

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

WEDNESDAY, AUGUST 7, 2024

Dr. Gladys Whitten, Chairman, called the Annual Budget Review Meeting of the Board of Managers of University Medical Center to order at 9:00 a.m. on Wednesday, August 7, 2024. The meeting was held in the board room at University Medical Center, 602 Indiana Avenue, Lubbock, TX.

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

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

MEMBERS PRESENT

Gary Greenstreet	Mikella Newsom	Gladys Whitten, D.M.D.
Mont McClendon	Laura Vinson	Jolyn Wilkins
Jason Medina		

MEMBERS ABSENT

John DeToledo, M.D.(Non-Voting)

OTHERS PRESENT

Teresa Barron	Mark Funderburk	Nick Skeen
Tina Belcher	Bobbie Hrnccirik (virtual)	Abby Scioli
Jessica Cummings	John Lowe	Shane Terrell
Jeff Dane	Steven Maddux	Amanda Tijerina (virtual)
Aaron Davis	Amy O’Meara (virtual)	Phillip Waldmann
Dean Diersing (virtual)	Brian Payne, M.D.	Tammy Williams
Kristi Duke	Mike Ragain, M.D.	
Bill Eubanks	Katie Roller	
Jeff Hill	Jodene Satterwhite (virtual)	

INVOCATION

Mr. Mark Funderburk voiced the invocation.

QUORUM

A quorum was established with seven voting members being present.

OPEN SESSION

The Board of Managers entered open session at 9:00 a.m.

**REVIEW OF REVISIONS TO 2024-2025 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 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 Steven Maddux, Senior Vice President of Finance.

Mr. Maddux reviewed the 2024/2025 Budget Assumptions, and an in-depth discussion of

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the UMC Health System growth. Mr. Maddux then reviewed the 2024 and 2025 revenue and expenses. He explained that in the original 2024 Operating Budget, it was expected that the UMC Health System would have excess revenue over expenses of \$37.9 million. The revised 2024 budget now forecasts that UMC Health System will have excess revenue over expenses of \$52.7 million, which is an increase of \$14.8 million from the original budget but a decrease of \$23.1 million from 2023.

Mr. Maddux continued to explain that the 2024 revised budget has an \$89.2 million increase in net revenue due to significantly higher volumes associated with the opening of the UMC Health & Wellness Hospital. This is offset by a reduction in supplemental funding of \$16.6 million (DSH and NAIP funding), a reduction in other operating revenue of \$11.8 million due to a large settlement in 2023, and expense increases of 9.5% related to new full-time employees at UMC Health & Wellness, volume driven supply costs, physician support costs, and depreciation costs related to the UMC Health & Wellness facility and equipment. Net revenue in the revised 2024 budget increases by \$27.7 million over the original budget due to stronger than expected volumes, particularly in imaging and the Emergency Centers at both campuses, and a strong commercial mix year-to-date led by the UMC Health & Wellness Hospital (over 45% commercial 2024 YTD). Supplemental funding, however, decreases \$3.3 million from the original budget, as uncertainty around funding formulas continues to present challenges in setting future budget expectations.

Mr. Maddux noted that non-operating revenue is up \$10.2 million due to continued strong investment income, plus \$5.9 million in unexpected burden alleviation funding which puts total revenue up 3.3% from original budget estimates.

Mr. Maddux also explained that expenses are expected to increase 2.0% compared to original budget expectations. This is driven by full-time employee additions for the new Urgent Care Clinic location at the UMC Health & Wellness Hospital, higher supply costs related to better than expected volumes, and physician fees. A significant contract increase in county jail services in October also increases these costs by \$600 thousand in 2024, and another \$2.5 million in 2025.

Mr. Maddux discussed that in 2025, overall net revenue is expected to grow \$47.5 million or 5.7% from 2024, which is driven by a full year of operations in all areas and continued growth at the UMC Health & Wellness Hospital led by the opening of the new Urgent Care location. Total operating revenue growth is at 5.0% however, due to other operating revenue decreasing for one time settlement payments in 2024 and flat supplemental funding. Reliance on DSH/UC and NAIP funds to generate a positive bottom line continues and presents concerns with the NAIP program (worth \$30 million) expected to end in 2027. Non-operating revenue also decreases in 2025, due to the removal of \$5.9 million in one-time burden alleviation funding that was received in 2024.

Mr. Maddux continued to explain that total expense growth in 2025 is projected to be \$57.8 million or 6.0%. This will be prompted by increased volume at the UMC Health & Wellness Hospital, labor costs including market raises to attract and retain staff, inflationary increases system-wide, and notably \$7.7 million in EPTC-related operational implementation costs. Another considerable expense increase is around Texas Tech Health Sciences School of Medicine funding (up 5.2%) and other physician cost increases in radiology produced by volume increases in imaging. With the higher increase in expenses relative to operating revenue and continued challenges around supplemental funding, operating margin decreases from 2.1% to 1.2% in 2025 and reduces excess revenue over expense to \$38.6 million.

