

**MINUTES OF THE BOARD OF MANAGERS
OF
UMC HEALTH SYSTEM**

TUESDAY, AUGUST 8, 2023

Mr. Gary Greenstreet, Chairman, called the Annual Budget Review Meeting of the Board of Managers of University Medical Center to order at 10:07 a.m. on Tuesday, August 8, 2023. The meeting was held in the board room at University Medical Center, 3502 9th Street, MOP I, Suite 360, Lubbock, TX.

The Chair confirmed that no one from the public registered to comment.

Mr. Greenstreet welcomed the Board Members and guests and thanked them for attending. The following members and guests were present:

MEMBERS PRESENT

Gary Greenstreet	Mont McClendon	Gladys Whitten, D.M.D.
	Laura Vinson	

MEMBERS ABSENT

John DeToledo, M.D.(Interim)	Jason Medina
Curtis Griffith	Jolyn Wilkins

OTHERS PRESENT

Teresa Barron	Mark Funderburk	Nick Skeen
Tina Belcher	Brooke Heairet	Chris Smith
Jessica Cummings	Bobbye Hrcirik (virtual)	Shane Terrell (virtual)
Jeff Dane	John Lowe (virtual)	Terrell Thrasher
Aaron Davis	Heather Martinez (virtual)	Amanda Tijerina
Dean Diersing (virtual)	Brian Payne, M.D.	Phillip Waldmann
Kristi Duske	Mike Ragain, M.D.	Tammy Williams
Bill Eubanks	Katie Roller	

INVOCATION

Mr. Mark Funderburk voiced the invocation.

QUORUM

A quorum was established with four voting members being present.

OPEN SESSION

The Board of Managers entered open session at 10:07a.m.

**REVIEW OF REVISIONS TO 2023-2024 CAPITAL EQUIPMENT, CAPITAL
EXPANSION AND OPERATINGS BUDGETS**

Mr. Mark Funderburk, President and Chief Executive Officer, gave a comprehensive overview of the budget documents, the budget approval process, the financial status of UMC Health System and also reviewed how the budget supports the mission, growth, and the strategic plan of the hospital. At the conclusion of discussion, the floor was given to Jeff Dane, Executive Vice President, and Chief Financial Officer.

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Mr. Dane explained the Financial Foreshadowing overview, which included the discussion of the limited capacity and increased pressure on expenses and how this will affect the net income. Mr. Dane discussed the continued strategic push to grow the 340b impact through the RX Perks expansion, Specialty Pharmacy, and the Retail Pharmacy. Mr. Dane also mentioned the start-up and the phases of the new UMC Health & Wellness Hospital and how it should improve access for south Lubbock residents which in turn should increase profits. Additionally, Mr. Dane talked about the construction of the new Cancer Center. With the increased provider presence in the new Cancer Center, this should increase patient volume. Next, Mr. Dane discussed the change in Supplemental Funding. There will be future reduced funding as Federal Medical Assistance Percentage decreases and a \$40 million NAIP Cliff in 2027. Lastly, Mr. Dane explained UMC's commitment to strategic initiatives for the next five years allows for the preservation of financial success through critical supplemental funding loss.

At the conclusion of discussion, the floor was given to Mark Funderburk.

Mr. Mark Funderburk, President and Chief Executive Officer, discussed the Proposed Budget Summary, mentioned the 2023-2024 Budget Assumptions, and an in-depth discussion of the Health System Growth. At the conclusion of discussion, the floor was given to Terrell Thrasher, Senior Vice President of Finance Administration.

Mr. Terrell Thrasher, Senior Vice President of Finance Administration reviewed the revenues and expenses for 2023 and 2024. It was expected that the UMC would have excess revenue over expenses of \$9.8M. The revised 2023 budget now forecasts that UMC will have excess revenue over expenses of \$56.9M, which is an increase of \$47.1M from the original budget. The outpatient activity is up 6% from the original estimate, but a significant driver is the strong commercial mix year-to-date, increasing hospital net revenue estimates by \$39.4M. Also, supplemental funding is expected to increase \$11.4M from original estimates which increase total operating revenues by \$55.6M or 6.6% over the original 2023 budget.

