating Expense</b>	<b>\$2,262.9</b>	<b>\$2,318.9</b>	<b>\$2,413.2</b>	<b>\$2,511.5</b>	<b>\$2,613.9</b>	<b>\$2,720.6</b>
18	<b>Operating Income (Loss)</b>	<b>\$45.4</b>	<b>\$(16.8)</b>	<b>\$(75.7)</b>	<b>\$(137.8)</b>	<b>\$(203.2)</b>	<b>\$(272.2)</b>
19	<b>Total Margin</b>	<b>2.0%</b>	<b>-0.7%</b>	<b>-3.2%</b>	<b>-5.8%</b>	<b>-8.4%</b>	<b>-11.1%</b>

<b>Impact of Identified Strategic Initiatives:</b>							
20	Pillar 1 - Quality & Patient Safety	0.0	0.4	0.4	0.4	0.4	0.4
21	Pillar 2 - People	in baseline	in baseline	in baseline	in baseline	in baseline	in baseline
22	Pillar 3 - One Harris Health	0.0	5.4	6.4	6.6	6.8	7.1
23	Pillar 4 - Population Health Management	0.0	12.5	21.1	24.5	25.4	26.3
24	Pillar 5 - Infrastructure Optimization *	0.0	9.7	46.1	51.9	53.7	55.6
25	<b>Incremental Operating Expense</b>	<b>\$0.0</b>	<b>\$28.0</b>	<b>\$74.1</b>	<b>\$83.4</b>	<b>\$86.3</b>	<b>\$89.3</b>
26	<b>Combined Operating Income (Loss) Including Strategic Initiatives</b>	<b>\$45.4</b>	<b>\$(44.8)</b>	<b>\$(149.8)</b>	<b>\$(221.2)</b>	<b>\$(289.5)</b>	<b>\$(361.5)</b>
27	<b>Combined Total Margin</b>	<b>2.0%</b>	<b>-1.9%</b>	<b>-6.4%</b>	<b>-9.3%</b>	<b>-12.0%</b>	<b>-14.8%</b>

\*Of note, Pillar 5 initiatives related to LBJ include only the operating cost associated with completing the Facility Master Plan. Additional cost associated with operating a new, expanded facility is not expected to be incurred until FY 2028.



# Harris Health System

HARRISHEALTH SYSTEM

## FY 2023 Operating Budget

(October 2022 – September 2023)

August 11 , 2022

Victoria Nikitin, Executive Vice President & CFO

Alison Perez, Associate Administrator, Financial  
Planning & Analysis



# Overview of FY 2023 Budget Revisions

- Utilizes FY2022 and current Stub Year actuals as the baseline for projections.
- Reflects the expiration of federal flexibilities allowed during the public health emergency.
- Reflects the current challenges in the healthcare market related to compensation and employee recruitment and retention.
- Reflects the System's ongoing commitment to its Strategic Plan.

# Operating Revenue

**Overall adjustment to original FY 2023 planning budget – \$6.2M reduction from the FY23 planning budget**

## 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. Net ad valorem tax revenues have been updated based on the final calendar 2021 tax collections and reflect a 2.0 percent increase in Harris County property values consistent with prior historical trends. This resulted in a decrease in previously projected ad valorem revenue of \$7.1 million and represents an area of concern and needed upward revision.

## Medicaid Supplemental Payments

- The combined impact of programmatic changes to three Medicaid Supplemental programs (UC, DSRIP, and HARP) is a net revenue loss of \$2.1 million. Of note, the Hospital Augmented Reimbursement Program (HARP), a new statewide supplemental program for hospitals that serve Texas Medicaid fee-for-service (FFS) patients, is currently pending approval by CMS.

## Other Revenue

- An additional \$3 million has been added to Interest Income in the updated FY2023 budget as a result of improving interest rates

# Operating Revenue

	Actual Audited Financials FY 2022	Planning Budget incl. Correctional Health FY 2023	Revised Budget incl. Correctional Health FY 2023	Variance to Planning Budget FY 2023
<b>Revenue:</b>				
Net Patient Service Revenue	\$822.0	\$723.7	\$723.7	\$ -
Medicaid Supplemental Programs	561.1	614.3	612.2	(2.1)
Other Operating Revenue	81.7	116.8	116.8	0.0
<b>Total Operating Revenue</b>	<b>1,510.8</b>	<b>1,454.8</b>	<b>1,452.7</b>	<b>(2.1)</b>
Net Ad Valorem Tax Revenue	814.8	838.2	831.1	(7.1)
Net Tobacco Settlement Revenue	13.3	13.3	13.3	0.0
Interest Income & Other	1.6	2.0	5.0	3.0
<b>Total Nonoperating Revenue</b>	<b>829.7</b>	<b>853.4</b>	<b>849.3</b>	<b>(4.1)</b>
<b>Total Net Revenue</b>	<b>\$2,340.4</b>	<b>\$2,308.2</b>	<b>\$2,302.0</b>	<b>\$(6.2)</b>



# Operating Expense - Compensation

Overall adjustment to original FY 2023 planning budget – **\$56.0M increase from the FY23 planning budget**

## Markets

- Market adjustments originally projected at \$2.3 million for FY2023 have been revised upward based on current market surveys to reflect a total need of \$16.1 million. The result is an increase of \$13.8 million over original estimates included in the FY2023 planning budget. Even with the new market adjustments, Harris Health continues to struggle in a very aggressive healthcare labor market.

## Paid Holiday Conversion

- Paid Holiday conversion to extend premiums paid to eligible staff working during the holidays, from three to nine paid holidays contributes an additional \$2.1 million to salary expense in the updated FY 2023 budget. This change is recommended to align Harris Health System with other healthcare facilities within the Texas Medical Center.

# Operating Expense - Compensation

## Retention Bonus

- Planned retention bonus payments totaling \$21 million for year two of the program were included as part of the original FY 2023 planning budget. These payments remain in the updated FY 2023 budget representing an increase of \$5 million over current run rate. This is due to the expanded payments earned in year two of the program at \$3,000 and \$5,000.

## Contract Labor

- Contract labor has increased significantly since the original FY 2023 planning budget was developed at a current run rate of \$9 million per month versus an average of \$5 million per month in FY 2022. This reflects the most significant addition to the updated FY2023 budget at approximately \$40 million annually. Mitigation strategies have been deployed throughout the organization to reduce this expense though recruitment and retention challenges continue to dictate its continued use.

# Non-Labor Operating Expense

**Overall adjustment to original FY 2023 planning budget – \$7.6M reduction from the FY23 planning budget**

## **Physician Services**

- Physician Services fees were revised upward based on the most current staffing plans, resulting in an additional \$17.4 million in expense over and above the original FY 2023 planning budget.

## **Marketplace Subsidy**

- The Marketplace premium subsidy program for Financial Assistance Policy patients at Harris Health currently subsidizes the individual premiums for approximately 24 thousand individuals. The announced non-renewal of enhanced subsidies associated with the Public Health Emergency is projected to increase costs by \$8.9 million in FY 2023. The final decision is pending in the US Congress at this time.