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After Mr. Maddux discussed the detailed breakdown of the Income Statement by Expense Category and Expense Area, the floor was given to Mr. Jeff Dane, Executive Vice President, Administrator and Chief Financial Officer.

Mr. Dane reviewed the Proposed Capital Equipment Budgets for 2024-2027. By year, the 2024 Proposed Capital Equipment Budget for 2024 is \$42.4 million with six million for undesignated items. The 2025 Proposed Capital Equipment Budget for 2025 is \$73.4 with six million for undesignated items. For 2026, the Proposed Capital Equipment Budget will be \$31 million with \$10 million for undesignated items. Also, in 2027 the Proposed Capital Equipment Budget will be \$6.8 million and roughly \$20 million in undesignated items. Noteworthy, strategic items include:

- TLC2 Foundation Cancer Center
- Ambulances and First Responder Vehicles
- EPIC Implementation
- CVICU Bedside Monitor Replacements
- PET/CT Camera
- Da Vinci SP and Dual Console Systems
- Microbiology Automation
- Infusion Pump Replacement
- MMS Module Replacement
- Cancer Center SIM MRI System
- Cat Scan Replacement
- MRI Machine Upgrade
- Mammography Machines

Mr. Dane reviewed the Capital Expansion Budget for 2024-2027. The Capital Expansion budget includes numerous projects totaling \$100.1 million for the 2024 Revised Budget and \$62.6 million for the 2025 Budget.

Mr. Dane discussed the increase of Capital Expenditures from 2023 to 2026 as strategic investments including the UMC Health & Wellness Hospital and the TLC2 Foundation Cancer Center are completed. Additionally, the transition of our medical record and revenue platform to EPIC will include significant capital investments over the next three years (\$59.8M). Planned capital expenditures exceed net income and depreciation in both 2024 and 2025.

Mr. Dane mentioned that previous net income increased cash reserves allowing for these capital investments while maintaining zero debt. Cash operating reserves remain above ninety days in 2024 and 2025, even with significant cash outlays for the UMC Health & Wellness Hospital in 2024, the new Cancer Center from 2024 through 2026, and EPIC from 2024 through 2026.

Mr. Dane also reviewed the property tax information. The tax rate per \$100 valuation was 0.1031640 for 2023 and the budget as presented, assumed maintaining the current tax rate of 0.1031640 in 2024. Taxes received for 2024 are expected to be \$35.3 million.

After Mr. Dane explained the Comparative Tax options, the floor was given to Mr. Mark Funderburk, President and Chief Executive Officer.

Mr. Funderburk provided the board with the 2025 Budget Summary, as well as, a review of the budget calendar and County Commissioner's Public Meeting Dates of August 12, 2024, and September 9, 2024.

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At the conclusion of Mr. Funderburk's presentation, Chairman Whitten asked if there were any questions regarding the revisions or proposed Operating budgets. Hearing no further questions or comments, Dr. Whitten asked for a motion to approve the 2024 Operating budget revisions and the proposed 2025 Operating budget.

ACTION: Mr. Medina moved to approve the revisions to the 2024 Operating Budget and the proposed 2025 Operating Budget as presented. The motion was seconded by Ms. Vinson and approved unanimously.

Chairman Whitten asked if there were any questions regarding the revisions or proposed Capital Equipment and Capital Expansion budgets. Hearing no further questions or comments, Dr. Whitten asked for a motion to adopt the revisions and proposed 2024 and 2025 Capital Equipment and Capital Expansion budgets.

ACTION: Ms. Vinson moved to adopt the revisions and the proposed 2024 and 2025 Capital Equipment and Capital Expansion budgets. The motion was seconded by Ms. Wilkins and approved unanimously.

Chairman Whitten asked if there were any questions regarding the property tax rate information. Hearing no further questions or comments, Dr. Whitten asked for a motion to adopt the proposed rate of \$ 0.1031640 for 2024-2025.

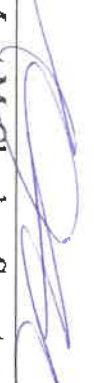
ACTION: Mr. Medina moved to recommend the proposed tax rate per \$100 valuation of \$0.1031640 to the County Commissioners. The motion was seconded by Ms. Wilkins and approved unanimously.

ADJOURNMENT

The meeting was adjourned at 11:15 a.m.

APPROVED:


Gladys Whitten, D.M.D., Chair


Mont McClendon, Secretary

APPROVED AS TO FORM:


Tina Belcher, Executive Assistant