Post-pandemic inflationary pressures, particularly around labor, contract staffing, and supplies, significantly increased expenses in 2022 (9.7% over 2021). Expense growth has eased slightly, now expected to be 7.3% over 2022 or \$58.7M. Much of the increase (\$15.5M) is due to labor costs, to retain and attract staff particularly for the opening of the new Health & Wellness Hospital. The 2023 budget plans for nearly \$7M in ramp up expenses associated with onboarding new staff and marketing the new campus. Professional Services decreases from 2022 by \$4.1M as reliance on expensive external contract staffing has decreased in 2023. Supply costs are expected to increase from 2022 by \$27M due to increased outpatient volumes and inflationary increases, and these are \$10.3M or 5.9% higher than the original 2023 budget again due to better than expected outpatient activity. Physician fees paid to Texas Tech School of Medicine (TTUSOM), UMCP, and community physicians increased \$15.3M over 2022. These also account for \$5.6M of the increase to the original 2023 budget expenses. Resident support, Anesthesia general department support, and moving from fixed funding to RVU models in several areas has driven the increase. Operating expenses in the revised 2023 operating budget are up 3.4% from the original budget, again primarily driven by higher outpatient volume and increases to physician fees.

Nonoperating revenues are also significantly impacting the higher-than-expected excess revenue over expense, up \$20M from original estimates. This is partially driven by \$6M in unexpected burden alleviation funding meant to offset costs associated with subsidizing the Anesthesiology and Surgery programs at TTUSOM. Additionally, interest rates have

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improved considerably over this time last year with the year-to-date yield at 4.5%, increasing investment income estimates by \$13.7M.

Moving to 2024, revenues and expenses will be greatly impacted with the opening of the new Health & Wellness Hospital. Inpatient volumes are expected to increase 3% in 2024, with Health & Wellness adding 2,300 admissions. Of greater impact is the overall 8.5% increase expected in outpatient activity. As the new campus ramps up and begins a phased opening, some activity is expected to shift from the main campus.

Incremental volumes are expected to increase in late 2024 and beyond, as the Health & Wellness Hospital opens fully and the new Urgent Care at that campus opens in 2024. Net patient revenue as well as operating revenue from the UMC Connect Medical Fitness Center is expected to be \$60.1M in year one. Expenses for the new campus are expected to be \$46.2M in year one, including payroll expenses for 275 new employees. The Health & Wellness Hospital is expected to contribute \$13.9M to the bottom line (excess revenue over expenses) in 2024.

Some volume is expected to initially shift to the new campus, as well as most incremental growth, so main campus net revenue shows a slight decrease from 2023. However, overall net revenue growth from 2023 is \$47.3M or 7.0% driven by new activity at the Health & Wellness Hospital. Total operating revenue growth is only 5.8% however due to lower supplemental funding, as uncertainty around funding formulas continues to present challenges in setting future budget expectations. Reliance on DSH/UC, 1115 Waiver, and NAIP funds to generate a positive bottom line continues and presents concerns with the NAIP program (worth \$40M) expected to end in 2027.

Total expense growth in 2024 is projected to be \$65.9M or 7.6%, driven by increased outpatient volume at the Health & Wellness Hospital, 275 new employees at that campus, and inflationary increases system wide. One area expected to decrease however is Professional Services, as external contract staffing is expected to continue to drop from its high in 2022 and the budget reflects full staffing. Nonoperating revenue decreases in 2024 due to the removal of \$6M in one-time burden alleviation funding received in 2023. With the higher increase in expenses relative to operating revenue and less than full utilization in year one at the new Health & Wellness campus, operating margin decreases from 3.4% to 1.7% in 2024 and reduces excess revenue over expense to \$37.9M. At the conclusion of discussion, the floor was given to Jeff Dane, Executive Vice President, and Chief Financial Officer.

Mr. Jeff Dane reviewed the capital equipment budget, the capital expansion budget, the capital expenditures, net income, and cash.