# Non-Labor Operating Expense

## Other Expenses

- Supplies, Depreciation and Interest and Other Purchased Services are currently tracking less than originally projected helping to offset the additional cost outlined above.

# Operating Expense

	Actual Audited Financials FY 2022	Planning Budget incl. Correctional Health FY 2023	Revised Budget incl. Correctional Health FY 2023	Variance to Planning Budget FY 2023
<b>Expense:</b>				
Salaries and Wages	\$792.7	\$863.2	\$922.2	\$59.0
Employee Benefits	259.4	288.8	293.4	4.6
<b>Total Labor Cost</b>	<b>1,052.1</b>	<b>1,152.0</b>	<b>1,215.6</b>	<b>63.6</b>
Supplies	271.5	298.7	282.7	(16.0)
Physician Services	370.1	425.6	443.0	17.4
Purchased Services	280.6	293.2	289.0	(4.2)
Depreciation, Amortization & Interest	71.9	93.5	88.6	(4.9)
<b>Total Operating Expense</b>	<b>\$2,046.2</b>	<b>\$2,262.9</b>	<b>\$2,318.9</b>	<b>\$56.0</b>
<b>Operating Income (Loss)</b>	<b>\$294.2</b>	<b>\$45.4</b>	<b>\$(16.8)</b>	<b>\$(62.2)</b>



# Strategic Initiatives

**Overall adjustment to original FY 2023 planning budget – \$28.0M increase from the FY23 planning budget**

Strategic initiatives in support of the Harris Health System's Strategic Plan reflect the operational priorities over the next five years. Operating expense needed to support these strategic initiatives is incremental to the baseline budget. These costs continue to be refined and the timing of projects evaluated for inclusion in the FY 2023 operating budget based on the availability of funds. Major projects are in support of Harris Health's strategic pillars:

**Pillar 1: Quality and Patient Safety**

**Pillar 2: People**

**Pillar 3: One Harris Health System**

**Pillar 4: Population Health Management**

**Pillar 5: Infrastructure Optimization\***

\*Of note, Pillar 5 initiatives related to LBJ include only the operating cost associated with completing the Facility Master Plan. Additional cost associated with operating a new, expanded facility is not expected to be incurred until FY 2028.

# Capital Expenditures

In alignment with its Strategic Plan 2021-2025, Harris Health recommends continued accelerated remediation efforts aimed at maintaining its aging plant. As such, the routine capital budget for FY 2023 is proposed at \$166 million. Harris Health's capital program structure and solid balance sheet also inform and support this recommendation.

Major capital projects planned for FY 2023 include the following:

## Infrastructure

- Ben Taub Main Air Handling Units Phase 4 of 4
- Ben Taub Level 4 OR Flooring Replacement

## New Construction

- Strategic Land Acquisition & Development
- Quentin Mease Redevelopment (close out)
- Quentin Mease 5<sup>th</sup> Floor Build-Out
- Casa de Amigos Redesign (close out)

# Capital Expenditures

## Renovation

- Ben Taub/LBJ Elevator Modernization
- System-Wide Roofing (cyclic)

## Transformation

- Ben Taub Phase 3 Facilities Master Plan Projects
- LBJ New Facility Design/Planning
- LBJ Phase 3 Facilities Master Plan Projects

# Statement of Revenues and Expenses

FISCAL 2023 Proposed Budget (in Millions)

	Actual Audited Financials FY 2022	Planning Budget incl. Correctional Health FY 2023	Revised Budget incl. Correctional Health FY 2023	Variance to Planning Budget FY 2023	
<b>Revenue:</b>					
1	Net Patient Service Revenue	\$ 822.0	\$ 723.7	\$ 723.7	\$ -
2	Medicaid Supplemental Programs	561.1	614.3	612.2	(2.1)
3	Other Operating Revenue	81.7	116.8	116.8	0.0
4	Total Operating Revenue	1,510.8	1,454.8	1,452.7	(2.1)
5	Net Ad Valorem Tax Revenue	814.8	838.2	831.1	(7.1)
6	Net Tobacco Settlement Revenue	13.3	13.3	13.3	0.0
7	Interest Income & Other	1.6	2.0	5.0	3.0
8	Total Nonoperating Revenue	829.7	853.4	849.3	(4.1)
9	Total Net Revenue	\$ 2,340.4	\$ 2,308.2	\$ 2,302.0	\$ (6.2)
<b>Expense:</b>					
10	Salaries and Wages	\$ 792.7	\$ 863.2	\$ 922.2	\$ 59.0
11	Employee Benefits	259.4	288.8	293.4	4.6
12	Total Labor Cost	1,052.1	1,152.0	1,215.6	63.6
13	Supplies	271.5	298.7	282.7	(16.0)
14	Physician Services	370.1	425.6	443.0	17.4
15	Purchased Services	280.6	293.2	289.0	(4.2)
16	Depreciation, Amortization & Interest	71.9	93.5	88.6	(4.9)
17	Total Operating Expense	\$ 2,046.2	\$ 2,262.9	\$ 2,318.9	\$ 56.0
18	Operating Income (Loss)	\$ 294.2	\$ 45.4	\$ (16.8)	\$ (62.2)
19	Total Margin	12.6%	2.0%	-0.7%	-2.7%

<b>Impact of Identified Strategic Initiatives:</b>					
20	Pillar 1 - Quality & Patient Safety		0.0	0.4	0.4
21	Pillar 2 - People		in baseline	in baseline	0.0
22	Pillar 3 - One Harris Health		0.0	5.4	5.4
23	Pillar 4 - Population Health Management		0.0	12.5	12.5
24	Pillar 5 - Infrastructure Optimization		0.0	9.7	9.7
25	Incremental Operating Expense		0.0	28.0	28.0
26	Combined Operating Income (Loss) Including Strategic Initiatives		\$ 45.4	\$ (44.8)	\$ (90.2)
27	Combined Total Margin		2.0%	-1.9%	



# Statement of Revenues and Expenses

Strategic Financial Plan: FISCAL 2023-2027 (in Millions)

