

FISCAL YEAR 2025 BUDGET WORKSHOP

Thursday, August 1, 2024

1:00 P.M.

BOARD ROOM

4800 Fournace Place, Bellaire, TX 77401

The meeting may be viewed online: <http://harrishealthtx.swagit.com/live>.

***Notice: Some Board Members may participate by videoconference.**

Mission

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

AGENDA

- | | | |
|---|------------------------------|----------------|
| I. Call to Order and Record of Attendance | Dr. Andrea Caracostis | 2 min |
| II. Discussion Regarding Harris Health System's Operating and Capital Budget – Ms. Victoria Nikitin and Ms. Alison Perez | Dr. Andrea Caracostis | 117 min |
| III. Adjournment | Dr. Andrea Caracostis | 1 min |

Thursday, August 1, 2024

Discussion Regarding Harris Health System's Operating and Capital Budget

Attached for your review is the Harris Health Fiscal Year 2025 Budget Assumptions.

- October 2024 – September 2024

Victoria Nikitin

Victoria Nikitin

Executive Vice President – Chief Financial Officer



FY 2025 Budget Assumptions (October 2024 – September 2025)

Victoria Nikitin, EVP and Chief Financial Officer
Alison Perez, VP – Financial Planning & Analysis

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Financial Forecasting Process

- Fiscal Year 2024 data (based on May YTD actuals) utilized as the baseline for budget projections.
- Baseline revenue and expenses updated to reflect the most current information available as well as inflationary assumptions.
- Integrates prioritized, system wide strategic initiatives.
- Includes operating dollars associated with strategic capital projects.
- Reflects projection for tax revenue based on proposed margin.



Implementation of Strategic Plan in FY 2025

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Implementation of 2021-2025 Strategic Plan

Harris Health leadership, at the direction of Harris Health's Board of Trustees, continues to implement strategies and initiatives aligned with the organization's 2021-2025 Strategic Plan. The Plan is guided by six strategic pillars which serve as the system's foundation for the future.

- Quality and Patient Safety
- People (Patients, Employees, Medical Staff)
- One Harris Health
- Population Health Management
- Infrastructure Optimization
- Diversity, Equity and Inclusion



Strategic Facilities Plan

- In November 2023, Harris County voters overwhelmingly approved Harris Health's \$2.5 billion bond proposal, with more than 72% of voters showing support, paving the way for Harris Health to execute the first phase of its Strategic Facilities Plan.
- Harris Health broke ground on the new hospital on the LBJ campus in May 2024, only six months after the bond election. Construction on the new facility is estimated to last approximately 52 months (May 2024 – September 2028), with occupancy projected in Q1 of 2029.



Strategic Facilities Plan

- On the Ben Tab campus, Harris Health will begin a four-phased expansion of the Intensive Care Units, expand telemetry capability to all beds, and address key mechanical, electrical, plumbing and sewer issues. Simultaneously, planning will continue for a 120-bed patient care tower.
- Related to the Ambulatory Care Platform, demand forecasting is currently underway that will support determination of the location of the three new clinics that will be funded with bond proceeds. The location of these clinics will be determined in Q1 of FY 2025. Further, construction will begin on a radiology and radiation therapy refresh at Smith Clinic and at the new Pasadena Health Center (Centrico) in FY 2025.

Approved Strategic Initiatives

In addition to the Strategic Facilities Plan, the following initiatives in support of the system's Strategic Plan are currently **in progress** and are included in the draft budget for FY 2025:

- Food Pharmacy and Food Rx Expansion;
- Hospital at Home Service Expansion;
- Cardiac Catheterization Lab Expansion at Ben Taub Hospital;
- Emergency Center Telemedicine Expansion;
- Endoscopy Center at Quentin Mease Expansion;
- Implementation of Epic Rover and Unified Communications;
- Implementation of Epic Back to Foundation;
- Implementation of a Service Management System; and
- Contract with Texas Medical Center Police.

Pending Strategic Initiatives

The following strategic Initiatives are **not yet implemented** but are included in the draft FY 2025 budget.

- Increase in Living Wage from \$15/hour to \$16/hour
- Addition of Phlebotomists in Emergency Centers;
- “Healthy Connect” Remote Patient Monitoring for Blood Pressure Program Expansion;
- Outpatient Parental Antibiotic Therapy Program Expansion; and
- Creation of Utilization Review Team.

These initiatives will be implemented in FY 2025 assuming revenues and expenses support the deployment of each. Additional initiatives will be considered throughout the year based on alignment with strategic priorities and the availability of funding.