The 2023 Revised Capital Equipment Budget is \$41.2M, which is \$2M less than the original 2023 budget of \$43.2M. The decrease is the result of multiple changes in the budget which include: the removal of items no longer necessary in the amount of \$4.1M, transfers of items to future years in the amount of \$3.2M, a net increase on capital items already purchased from the original budget of \$2.1M, and the addition of new items to the budget in the amount of \$3.2M.

The 2023 Revised Capital Equipment Budget of \$41.2M includes \$6M of undesignated items (items unbudgeted or less than \$50K each). The budget includes \$22.9M for the new Health & Wellness Hospital including radiology, surgical, gym, and other equipment. Other significant capital equipment purchases for 2023 include: surgical equipment on the main campus (\$2.8M), ambulances and other first responder vehicles (\$1.6M), radiology equipment on the main campus (\$932K), and various information technology projects (\$2M).

The 2024 Capital Equipment Budget is projected to be \$41.9M, which includes \$6M for undesignated items. The budget includes \$11.9M for the new TLC² Foundation Cancer

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Center, including two linear accelerators. Other significant capital equipment purchases for 2024 include: PET/CT Camera (\$2.4M), Cat Scan Machine (\$1.8M), an additional surgical robot (\$2.2M), a surgical navigation system at the Health & Wellness Hospital (\$1.4M), and ambulances and first responder vehicles (\$1.5M). The 2023 Revised Capital Expansion Budget is \$123.6M and the 2024 Capital Expansion Budget is projected to be \$77.8M. Noteworthy, strategic items include:

- Completion of the Health & Wellness Hospital including a Medical Office Plaza and Urgent Care (total project cost \$140M)
- TLC2 Foundation Cancer Center (total project cost \$103M)
- Pediatrics relocation to the East Tower for the updated UMC
- Children's Hospital (total project cost \$18.3M)
- Main Lobby expansion (total project cost \$6.2M)
- Outpatient center renovations including new Retail Pharmacy location (total project cost \$2.1M)
- Infrastructure continuation and other campus projects: 3 East finish upgrades (total project cost \$7.7M), MOP HVAC replacement (total project cost \$3.0M), and Cafeteria expansion (total project cost \$3.8M)

Mr. Dane reviewed the Capital Expansion Budget. The Capital Expansion Budget also includes \$7.4M for facilities projects for 2023 and \$8.0M for 2024. These infrastructure maintenance projects include HVAC and air handler upgrades, energy projects, and miscellaneous improvements and repairs to maintain our existing facilities.

Mr. Dane discussed Capital Expenditures. Capital expenditures are expected to increase significantly through 2025 as strategic investments including the new Health & Wellness Hospital, Main Lobby expansion, and Pediatric relocation are completed and the new TLC2 Foundation Cancer Center commences. Planned capital expenditures exceed net income and depreciation in both 2023 and 2024.

Mr. Dane outlined the cash forecast. Previous net income has increased cash reserves allowing for these capital investments while maintaining zero debt. Cash operating reserves remain above 90 days in 2023 and 2024 even with significant cash outlays for both the Health & Wellness Hospital and new Cancer Center from 2022 through 2025.

Mr. Dane reviewed the property tax information. The tax rate per \$100 valuation was 0.1031640 in 2022 and the budget as presented assumed maintaining the current tax rate of 0.1031640 in 2023. Taxes received for 2023 are expected to be \$32.8M.

Mr. Mark Funderburk, President and Chief Executive Officer, summarized services that UMC Health System provided to the Community in 2022 through our Missions of Charity, Education and Financial Strength. In 2022, UMC Health System had over 817,000 patient encounters – serving over 32,000 inpatient admissions, 3,400 births, 68,000 emergency visits, and 30,000 EMS transports. Over the last 45 years UMC Health System – a public hospital for the citizens of Lubbock County and the only locally governed health system – has become a health system to be proud of and a great investment for Lubbock County taxpayers. In 2022, UMC Health System provided \$190M in community benefit including charity care and educational support. Home to the community's only Level I Trauma Center at the main campus, UMC Health System has family-centered care clinics across Lubbock. In addition to the responsibility for providing medical and hospital care for the district's needy and indigent residents, UMC Health System provides medical services for

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the Lubbock County Detention Center and the Lubbock County Juvenile Justice Center, as well support for the Lubbock County Medical Examiner.