	Planning Budget incl. Correctional Health FY 2023	Revised Budget incl. Correctional Health FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027	
<b>Revenue:</b>							
1	Net Patient Service Revenue	\$ 723.7	\$ 723.7	\$ 735.4	\$ 747.4	\$ 759.6	\$ 772.1
2	Medicaid Supplemental Programs	614.3	612.2	615.9	619.7	623.4	627.2
3	Other Operating Revenue	116.8	116.8	120.1	123.5	127.1	130.8
4	Total Operating Revenue	1,454.8	1,452.7	1,471.4	1,490.6	1,510.1	1,530.1
5	Net Ad Valorem Tax Revenue	838.2	831.1	847.7	864.7	882.0	899.6
6	Net Tobacco Settlement Revenue	13.3	13.3	13.3	13.3	13.3	13.3
7	Interest Income & Other	2.0	5.0	5.1	5.2	5.3	5.4
8	Total Nonoperating Revenue	853.4	849.3	866.1	883.1	900.5	918.3
9	Total Net Revenue	\$ 2,308.2	\$ 2,302.0	\$ 2,337.5	\$ 2,373.7	\$ 2,410.6	\$ 2,448.4
<b>Expense:</b>							
10	Salaries and Wages	\$ 863.2	\$ 922.2	\$ 954.4	\$ 987.8	\$ 1,022.4	\$ 1,058.2
11	Employee Benefits	288.8	293.4	305.2	317.4	330.1	343.3
12	Total Labor Cost	1,152.0	1,215.6	1,259.6	1,305.2	1,352.5	1,401.5
13	Supplies	298.7	282.7	294.0	305.8	318.0	330.7
14	Physician Services	425.6	443.0	465.1	488.4	512.8	538.4
15	Purchased Services	293.2	289.0	300.6	312.6	325.1	338.1
16	Depreciation, Amortization & Interest	93.5	88.6	93.9	99.5	105.5	111.8
17	Total Operating Expense	\$ 2,262.9	\$ 2,318.9	\$ 2,413.2	\$ 2,511.5	\$ 2,613.9	\$ 2,720.6
18	Operating Income (Loss)	\$ 45.4	\$ (16.8)	\$ (75.7)	\$ (137.8)	\$ (203.2)	\$ (272.2)
19	Total Margin	2.0%	-0.7%	-3.2%	-5.8%	-8.4%	-11.1%
<b>Impact of Identified Strategic Initiatives:</b>							
20	Pillar 1 - Quality & Patient Safety	0.0	0.4	0.4	0.4	0.4	0.4
21	Pillar 2 - People	in baseline	in baseline	in baseline	in baseline	in baseline	in baseline
22	Pillar 3 - One Harris Health	0.0	5.4	6.4	6.6	6.8	7.1
23	Pillar 4 - Population Health Management	0.0	12.5	21.1	24.5	25.4	26.3
24	Pillar 5 - Infrastructure Optimization	0.0	9.7	46.1	51.9	53.7	55.6
25	Incremental Operating Expense	0.0	28.0	74.1	83.4	86.3	89.3
26	Combined Operating Income (Loss) Including Strategic Initiatives	\$ 45.4	\$ (44.8)	\$ (149.8)	\$ (221.2)	\$ (289.5)	\$ (361.5)
27	Combined Total Margin	2.0%	-1.9%	-6.4%	-9.3%	-12.0%	-14.8%



# Capital Budget Program Summary

FISCAL 2023 – 2027 (in Millions)

Capital Category	FY 2023 Capital Budget	FY 2024 Capital Budget	FY 2025 Capital Budget	FY 2026 Capital Budget	FY 2027 Capital Budget
Facility Projects	\$ 92,462,409	\$ 37,849,000	\$ 17,429,000	\$ 10,623,350	\$ 1,800,000
Information Technology	\$ 18,833,214	\$ 12,300,000	\$ 12,900,000	\$ 11,600,000	TBD
Medical Capital	\$ 41,245,518	\$ 27,217,415	\$ 23,153,695	\$ 39,489,616	\$ 17,337,970
Other	\$ 7,527,510	\$ 1,109,249	\$ 1,193,249	TBD	TBD
Emergency Capital	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
<b>Routine Capital Budget</b>	<b>\$ 162,068,651</b>	<b>\$ 80,475,664</b>	<b>\$ 56,675,944</b>	<b>\$ 63,712,966</b>	<b>\$ 21,137,970</b>

Capital Category	FY 2023 Capital Budget	FY 2024 Capital Budget	FY 2025 Capital Budget	FY 2026 Capital Budget	FY 2027 Capital Budget
LBJ New Hospital *	Part of budget above	\$ 200,000,000	\$ 325,000,000	\$ 375,000,000	\$ 250,000,000

\* In FY2023, \$32M is captured in the routine budget above under transformation. Funding will be required to start design/pre-construction services in FY2022 and FY2023 since bond funds will not be available until another 2+ years. From FY2024 through FY2027, budget assumed to be from bond funding as discussed.



# Comparative Tax Rates – TX Largest Public Hospitals

	Harris	Dallas	Bexar	Tarrant
<b>Hospital District Taxes (2021 Tax Rates)</b>				
Maintenance & Operations Rate	\$0.16047	\$0.24331	\$0.24096	\$0.22355
Debt Service Rate	0.00174	0.01169	0.03527	0.00088
Hospital District Rate - Cents per \$100 Valuation	\$0.16221	\$0.25500	\$0.27624	\$0.22443
<b>Percentage Uninsured</b>	<b>24.2%</b>	<b>25.1%</b>	<b>19.1%</b>	<b>18.9%</b>
Hospital District Property Tax Levy (\$ Millions)	\$831.5	\$746.4	\$546.5	\$489.4
Hospital District Tax Levy / Resident	\$176	\$291	\$269	\$230
<sup>16</sup> Hospital District Tax Levy / Uninsured Resident	\$727	\$1,158	\$1,411	\$1,218



# Comparative Credit Ratings and Cash on Hand

Institution	FYE <sup>(1)</sup>	Fitch	Moody's	S&P	Cash on Hand (Days)
<b>Harris County Hospital District, TX</b>	<b>2021</b>	<b>AA</b>	<b>Aa1</b>	<b>AA- <sup>(5)</sup></b>	<b>159.00</b>
Bexar County Hospital District <sup>(2)</sup>	2021	AA+	Aa1	AA	237.60
Dallas County Hospital District <sup>(2)</sup>	2021	AA-	Aa2	AA-	131.90
El Paso County Hospital District <sup>(2)</sup>	2021	A-	Baa2	BBB+	54.80
Tarrant County Hospital District, TX <sup>(3) (4)</sup>	2021	NR	NR	NR	323.06

Moody's Criteria	AAA	Aa	A	Baa	Ba
Cash on Hand (Days)	≥ 250	≥ 150	≥ 80	≥ 55	≥ 40

S&P Criteria	Extremely Strong	Very Strong	Strong	Adequate	Vulnerable
Days' Cash on Hand	> 275	205-275	160-205	110-160	80-110

Fitch Criteria*	Neutral	Weak
Cash on Hands (Days)	> 75	< 75

\*Note that the only guidance Fitch provides is "DCOH below 75 days is weak and is risk additive. DCOH above 75 days is considered neutral to the assessment."

1) FYE 09-30-2021 except for Bexar County (FYE 12-31-2021)  
 2) DCOH is provided from S&P Capital IQ  
 3) DCOH is provided from Moody's MFR  
 4) Tarrant County Hospital District does not currently have any outstanding public debt  
 5) Not rated as a GO but has a "Revenue Backed Rating"



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# Closing the Gap

## Ad Valorem Tax Support

- While the cost of health care in terms of staffing and medical supplies has dramatically increased over the past three years, during the same time Harris Health System's effective tax rate has been cut twice resulting in an annual decreased revenue of at least \$50 million. This occurred at the same time as Harris Health System continues to rank at the bottom of other large public health systems in Texas with respect to ad valorem property tax support per county resident or per uninsured resident.
- Further erosion of the tax rate for management and operations leads to inability by Harris Health to operate "in the black" and deliver uninterrupted clinical services to the residents of Harris County much less expansion of such services as outlined in our strategic plan. If continued at the current rate, insufficient tax revenue will disrupt the multi-year positive operating performance by the System that allowed for stable, favorable bond ratings and easy access to capital. Without a strong balance sheet that Harris Health boasts today, its bond ratings will fall, the cost of capital will rise, and strategic hospital replacement will become a very costly proposition for the tax payers of the Harris County.
- As a result, patient care for the most vulnerable residents in the fourth most populous county in the nation will suffer a heavy setback.