Patient Care Platform Updates

Impacting FY 2025 Projections

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Observation Bed Expansion

- New observation units were opened at both Ben Taub and LBJ Hospitals during FY 2024. A 21-bed observation unit was opened at Ben Taub Hospital in May 2024 while a 12-bed unit was opened at LBJ Hospital in March 2024.
- This expansion will aid in the reduction of emergency center boarding hours, observation hours and length of time to convert patients from observation to inpatient status by cohorting observation patients rather than placing them throughout the hospital based on bed availability which makes it challenging to efficiently manage the unique needs of these patients.

Hospital at Home Service Expansion

- Hospital at Home Service, an innovative care model that provides acute care in the home setting, plans to expand in FY25 thus incrementally expanding bed capacity and service capability for the health system.
- The program went live in February 2024 as the first program in the metro-Houston area to care for acute patients in their homes.
- During the first 8 weeks of the program, patients were admitted solely from Ben Taub Hospital, testing its processes in a live environment. In May 2024, the program formally began admitting patients from LBJ Hospital as well.
- As of July 2024, 24 patients have been admitted to the program with 17 from BT and 7 from LBJ.
- The program is currently set up to manage an average daily census of 4 patients with plans to expand to an average daily census of 8 patients during FY2025.

Cardiac Catheterization Lab Expansion at Ben Taub

- The Ben Taub Hospital Cardiac Catheterization Labs (Cath Labs) will be updated by November 2024 to meet current code requirements and enhance technology.
- Currently, Ben Taub has two Cath Labs that are over 10 years of age, with technology that will no longer be supported within 12 months.
- The plan also calls for the addition of a third room dedicated to Electrophysiology (EP) procedures to support more A-fib ablations/pulmonary vein isolations (PVI) cases, and better support the growing interventional/EP cardiology needs across Harris Health.

Emergency Telemedicine Expansion

- The Emergency Center (EC) Telemedicine Program uses Harris Health's virtual care platform to provide care to eligible patients who contact Ask My Nurse (AMN).
- The expansion of the EC Telemedicine Program will further reduce the utilization of emergency centers for non-emergent care, thereby alleviating long patient wait times, and ultimately decompressing our emergency departments.
- With the current EC Telemedicine Program, 76% of patients connected virtually with an EC provider are able to receive needed care without having to present in-person to an emergency room.
- The program's current hours of operation are Monday through Friday, 8 a.m. to 5 p.m. Harris Health plans to expand the hours of operation to 7 a.m. until 11 p.m., seven days per week.



Endoscopy Center at Quentin Mease Expansion

- Harris Health expanded endoscopy capabilities by opening the Endoscopy Center at Quentin Mease in January 2024. The Endoscopy Center improves access to care for patients in need of colorectal cancer screening services. As of April 2024 colonoscopy procedures are no longer being outsourced.
- The Endoscopy Center at Quentin Mease currently operates two rooms three days per week.
- Phase 2 of implementation for the Endoscopy Center will occur in Summer 2025 and will transition services from 3 days a week to 5 days a week to expand operations and create additional patient access.