UMC Health System serves through *Passion in Action* to the community, donating 23,000 volunteer hours and being named the Lubbock Area United Way's 2022 Volunteer of the Year. UMC employees have donated over \$2.2M thus far to the UMC Passion Campaign, supporting the construction of the new TLC2 Foundation Cancer Center. Serving the entire community, UMC EMS not only provides emergency ambulance and first responder services (30,000 transports in 2022), but expertise, life-saving training, community-based classes and committed involvement all over the region. The Stop the Bleed course is just one example of the over forty education services provided by UMC EMS, many at no cost, serving over 16,500 students, educators, citizens, and healthcare workers in 2022. Additionally, specific Programs of Merit focused on vulnerable populations include:

- UMC Emergency Medical Service Community Paramedic program provides home visits to decrease unnecessary EMS/Emergency Center utilization and costs.
- UMC Urgent Care Clinic provides a 24/7 less costly, quicker access option – where patients are not denied regardless of urgency or ability to pay.
- UMC Care Coordinators (RNs) facilitate over 30,000 patient contacts to provide reminders and get patients access to needed screenings and medical visits.
- UMC enrolls patients into the Primary Health Care Program for diabetes and hypertension management – which includes diabetes prevention classes and dietician counseling.
- UMC partners with the City of Lubbock Health Department and other community organizations through the LBK Community Network to identify high risk, vulnerable patients who have social determinant needs.

UMC Health System provides a tremendous economic benefit to Lubbock County via financial support (salary and benefits) of 231 resident physician full time employees for the 2023-2024 academic year as well as over 700 students trained across the Medical, Nursing, Pharmacy, and Therapy Schools.

At the conclusion of Mr. Funderburk's presentation, Chairman Greenstreet asked if there were any questions regarding the revisions or proposed Operating budgets. Hearing no further questions or comments, Mr. Greenstreet asked for a motion to approve the 2023 Operating budget revisions and the proposed 2024 Operating budget.

ACTION: Ms. Vinson moved to approve the revisions to the 2023 Operating Budget and the proposed 2024 Operating Budget as presented. The motion was seconded by Mr. McClendon and approved unanimously.

Chairman Greenstreet asked if there were any questions regarding the revisions or proposed Capital Equipment and Capital Expansion budgets. Hearing no further questions or comments, Mr. Greenstreet asked for a motion to adopt the revisions and proposed 2023 and 2024 Capital Equipment and Capital Expansion budgets.

ACTION: Dr. Whitten moved to adopt the revisions and the proposed 2023 and 2024 Capital Equipment and Capital Expansion budgets. The motion was seconded by Mr. McClendon and approved unanimously.

Chairman Greenstreet asked if there were any questions regarding the property tax rate information. Hearing no further questions or comments, Mr. Greenstreet asked for a

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motion to adopt the proposed rate of \$0.1031640 for 2023-2024.

ACTION: Dr. Whitten moved to recommend the proposed tax rate per \$100 valuation of \$0.1031640 to the County Commissioners. The motion was seconded by Ms. Vinson and approved unanimously.

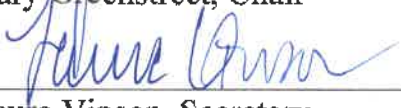
ADJOURNMENT

The meeting adjourned at 11:55 a.m.

APPROVED:

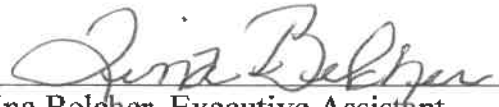


Gary Greenstreet, Chair



Laura Vinson, Secretary

APPROVED AS TO FORM:



Tina Belcher, Executive Assistant