# Closing the Gap

## Labor Management

- **Contract Labor:** As previously mentioned, cost mitigation strategies have been deployed across the organization to manage and minimize contract labor expense. Contract labor is being monitored and strategies put in place to ensure appropriate review and approval of any contract labor in an effort to achieve a 5-10 percent reduction in utilization.
- **Productivity:** Benchmarking efforts are currently underway to assess operational performance at the unit level. The goal of the project is to bring staffing in alignment with benchmark targets where possible.

## Non-labor Expense Management

Purchased services, non-clinical operating expense opportunities and further evaluation of supplies per unit continues to be the focus of additional efforts at reducing costs.

# Closing the Gap

## Delay of Strategic Projects

- Pavilion leadership is reviewing possibilities of modifying or delaying strategic projects that are not currently operationalized. While such delays might mitigate some of the FY2023 costs, the downstream impact of service deferrals will affect future years' expense structure as inflationary pressures compound.

## Break-even Margin

- In light of current market conditions and operational needs, Harris Health System will commit to achieving a break-even margin as opposed to the 2.0 percent margin originally presented for FY 2023. Anything less than a break-even margin will effectively trigger a downgrade concern by the three main rating agencies leading to a serious challenge related to accessing capital markets for the strategic bond issuance.



# Closing the Gap

From the inception, public safety net hospitals have not been on an equal footing with other healthcare providers. Public hospitals are driven by the public charge to care for the un- and underinsured; our patient volume is a factor of the County underserved and current capacity. While already operating at or close to 100% capacity, we have no options to close beds or otherwise decrease demand like others. With the static patient volumes, rapidly rising healthcare costs, and lower reimbursement public hospitals are in an untenable position to survive on less. This only leads to an eventual reduction in public healthcare services and redistribution of the un- and underinsured populations to seeking care from the private and other providers in the community. Achieving resource parity between the public and private providers thus becomes an issue of public health and must be tackled accordingly.

As a last resort, and with these implications in mind, Harris Health is also evaluating services that might be delayed or reduced, and the impact of doing so on our System as well as our community and our patients.

# QUESTIONS/DISCUSSION



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**BOARD OF TRUSTEES**

**Compliance and Audit Committee**

Thursday, August 11, 2022  
10:30 A.M.

BOARD ROOM  
4800 Fournace Place, Bellaire, Texas 77401

The meeting may be viewed online at: <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**

<b>I. Call to Order and Record of Attendance</b>	<b>Ms. Marcia Johnson</b>	<b>1 min</b>
<b>II. Approval of the Minutes of Previous Meeting</b>	<b>Ms. Marcia Johnson</b>	<b>2 min</b>
• Compliance and Audit Committee Meeting – May 12, 2022		
<b>III. Presentation of Harris Health System Internal Audit Annual Status Update</b>		<b>10 min</b>
– <b>Ms. Errika Perkins, Chief Assistant County Auditor and Ms. Sharon Brantley Smith, Audit Director</b>		
<b>IV. Executive Session</b>	<b>Ms. Marcia Johnson</b>	<b>45 min</b>
<b>A. Report by the Executive Vice President, Chief Compliance and Risk Officer, Regarding Compliance with Medicare, Medicaid, HIPAA, Other Federal and State Healthcare Program Requirements, and an Update on the Status of Fraud and Abuse Investigations, Pursuant to Tex. Health &amp; Safety Code Ann. §161.032, and Possible Action Regarding This Matter Upon Return to Open Session</b>		<i>(15 min)</i>
– <b>Ms.Carolynn Jones</b>		
<b>B. Discussion Regarding Harris County Internal Audit Report on Business Continuity and Disaster Recovery Planning, Pursuant to Tex. Health &amp; Safety Code Ann. §161.032, Tex. Occ. Code Ann. §151.002, Tex. Gov’t Code §418.183 and Tex. Gov’t Code §551.089</b>		<i>(10 min)</i>
– <b>Ms. Errika Perkins, Chief Assistant County Auditor and Ms. Sharon Brantley Smith, Audit Director</b>		
<b>C. Discussion Regarding Harris County Internal Audit Report on Provider Credentialing, Pursuant to Tex. Health &amp; Safety Code Ann. §161.032, Tex. Occ. Code Ann. §160.007 and Tex. Occ. Code Ann. §151.002</b>		<i>(10 min)</i>
– <b>Ms. Errika Perkins, Chief Assistant County Auditor and Ms. Sharon Brantley Smith, Audit Director</b>		

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D. Discussion Regarding Harris County Internal Audit Report on Outstanding High-Priority Management Action Plan, Pursuant to Tex. Health & Safety Code Ann. §161.032, and Possible Action Regarding this Matter Upon Return to Open Session – **Ms. Errika Perkins, Chief Assistant County Auditor and Ms. Sharon Brantley Smith, Audit Director** (5 min)

E. Discussion Regarding Harris County Internal Audit Report on the Engagement to Facilitate Harris Health's Implementation of Recommendations from Alvarez and Marsal's Gap Assessment, Pursuant to Tex. Health & Safety Code Ann. §161.032, Tex. Occ. Code Ann. §160.007, and Tex. Occ. Code Ann. §151.002 – **Ms. Errika Perkins, Chief Assistant County Auditor and Ms. Sharon Brantley Smith, Audit Director** (5 min)

V. Reconvene **Ms. Marcia Johnson 1 min**

VI. Adjournment **Ms. Marcia Johnson 1 min**

**HARRIS HEALTH SYSTEM  
MINUTES OF THE BOARD OF TRUSTEES  
COMPLIANCE & AUDIT COMMITTEE MEETING**

**Thursday, May 12, 2022**

**10:00 AM**

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
<b>I. Call to Order and Record of Attendance</b>	Professor Marcia Johnson, Chair, called the meeting to order at 10:29 a.m. It was noted there was a quorum present and the attendance was recorded. Professor Johnson announced that while some board members are in the room, others will participate by videoconference as permissible by state law and the Harris Health Videoconferencing Policy. Only participants scheduled to speak have been provided dial in information for the meeting. All others who wish to view the meeting may access the meeting online through the Harris Health website: <a href="http://harrishealthtx.swagit.com/live">http://harrishealthtx.swagit.com/live</a> .	
<b>II. Approval of the Minutes of Previous Meeting</b> Compliance Committee Meeting – February 10, 2022		<b>Moved by Dr. Arthur Bracey, seconded by Mr. Lawrence Finder, and unanimously approved the minutes of the previous meeting.</b>
<b>III. Presentation of Harris Health System Internal Audit Annual Status Update</b>	Ms. Errika Perkins, Chief Assistant County Auditor, Harris County Auditor’s Office, presented the Harris Health System Internal Audit Status Update. She reported on various project results such as Jail Pharmacy, Nursing, and Infection Prevention Assessment. She stated that the Internal Audit team conducted agreed-upon procedures to assess the Harris County Sheriff’s Office’s (HCSO) nursing and pharmacy correctional health processes prior to Harris Health System’s assumption of responsibilities. Ms. Perkins stated that her team continues to work on the Alvarez & Marsal (A&M) Recommendation follow-up. She reported that there are currently ninety-nine (91) validations that Internal Audit is continuing to work through by gathering evidence and testing results of the evidence to ensure that the action plans are remediated as intended.	<b>As reported.</b>