FY 2025 Patient Volumes, Revenues & Expenses



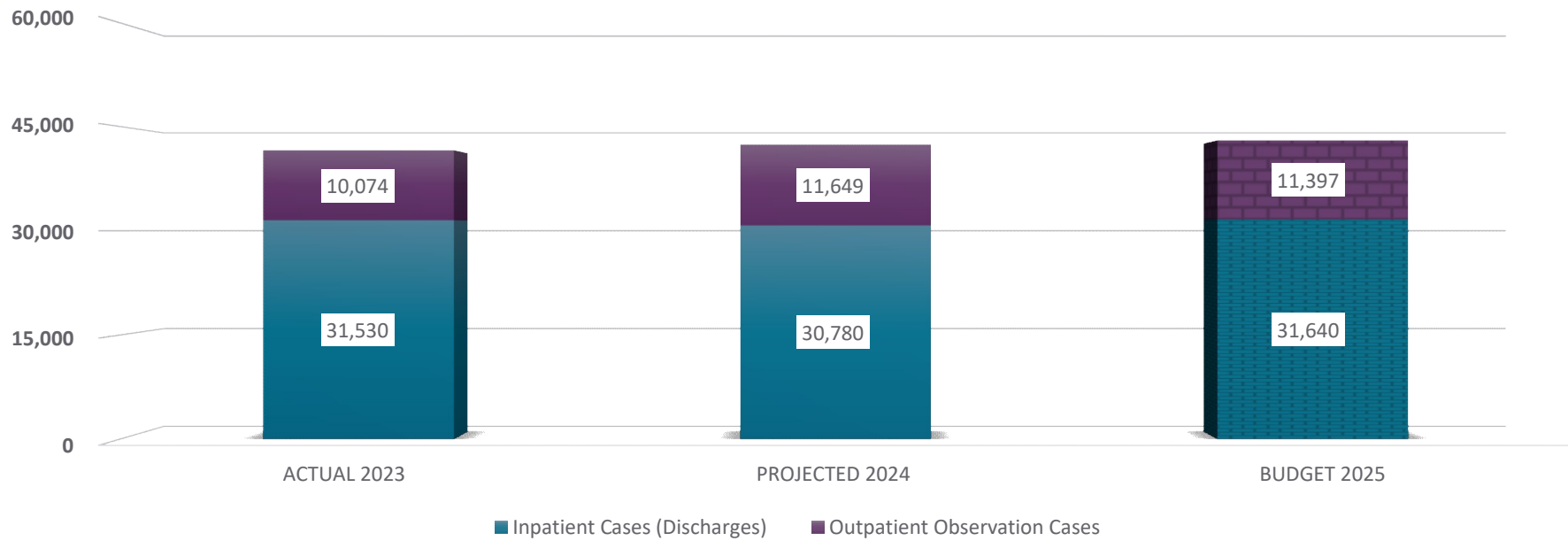
Patient Volume

- Income eligibility criteria will be maintained at 150% of the federal poverty level. There are no plans to change the indigent care policy (Financial Assistance Program) affecting patient volumes.
- Overall volume for Harris Health is expected to remain stable as compared to current year levels having returned to, or exceeding, pre-COVID levels in some instances.

Inpatient Volume

- Overall inpatient volumes are expected to remain consistent with current year levels at 236,806 Total Patient Days due to capacity constraints as FY 2024 volumes exceed pre-pandemic levels and capacity exceeds 90% at both hospitals.
- Volume is expected to shift slightly between inpatient and observation cases related to the opening of the new observation units at both hospitals during FY 2024. Inpatient cases are projected at 31,640 and outpatient observations cases at 11,397 for total cases of 43,037.
- Inpatient surgery cases are expected to see a slight uptick to 10,016 cases as the planned refresh project at LBJ is now complete.
- Labor and delivery volumes are expected to remain steady at current year levels after having returned to pre-COVID levels with 5,376 births.