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
	<p>Ms. Perkins shared that the validation work is expected to continue through calendar year 2022. Minimal work is expected in 2023 but internal audit team intends to validate all 272 action plans until they have been remediated. Ms. Perkins also reported that Internal Audit is actively conducting a Physician Credentialing project as well as a Business Continuity and Disaster Recovery project, and have just kicked off the Telemedicine Audit.</p> <p>Ms. Perkins provided an update on Management Action Plans (MAPs), stating that there are seven (7) outstanding MAPs. She highlighted the Finance, Food Nutrition, Pharmacy, and Patient Access departments for their cooperation on the Cash Management Audit. She also reported on a change to the Internal Audit follow-up process in which the team is now tracking MAPs with implementation days that have been delayed more than twice. Ms. Perkins also provided an educational summary on the Telehealth Extension and Evaluation Act, which was recently introduced and would establish a two-year extension for certain COVID-10 emergency telehealth waivers. A copy of the report is available in the permanent record.</p>	
<p><b>IV. Discussion Regarding a Change in Accounting Practice for the Fiscal Year Ended September 30, 2023</b></p>	<p>ITEM (S) TAKEN OUT OF ORDER</p> <p>Ms. Victoria Nikitin, Executive Vice President &amp; Chief Financial Officer (CEO), and Mr. Chris Clark, Partner, BKD CPAs &amp; Advisors (BKD), led discussion regarding a Change in Accounting Practice for the Fiscal Year Ended September 30, 2023. Ms. Nikitin explained that Harris Health has been closely following Harris County during the fiscal year transition and is currently in the stub year, which began in March and will end in September. She stated that the County is on a cash basis and report their financial results on a modified accrual basis, however, Harris Health is on an accrual basis. By the end of the stub year, Harris Health needs to be in sync with the County on how it recognizes revenue on financial statements. Ms. Nikitin emphasized the accounting practice change will not affect the System’s cash position.</p>	<p><b>As reported.</b></p>

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
	<p>Mr. Clark stated that while the audit was recently completed in February 2022, a second audit will be completed in September 2022 for the stub year. Additionally, a third audit will be completed in September 2023 for FY 2023. He explained that guidance for property tax revenue states that the revenue should be recognized for the period in which the taxes were levied. When Harris Health begins the process for the 2022 tax levy, it will be for the twelve (12) months ended September 30, 2023. Once this is complete, the System will be in sync and the tax levies will match the fiscal year and be consistent with other Texas hospital districts who have a fiscal year ending in September. Because the 2021 levy was for the period of March 1, 2021 to February 28, 2022 and the 2022 levy will be for the period of October 1, 2022 to September 30, 2023, no ad valorem tax revenue will be recognized for the period of March 1, 2022 to September 30, 2022. This transition is required to adjust to the Harris County's and Harris Health System's new fiscal year end and to align the related budgeting and tax rate approval processes with that new fiscal year end. Mr. Clark noted that the County will also have a sub year in which no ad valorem tax is recognized. Mr. Clark echoed Ms. Nikitin's comment that this practice will have no impact on cash position.</p>	
<p><b>V. Discussion Regarding Future Compliance Committee Agenda Items</b></p>	<p>Professor Johnson explained that the purpose of this item was to better define the compliance guidelines, reporting structure, and reporting schedule for important topics such as Harris Health's Diversity &amp; Inclusion initiatives. She proposed that the Compliance &amp; Audit Committee work with Ms.Carolynn Jones, Executive Vice President, Chief Compliance Officer, and Ms. Sara Thomas, Vice President Legal Affairs/Managing Attorney, Harris County Attorney's Office, to develop a plan for these topics.</p>	<p><b>As reported.</b></p>
<p><b>VI. Executive Session</b></p>	<p>At 10:41 a.m., Professor Johnson stated that the Compliance &amp; Audit Committee would enter Executive Session as permitted by law under Tex. Health &amp; Safety Code Ann. §161.032, Tex. Gov't Code Ann. §551.071, Tex. Occ. Code Ann. §160.007, and Tex. Occ. Code Ann. §151.002.</p>	

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
<b>VII. Reconvene</b>	At 11:45 a.m., Professor Johnson reconvened the meeting and stated that no action was taken in Executive Session.	
<p><b>A.</b> Report by the Executive Vice President, Chief Compliance and Risk Officer, Regarding Compliance with Medicare, Medicaid, HIPAA, Other Federal and State Healthcare Program Requirements, and an Update on the Status of Fraud and Abuse Investigations, Pursuant to Tex. Health &amp; Safety Code Ann. §161.032, and Possible Action Regarding This Matter Upon Return to Open Session</p>		<b>No action taken.</b>
<p><b>B.</b> Discussion Regarding Harris County Internal Audit Report on Harris Health System Outstanding Management Action Plans, Pursuant to Tex. Health &amp; Safety Code Ann. §161.032</p>		<b>No action taken.</b>
<p><b>C.</b> Discussion Regarding Harris County Internal Audit Report on the Harris Health System Correctional Health Pharmacy, Nursing and Infection Prevention Assessment, Pursuant to Tex. Health &amp; Safety Code Ann. §161.032, Tex. Gov't Code Ann. §551.071, Tex. Occ.</p>		<b>No action taken.</b>

AGENDA ITEM	DISCUSSION	ACTION/RECOMMENDATIONS
Code Ann. §160.007, and Tex. Occ. Code Ann. §151.002		
<p><b>D.</b> Discussion Regarding Harris County Auditor’s Status Update on Harris Health’s Implementation of Recommendations from Alvarez and Marsal's Gap Assessment, Pursuant to Tex. Health &amp; Safety Code Ann. §161.032, Tex. Gov’t Code Ann. §551.071, Tex. Occ. Code Ann. §160.007, and Tex. Occ. Code Ann. §151.002</p>		<b>No action taken.</b>
<b>VIII. Adjournment</b>	Moved by Dr. Arthur Bracey, seconded by Mr. Lawrence Finder, and unanimously approved to adjourn the meeting. There being no further business, the meeting adjourned at 11:54 a.m.	

I certify that the foregoing are the Minutes of the Meeting of the Compliance and Audit Committee of the Board of Trustees of the Harris Health System held on May 12, 2022.

Respectfully submitted,

Marcia Johnson, Chair

Recorded by Yasmin Othman

**Thursday, May 12, 2022**

**Harris Health System Board of Trustees Board Meeting – Compliance & Audit Committee 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](mailto:BoardofTrustees@harrishealth.org) before close of business the day of the meeting.