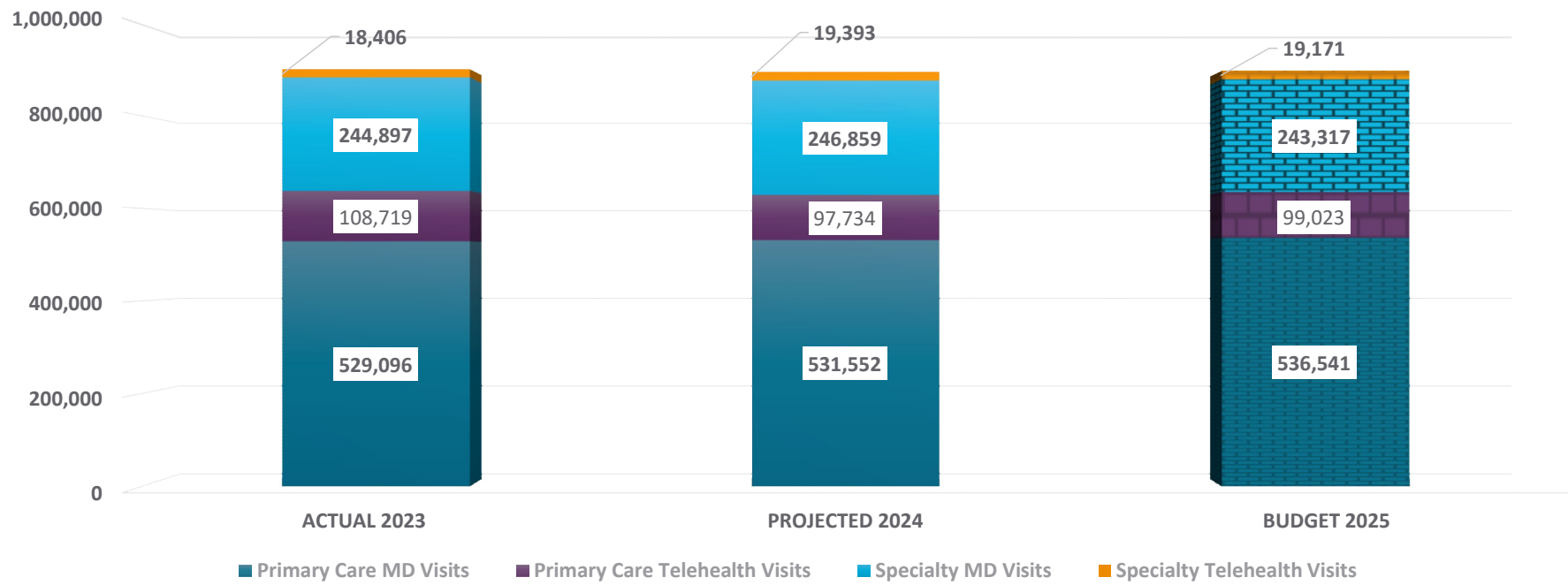
Cases Occupying Beds



Outpatient Volume

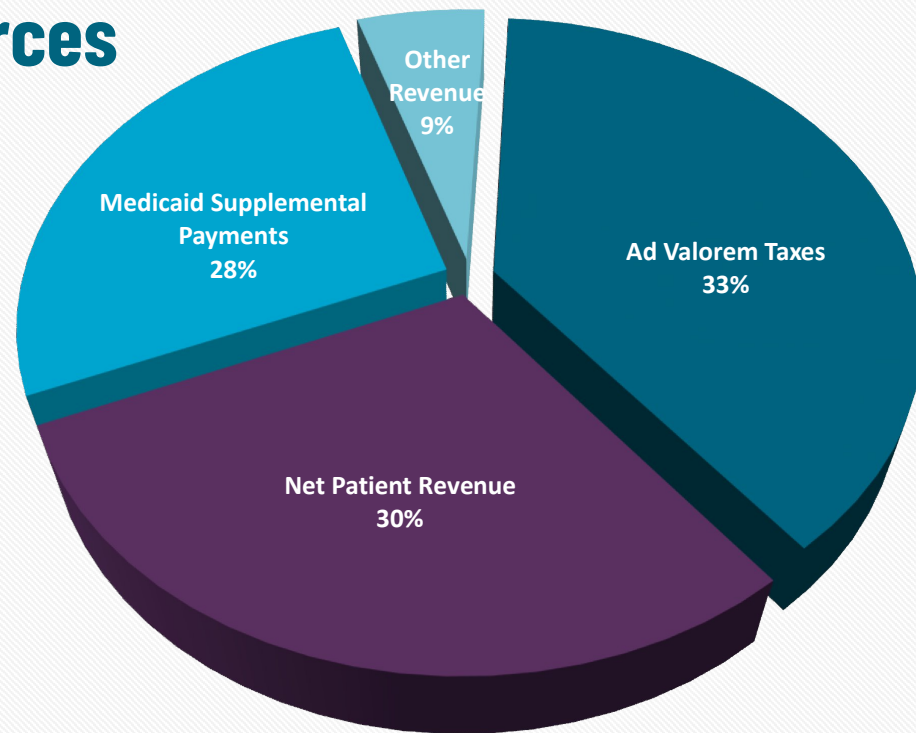
- Overall outpatient visits (inclusive of primary, specialty, and telehealth visits) are expected to be essentially flat in FY 2025 at 898,052 total clinic visits, reflecting the multi-year trend.
- Emergency room visits are projected to remain consistent with current FY 2024 levels, which are projected to end the fiscal year almost 5% greater than prior year levels, at 160,951 visits annually.
- Outpatient Surgery Cases are projected to increase over 3% to 11,698 cases resulting from the completion of the planned refresh project at LBJ in FY 2024 as well as a concerted effort to reduce backlog at the Ambulatory Surgery Center.

Total Clinic Visits



Revenue Sources

FY 2023 Audited Financials



■ Ad Valorem Taxes ■ Net Patient Revenue ■ Medicaid Supplemental Payments ■ Other Revenue

Net Revenue

\$ In Millions	FY 2024 Projected Year End Excluding Correctional Health	FY 2025 Proposed Budget Excluding Correctional Health	Variance to FY 2024 Projected Year End Increase/(Decrease)	% Variance Projected Year End vs Proposed Budget
Revenue:				
Net Patient Service Revenue	\$ 742.2	\$ 754.7	\$ 12.5	1.7%
Medicaid Supplemental Programs	715.3	682.6	(32.7)	-4.6%
Capital Gifts & Grants	0.0	10.0	10.0	0.0%
Other Operating Revenue	46.9	48.9	2.0	4.3%
Total Operating Revenue	1,504.4	1,496.2	(8.2)	-0.5%
Net Ad Valorem Tax Revenue	905.2	996.2	91.0	10.1%
Net Tobacco Settlement Revenue	15.2	15.2	-	0.0%
Interest Income & Other	78.9	76.1	(2.7)	-3.5%
Total Nonoperating Revenue	999.3	1,087.6	88.3	8.8%
Total Net Revenue	\$ 2,503.7	\$ 2,583.8	\$ 80.1	3.2%

Note: Harris Health's financials and budget are prepared on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board.



Net Patient Revenue

- Net patient service revenue comprises about 30% of the entire System revenue portfolio. FY 2025 projections reflect both the current trends of FY 2024 as well as overall volumes projected for next year.
- The ACA-mandated uncompensated care pool specific to the Medicare DSH program will result in a corresponding payment increase of \$5.5 million for FFY 2025.
- FY 2025 Net Patient Service Revenue is currently estimated at \$754.7 million for the year.

Medicaid Supplemental Payments

- Medicaid Supplemental Programs' revenues make up approximately 28% of Harris Health's total revenue and include Medicaid Disproportionate Share (Medicaid DSH), Uncompensated Care (UC) and High Impecunious Charge Hospital (HICH), Comprehensive Hospital Increase Reimbursement Program (CHIRP), Network Access Improvement Program (NAIP), Hospital Augmented Reimbursement Program (HARP) and Graduate Medical Education (GME) program funding.
- In FY 2025, HHSC plans to implement two new programs: APHRIQA (Alternate Participating Hospital Reimbursement for Improving Quality Award) and ATLIS (Aligning Technology by Linking Interoperable Systems).

Medicaid Supplemental Payments

- At this time, HHSC has not settled over two-thirds of Harris Health's projected Medicaid Supplemental program revenue. This includes UC and HICH program revenues, which comprise the bulk of annual receipts.
- Such distributions will not be complete until later in the fiscal year, adding to the budget uncertainty. In its FY 2025 budget estimates, Harris Health is relying upon the modeling done by the similarly-situated peer safety net TX hospitals and will continue to update and refine those until HHSC produces a payment file.

Medicaid Supplemental Payments - Recap of 2023 Program Rule Update

- In June 2023, the Texas Health and Human Services Commission (HHSC) adopted amendments concerning Disproportionate Share Hospital reimbursement methodology, Hospital-Specific Limit methodology, and Uncompensated Charity Care.
- The new rules require that hospitals must participate in all of the Medicaid Supplemental programs that they are eligible for, and that hospitals receive either the flat standard payment or their Medicaid shortfall limited by their State Payment Cap. The remaining DSH funds are distributed in accordance with the payment-to-cost methodology.

Medicaid Supplemental Payments - New for FY 2025

- Multiple program changes result from HHSC's initial policy goal in late CY 2022 and CY 2023 of protecting the UC pool and maintaining it at **\$4.5B** in **FY 2028-2030**; and from HHSC's subsequent decisions in May of 2024 to allow the UC pool to be reduced to a projected **\$3.1B** in **FY 2028-2030**.
- While the above rebasing is not immediate, changes to programs that are new or affected for **FY 2025** are detailed on the following slides.

Medicaid Supplemental Payments (Medicaid DSH)

- Current law calls for a reduction in federal DSH funding by \$8 billion starting in FFY 2025 although Congress in March 2024 eliminated the DSH cut for FFY 2024. However, these reductions continue to remain on the Congressional agenda for FFY 2025-2027.
- If not repealed again in December 2024, the available future distributions to Harris Health could drop up to 20% in FFY 2025 and beyond.
- At this time, Harris Health's Medicaid DSH revenue model does not include such cuts.



Medicaid Supplemental Payments (Medicaid DSH)

- The annualized DSH net benefit for FY 2024 reflects a total of \$82.8 million. Projected funding for FY 2025 is estimated to be \$51.1 million. The reason for the decrease to Harris Health is that other supplemental funding is being considered in the payment-to-cost calculations, thus limiting the DSH funding.
- Harris Health will continue to provide intergovernmental transfers (IGT) for the private hospitals for Medicaid DSH, and will be credited that same IGT amount in the payment calculations.