COMPLIANCE & AUDIT COMMITTEE BOARD MEMBERS PRESENT	COMPLIANCE & AUDIT COMMITTEE BOARD MEMBERS ABSENT	OTHER BOARD MEMBERS PRESENT
Professor Marcia Johnson (Chair)		Dr. Ewan Johnson
Dr. Arthur Bracey (Ex-Officio)		Ms. Mia Mends
Mr. Lawrence Finder		
Ms. Jennifer Tijerina		
EXECUTIVE LEADERSHIP		
Dr. Esmaeil Porsa, President & Chief Executive Officer		
Ms. Amy Smith, Senior Vice President, Transitions & Post-Acute Care		
Dr. Ann Barnes, Executive Vice President & Chief Medical Executive		
Mr. Anthony Williams, Vice President, Compliance Officer		
Ms. Carolynn Jones, Executive Vice President & Chief Compliance and Risk Officer		
Ms. Errika Perkins, Chief Assistant County Auditor, Harris County Auditor’s Office		
Mr. David Attard, Senior Vice President, Facilities, Construction and System Engineering		
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		
Ms. Kari McMichael, Vice President, Controller		
Mr. Louis Smith, Senior Executive Vice President & Chief Operating Officer		
Ms. Maria Cowles, Senior Vice President, Chief of Staff		
Dr. Matasha Russell, Chief Medical Officer, Ambulatory Care Services		
Mr. Michael Nnadi, Senior Vice President & Chief Pharmacy & Lab Officer		
Ms. Olga Rodriguez, Vice President, Community Engagement & Corporate Communications		
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		

Dr. Sandeep Markan, Chief of Staff, Ben Taub Hospital
Ms. Sara Thomas, Vice President Legal Affairs/Managing Attorney, Harris County Attorney's Office
Ms. Sharon Brantley Smith, Assistant County Auditor, Harris County Auditor's Office
Dr. Steven Brass, Executive Vice President & Chief Medical Executive
Dr. Tien Ko, Chief of Staff, Lyndon B. Johnson Hospital
Ms. Victoria Nikitin, Executive Vice President & Chief Financial Officer

<b>OTHERS PRESENT</b>	
Alison Perez	Nicholas Bell
Cherry Pierson	Paul Lopez
Daniel Smith	Randy Manarang
Ebon Swofford	Tai Nguyen
Jennifer Zarate	Toni Cotton
Jerald Summers	Xylia Rosenzweig
Karen Quirk	Yasmin Othman
Matthew Schlueter	

Thursday, August 11, 2022

Presentation of Internal Audit Annual Status Update

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Harris County Auditor's Office presentation to the Compliance and Audit Committee of the Internal Audit Status Update



# HARRIS HEALTH SYSTEM

## Internal Audit Status Update



August 11, 2022

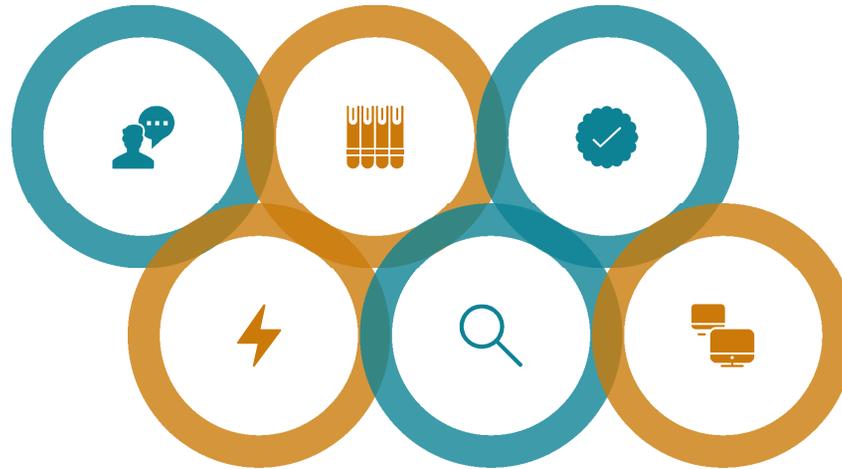
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## Our Mission

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### Mission

Provide independent audit and consulting services, utilizing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.



### Goal

Serve as a trusted assurance partner by completing at least 75% of the annual Audit Plan by fiscal year-end and providing deliverables that add value and support Harris Health's achievement of its Strategic Plan.



# Audit Results & Audit Plan Status

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## Audit Results

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**Project Objective:** Determine the accuracy and completeness of credentialing documentation in accordance with applicable policies, procedures, and regulations.

**Scope:** The audit focused on processes and data for the period January 2021 through December 2021, including testing of 50 credentialing files (15 initial appointments, 25 reappointments, 10 temporary privileges).

**Overall Conclusion:** There are opportunities to improve the overall provider credentialing function by updating the Credentialing Procedures Manual for consistency and alignment with the Medical Staff Bylaws and the State's guidelines. Additionally, there was noncompliance regarding proper credentialing documentation, approvals, and privileging requirements, which indicates a need to strengthen processes and controls.

All management action plans are scheduled to be complete by **December 31, 2022**.

*The full audit report will be presented in Executive Session.*



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## Audit Results

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**Project Objective:** Evaluate processes and controls for business continuity and disaster recovery.

**Scope:** Procedures and data during the period April 2020 – February 2022. The scope did not include testing for security of IT hardware during the event of a disaster, testing of disaster recovery alternate sites, or testing for protecting backup data in transit.

**Overall Conclusion:** Business continuity and disaster recovery processes are not continually guided by a Business Impact Analysis, which would specify the data recovery needs for essential hospital functions and evaluate whether the processes are adequate to meet the needs. Additionally, there is an opportunity to integrate the Information Security department into the Hospital Incident Command System to facilitate the development and implementation of Emergency Operations Plans (EOP) for cyberattacks. There is also an opportunity to improve controls to ensure recommendations for EOP improvements are implemented based on disaster events and exercises, and that information for certain key functions and decision-making is complete and accurate.

All management action plans are scheduled to be complete by **April 30, 2023**.

*The full audit report will be presented in Executive Session.*



## Audit Results



Project Name:  
**Alvarez &  
Marsal (A&M)  
Recommendation  
Follow-up**

**Project Objective:** This is a continuous monitoring engagement to facilitate the development of corrective action plans (CAPs) and timelines to address A&M's recommendations; track action plan status; and determine whether there is sufficient evidence of the completed actions.