Medicaid Supplemental Payments (UC + HICH)

- Under the terms of the January 2021 1115 Waiver, HHSC negotiated with Centers for Medicare and Medicaid (CMS) for the continuation and resizing of the statewide UC pool. The result of that 2021 pool resizing was an increase of approximately \$600 million annually, for a total UC of \$4.5 billion for demonstration years DY12 through DY16. The additional UC funding was used to create a new High Impecunious Charge Hospital (HICH) sub-pool starting last year.
- Consequently, when HHSC updated the Uncompensated Care (UC) program rules effective FY 2023, they added the above HICH sub-pool to the overall UC pool.

Medicaid Supplemental Payments (UC + HICH)

- Eligibility to receive funds from the HICH sub-pool is restricted to rural hospitals, state-owned hospitals, and hospitals that have at least 30% of their charges from serving uninsured persons. Harris Health falls into the last category, and has received funding from the UC HICH sub-pool.
- HHSC has flexibility to determine how much of the current (\$4.5B) UC pool is in the HICH sub-pool. Final FY 2024 UC allocations and FY 2025 allocations are unknown until HHSC publishes its HICH decision and related data.
- Pending HHSC's payment calculations, total UC funding for the System for FY 2024 is estimated to be \$466.3 million, and is projected at approximately \$452.3 million in FY 2025.

Medicaid Supplemental Payments (HARP)

- The Hospital Augmented Reimbursement Program (HARP) is a relatively new statewide supplemental program (as of FFY 2022) providing Medicaid payments to hospitals for inpatient and outpatient services that serve Texas Medicaid fee-for-service (FFS) patients.
- As of this writing, HHSC has an inquiry out to CMS related to allowing an exception for nominal charge hospitals to be paid more than their charges for the HARP program. Harris Health falls into this nominal charge category and is currently limited to \$89.3 million annually, with a projected FY 2025 impact of \$96.7 million.

Medicaid Supplemental Payments (CHIRP, NAIP, GME)

- For the Comprehensive Hospital Increase Reimbursement Program (CHIRP), the net annual benefit to the System is estimated at \$25.7 million for FY 2024 and \$30.8 million in FY 2025.
- The Network Access Improvement Program (NAIP) funding is expected to be stable at around \$24.8 million for FY 2024 through FY 2025. This program is slated to sunset in FY 2026.
- The Graduate Medical Education (GME) funding program, started in October 2018, allows for recovery of some GME costs. The net benefit to Harris Health in FY 2024 is estimated at \$26.3 million and is projected at the same level for FY 2025.

New Medicaid Supplemental Programs for FY 2025 (APHRIQA, ATLIS)

- The CHIRP umbrella will introduce the Alternate Participating Hospital Reimbursement for Improving Quality Award (APHRIQA). As the name implies, APHRIQA is a hospital incentive program as an additional component to the existing CHIRP hospital rate enhancement programs. There is no financial impact from this component to Harris Health.
- Aligning Technology by Linking Interoperable Systems (ATLIS) an incentive program for Medicaid MCOs that provides a different targeted percent of premium amount by service area and program type (e.g., STAR, STAR+PLUS, etc.). The overall goal of the ATLIS program is to provide an incentive to Managed Care Organizations (MCOs) to encourage their in-network hospitals to provide real time notifications on their Medicaid patients' admissions, discharges and transfers, as well as a set of clinical information. HHSC believes that MCO receipt of this data should improve MCO quality of care to patients.

Ad Valorem Taxes

- Due to the timing of this presentation, the Office of Management and Budget (OMB) of Harris County was not in a position to provide calculated 2024 tax year rates and the corresponding aggregate tax revenue to Harris Health.
- OMB advised Harris Health to propose the amount of ad valorem revenue needed for the FY 2025 budget cycle.
- FY 2025 proposed tax revenues are estimated at \$996.2 million. This amount is needed in order to close the expense gap and arrive at a 2.5% margin allowing for continued reinvestment in the System's aging infrastructure.

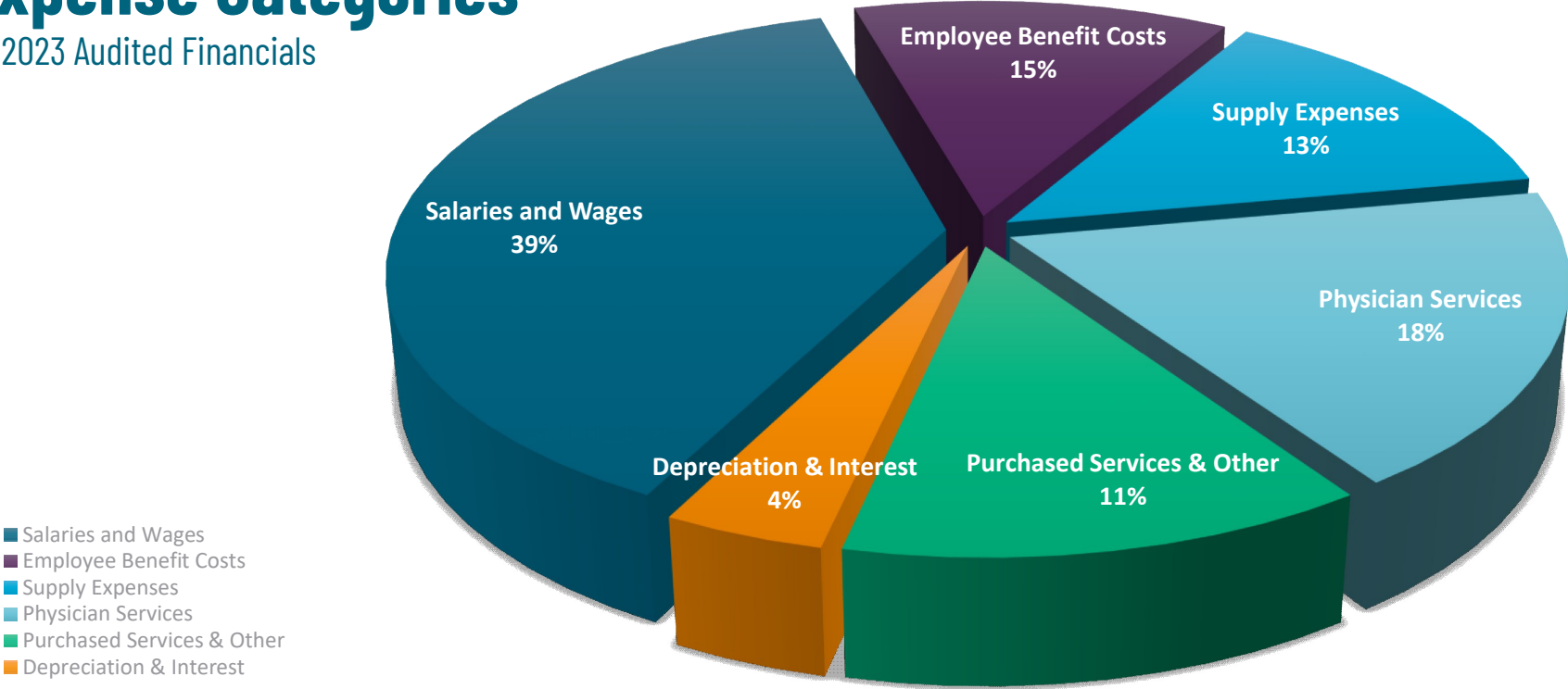


Other Revenue

- All other sources of revenue are expected to remain stable.
- The first annual philanthropic commitment of \$10 million from the Strategic Fund is reflected in the capital gifts and grants section of Other Revenue.
- Opioid funding distributed by the Texas Opioid Abatement Council is estimated at approximately \$11 million for Harris Health, however, the timing is not currently known. Should the timing fall within FY 2025, the corresponding amount will be added to revenues.

Expense Categories

FY 2023 Audited Financials



Operating Expense

\$ In Millions	FY 2024	FY 2025	Variance to	% Variance
	Projected Year End Excluding Correctional Health	Proposed Budget Excluding Correctional Health	FY 2024 Projected Year End Increase/(Decrease)	Projected Year End vs Proposed Budget
Expense:				
Salaries and Wages	\$ 908.8	\$ 960.5	51.7	5.7%
Employee Benefits	310.3	322.4	12.1	3.9%
Total Labor Cost	1,219.0	1,282.9	63.9	5.2%
Supplies	330.8	345.7	14.9	4.5%
Physician Services	440.8	462.0	21.2	4.8%
Purchased Services	287.2	328.0	40.8	14.2%
Depreciation, Amortization & Interest	100.8	100.9	0.1	0.1%
Total Operating Expense	\$ 2,378.7	\$ 2,519.5	\$ 140.9	5.9%

Note: Harris Health's financials and budget are prepared on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board.



Salaries & Benefits

- Salaries and wages are expected to grow by 5.7%, or \$51.7 million in FY 2025, to a total of \$960.5 million.
- This increase includes general inflationary adjustments of 4.5% or \$44 million to account for merit and market adjustments in alignment with current market trends. These adjustments are needed to remain competitive in the current healthcare market.
- Additional salary and wage expense anticipated in FY 2025 is attributed to volume increases and approved strategic initiatives.