Summary Status:

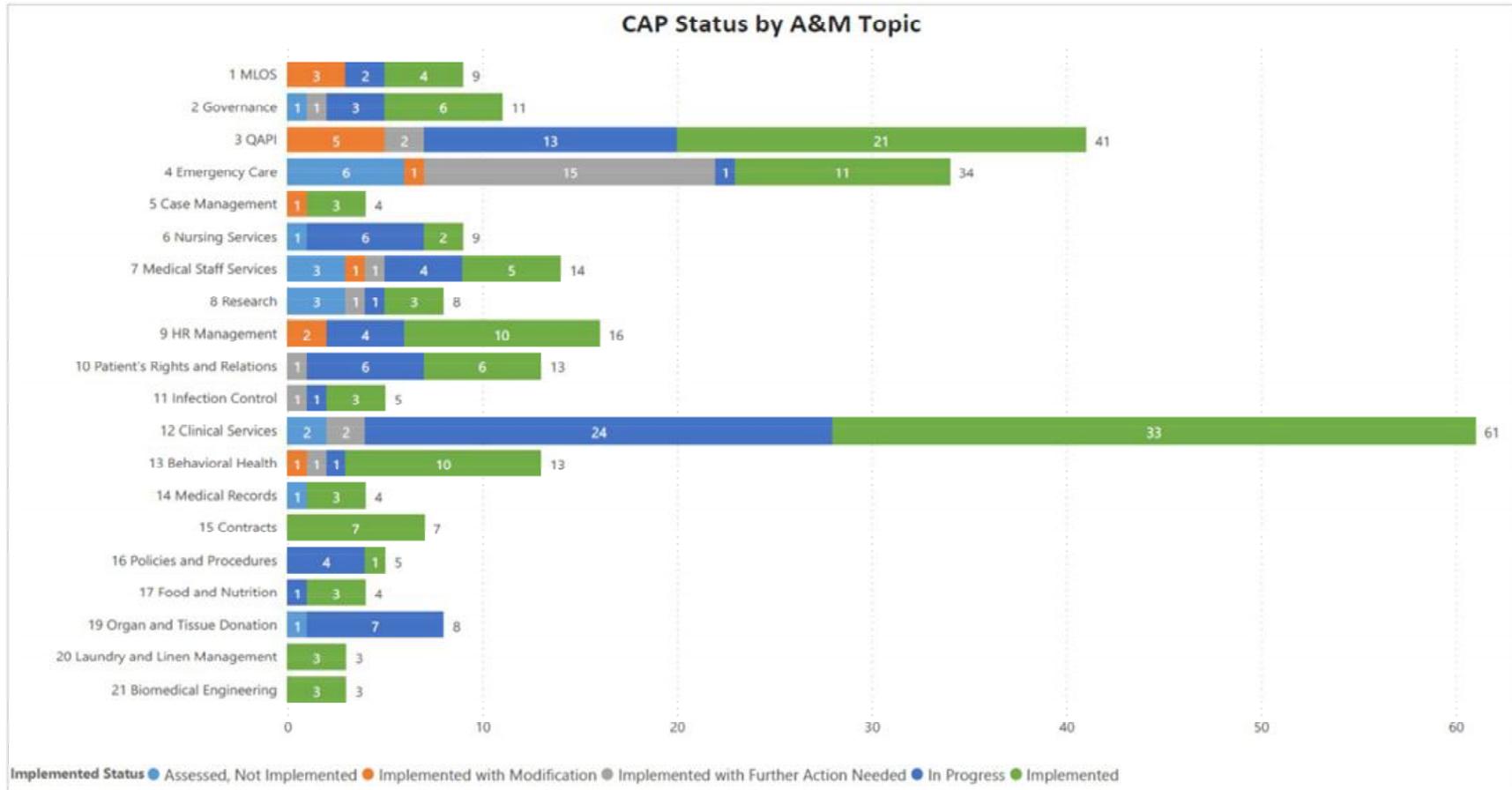
CAPs Documented (272/272) <b>100%</b>	Validations Completed (194/272) <b>71%</b>	Validations In Progress (78/272) <b>29%</b>
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**Completion Timeline:** Based on the due dates established by management for the outstanding action plans, validation work is expected to continue through calendar year 2022. Minimal work is expected in 2023 for three action plans with 2023 dates.

*The full audit report will be presented in Executive Session.*

# A&M Corrective Action Plan Status by Topic

The *In Progress* items are currently being validated or have future due dates.



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## P.E. 9-30-2022 Audit Plan Status



### **Noteworthy Highlights**

- ✓ Progress on the A&M engagement has been impeded, in part, by HHSIA's efforts to remain agile and respond to emerging risks by adding engagements to our Audit Plan at Harris Health leadership's request. These engagements included the Correctional Health Pharmacy, Nursing, and Infection Prevention Assessment and the Cash Management Audit.
- ✓ Most recently, in July 2022, HHSIA was asked to conduct a Correctional Health Mental Health Services Audit. The audit is in the Planning phase. It will be an evaluation of The Harris Center for Mental Health and IDD's delivery of mental health care services to the inmates housed in the detention facilities operated by the Harris County Sheriff's Office, as well as The Harris Center's adherence to the interlocal agreement with Harris County.
- ✓ In addition to the special requested engagements, HHSIA is providing consulting services in the development of an enterprise risk management (ERM) framework at Harris Health.
- ✓ Finally, HHSIA kicked off the Annual Audit Plan and Risk Assessment process in July 2022 to obtain input from Harris Health leadership and the Compliance and Audit Committee on risks and concerns that may potentially be addressed through value-added audit engagements in FY 2023.

## P.E. 9-30-2022 Audit Plan Status

### In Progress

- Follow-up on Alvarez and Marsal Recommendations- *Fieldwork*
- Telemedicine Audit – *Fieldwork* (co-sourced w/Corporate Compliance)
- Procurement Audit – *Planning*
- **New Audit:** Correctional Health Mental Health Services Audit – *Planning*
- *Cybersecurity Training Compliance – Planning*
- Management Action Plan Follow-up - *Ongoing*

### Not Started

- UT Provider Invoice Payments (co-sourced w/Corporate Compliance)
- Baylor Provider Invoice Payments (co-sourced w/Corporate Compliance)
- Medical Device Audit
- Vendor Invoice Payment Timeliness



# Follow-up on Management Action Plans

## Follow-up on Management Action Plans

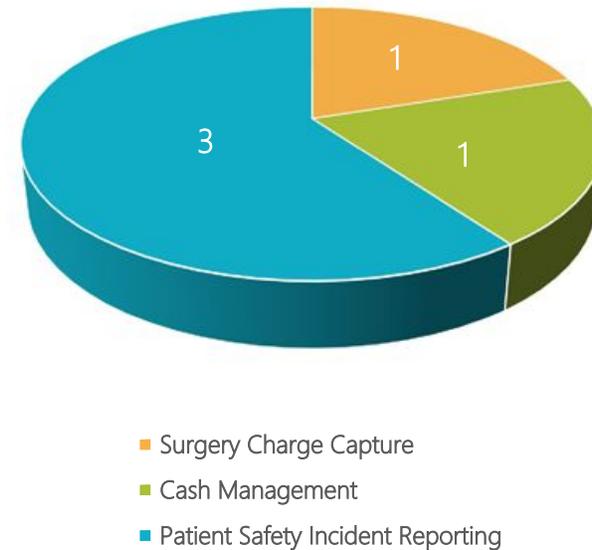
At the end of each audit engagement, HHSIA requests action plans and definitive implementation dates from management for remediating the risks associated with the issues identified during the audit.