Salaries & Benefits

- Overall benefits are expected to grow by \$12.1 million, or 3.9% in FY 2025 to a total of \$322.4 million.
- This includes a 3.0% general inflationary increase for employee health insurance, while Pension and Post Employee Health Benefit projections are based on the most recently available actuarial assumptions.
- The cost of the total compensation portfolio in FY 2025 to support ongoing operations is budgeted at \$1.283 billion, or 50.9% of the total operating budget.

Supplies & Pharmaceuticals

- Overall supplies inclusive of pharmaceutical expense is projected to increase by 4.5% or \$14.9 million in FY 2025 to a total of \$345.7 million.
- This includes inflation of 3.0% for general supplies while Premier is projecting a 3.9% rate of inflation in overall drug budgets for DSH-eligible hospitals and 2.5% in inpatient pharmaceutical costs for 2025.
- Additional incremental expense is attributed to approved strategic initiatives.
- These increases are partially offset by a reduction in expense attributed to refresh projects for minor equipment and furniture which took place in FY 2024 and will not carry over into FY 2025.

Physician Services

- Average contract rate increases for salaries as well as potential service expansions are expected to raise the cost of provider services by 4.8% in FY 2025 to \$462.0 million.
- The projected expense assumes provider vacancies remain steady as compared to FY 2024.
- Additional expense is related to an increase in on-call coverage for the expansion of the Hospital at Home Service as well as an increase in FTEs related to Endoscopy Center at Quentin Mease expansion.
- An increase in psychiatry emergent on-site faculty coverage as well as pediatric inpatient FTEs is also contributing to the increased expense.



Purchased Services

- Purchased Services are expected to grow by 14.2%, or \$40.8 million in FY 2025, to a total of \$328.0 million.
- Included in these projections are general inflationary increases of 4.0% as well as dollars associated with the aforementioned strategic initiatives.
- Also contributing to the increase is bond issuance cost, which has shifted to later FY 2025.



Depreciation & Interest

- Overall depreciation & interest is projected to remain flat compared to FY 2024 year end projections at \$100.9 million.
- Interest expense is expected to increase by approximately \$10.3 million attributed to the issuance of the first installment of the \$2.5 billion bond.
- The increase in interest expense is offset by a decrease in depreciation attributed to catch-up entries recorded in FY 2024 related to the completion of major construction projects which are not expected to carry over into FY 2025.



Proposed Margin

- The preliminary margin target for FY 2025 is currently 2.5% which equates to \$64.2 million based on the volume, revenue and expense assumptions presented.
- Departmental level budget details (volumes, revenues and expenses) are currently being developed.
- Preliminary projections may be adjusted as volumes, revenue and expense assumptions are validated and updated with the latest information available.

Proposed Margin

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Depreciation, Amortization & Interest	100.8	100.9	0.1	0.1%
Total Operating Expense	\$ 2,378.7	\$ 2,519.5	\$ 140.9	5.9%
Operating Income (Loss)	\$ 125.0	\$ 64.2	\$ (60.8)	-48.6%
Total Margin	5.0%	2.5%		

Proposed Capital Budget (Routine)

- The overall capital budget for FY 2024 was \$187.7 million, of which \$103.8 million was for investment in facilities infrastructure.
- As of the 3rd Quarter of FY2024, \$179.3 million or 95.5% of the approved capital budget has been allocated, not including funds received from The Harris County Hospital District Foundation.
- The proposed capital budget for the FY 2025 is projected at \$158.7 million for routine capital only.
- Capital dollars attributed to the \$2.5 billion bond issuance and associated strategic capital projects are not included.

Significant Capital Projects (Routine)

- LBJ CenterPoint (Electrical Underground Service and Gas)
- IT Technology Governance projects
- System-wide multi-device equipment refresh
- Central Fill Pharmacy/EMS build-out and expansion
- Ben Taub 4th floor OR Refresh

Capital Category (In Millions)	FY 2025 Budget
Facilities Projects	\$ 53.8
Information Technology	30.49
Medical Capital	57.59
Other	14.84
Emergency Capital	2.00
Routine Capital Budget	\$ 158.7

Next Steps

- **August 15th** - Preliminary FY 2025 Budget presented to County Commissioners
- **August 29th** - Presentation of Proposed FY 2025 Budget to Board for consideration of approval
- **September 17th** – Public hearing on proposed tax rate and FY 2025 Budget; anticipated approval of FY 2025 Budget by County Commissioners.

Note: The date by which the County OMB is to provide the preliminary tax rates and projections to Harris Health has not yet been determined.