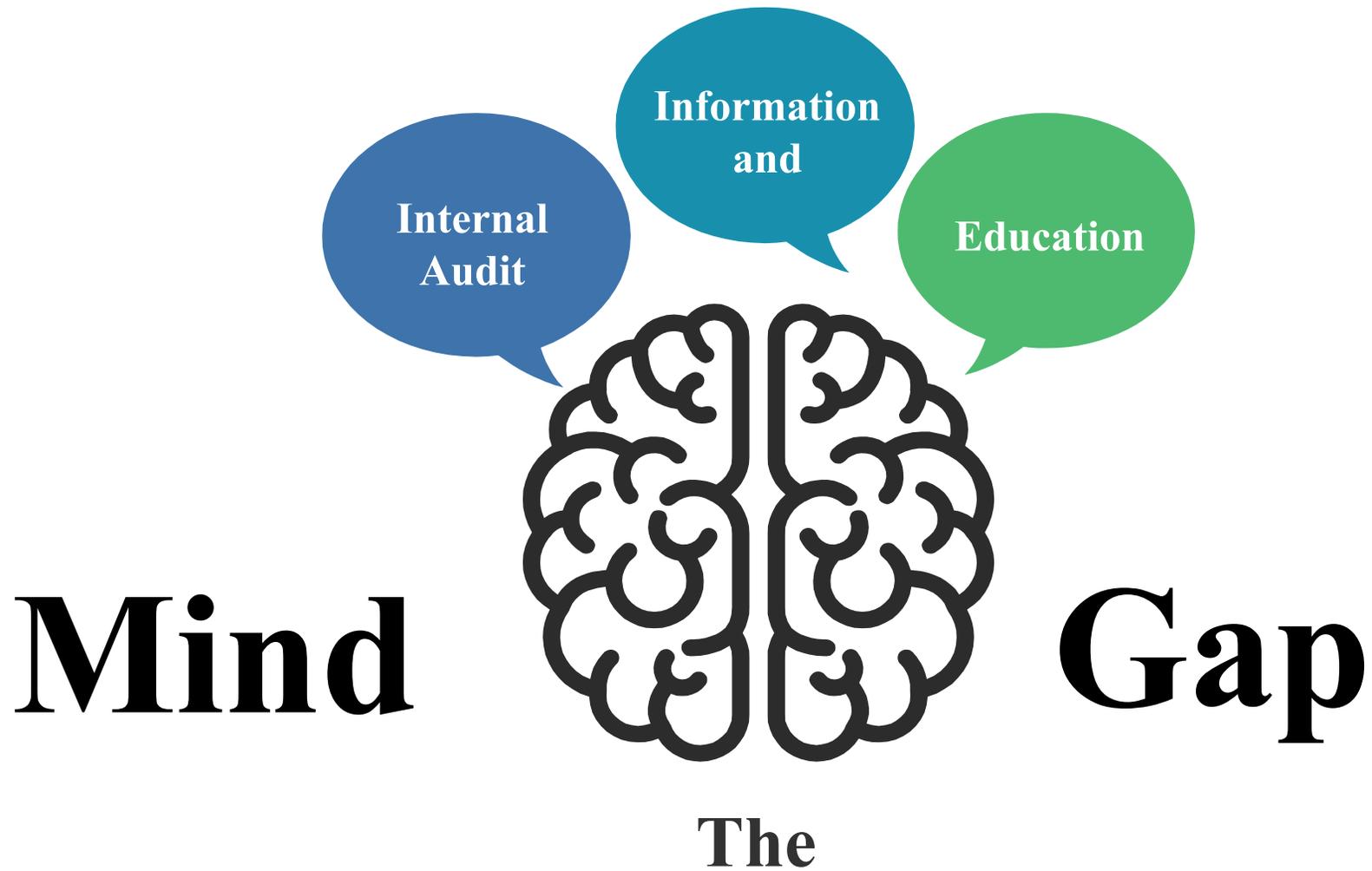
HHSIA follows up to confirm implementation of the management action plans (MAPs) and provides updates on any past-due MAPs with a HIGH priority for implementation.

Project Name	Outstanding Mgmt. Action Plans	High Priority Past Due
Surgery Charge Capture	1	0
Cash Management	1	1
Patient Safety Incident Reporting	3	0
<b>Total</b>	<b>5</b>	<b>1</b>

*Details of the one high-priority MAP will be discussed in Executive Session.*

Summary of Outstanding MAPs





## KNOWLEDGE SHARING

### *The Harris Center*



In March 2022, Harris Health System assumed responsibility for medical care provided to Harris County jail inmates. This includes mental health services provided to the inmates by The Harris Center for Mental Health and Intellectual or Developmental Disability (IDD). The Harris Center is the state-designated Local Mental Health Authority and Local Intellectual and Developmental Authority for Harris County, and its mission is to “transform the lives of people with behavioral health and IDD needs”.

The Harris Center’s Forensic Services Division serves needs of children, adolescents, and adults in the criminal justice system. The contract to provide mental health services to Harris County inmates began in 1978, and services are provided in the following jail units:

- Front Door Clinic Services
- General Population Services (including Outpatient Services and Chronic Care Clinic)
- Administrative Separation Housing
- Mental Health Specialty Unit (including Mental Health Infirmery – 108 beds; Step Down – 244 beds; Cognitive Behavioral Treatment – 20 beds; Discharge Planning Unit; and Male Social Learning Program – 20 beds)

**Why it matters:** At Harris Health leadership’s request, Internal Audit is conducting an evaluation of The Harris Center’s delivery of mental health care services to the jail inmates. The engagement is expected to be completed in October 2022.



# Thank You

- **Errika Perkins, CPA, CIA, CFE**  
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- **Sharon Brantley Smith, MBA, CIA, CFE, CISA**  
Audit Director, Audit Division  
Sharon.BrantleySmith@harrishealth.org  
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**HARRIS  
HEALTH  
SYSTEM**

Thursday, August 11, 2022

Executive Session

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Report by the Executive Vice President, Chief Compliance and Risk Officer, Regarding Compliance with Medicare, Medicaid, HIPAA and Other Federal and State Health Care Program Requirements and a Status of Fraud and Abuse Investigations, Pursuant to Texas Health & Safety Code §161.032, and Possible Action Regarding This Matter Upon Return to Open Session

This information is being presented for informational purposes only.

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Executive Session Agenda Item

Thursday, August 11, 2022

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Harris County Auditor's report on Business Continuity and Disaster Recovery Planning. The audit and any and all information is proprietary, privileged, confidential or otherwise legally exempt from disclosure pursuant to § 161 Texas Health & Safety Code and § 151 Texas Occupations Code. This report is to be presented in Executive Session.

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Executive Session Agenda Item

Thursday, August 11, 2022

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Harris County Auditor's report on Provider Credentialing. The audit and any and all information is proprietary, privileged, confidential or otherwise legally exempt from disclosure pursuant to Texas Health & Safety Code Ann. §161.032, Texas Occupational Code Ann. §160.007, and Texas Occupational Code Ann. §151.002. This report is to be presented in Executive Session.

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Executive Session Agenda Item

Thursday, August 11, 2022

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Harris County Auditor's report on one outstanding high-priority management action plan. To be presented in Executive Session.

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Executive Session Agenda Item

Thursday, August 11, 2022

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Harris County Auditor's status update on the engagement to facilitate Harris Health's implementation of recommendations from Alvarez and Marsal's gap assessment. This report is presented and discussed in Executive Session.

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