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June 4, 2012

The Honorable County Judge Ed Emmett
Commissioner El Franco Lee, Precinct 1
Commissioner Jack Morman, Precinct 2
Commissioner Steve Radack, Precinct 3
Commissioner Jack Cagle, Precinct 4

RE: Capital Improvement Projects: Status Report

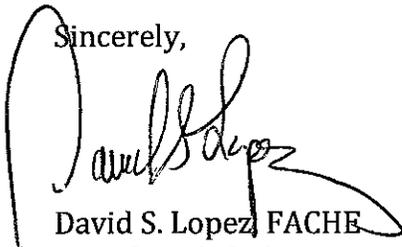
Dear Judge Emmett and Commissioners:

The status of the Harris County Hospital District's Strategic Capital Projects is summarized in the attached report. As you are aware, in accordance with our Strategic Plan, we have committed to a facility expansion program – with a focus on expansion of ambulatory care – which will allow the Hospital District to enhance the volume of services provided to the residents of our county.

Funding for the projects remains on schedule, with the combination of the remaining funds from the 2007 revenue bonds, funds designated/set aside from annual positive net operating margins from prior years, and Hospital District Foundation donations.

Feel free to contact me should you have any questions or need additional information.

Sincerely,



David S. Lopez FACHE
President & CEO
Harris County Hospital District



Capital Improvement Projects:

Status Report - June 2012

Harris County Hospital District

Capital Improvement Projects: Status Report

Executive Summary

Introduction

Critical success factors identified in the Hospital District's strategic plan related to capital construction and improvements include the following:

- The completion of all Board-approved capital construction; balancing our integrated healthcare delivery program to ensure timely and appropriate access to primary and specialty clinic care, as well as hospital care services.
- Modernize and upgrade HCHD facilities to meet/exceed patient needs, including the conversion of hospital inpatient rooms to private / semi-private configuration (from four-bed wards).
- Consider innovative ways of providing additional primary care, and the associated specialty and inpatient care, to Harris County residents, within the constraints of HCHD's budget and resources.
- Implement IT systems that provide timely information for clinical, financial and administrative decision making.

The approved annual Capital Budget (Exhibit A) for the fiscal year ending February 28, 2013 and the multi-year Strategic Capital Plan (Exhibit B) reflect the District's continuing commitment to provide high quality health care services to Harris County residents in a cost effective manner.

The multi-year Strategic Capital Plan, originally adopted in 2008, outlines the District's plan to build new or replacement facilities in areas with a demonstrated need, and to expand diagnostic and treatment capability to better serve the residents of Harris County. Many of the components are now complete, with others nearing completion or currently under construction. Following is a current status of the District's strategic capital projects.

Completed Strategic Capital Projects:

- The El Franco Lee Community Health Center, which opened in May 2009, is now the busiest primary care clinic in the District, with over 90,000 visits projected for the current fiscal year.

- The replacement MLK Community Health Center was opened in May 2010. Total patient visits grew 8.2% in FY 2012, to 57,456. The clinic is moving toward full provider staffing this year, with over 80,000 visits budgeted.
- The Pediatric Clinic in Pasadena opened in June of 2011, shifting the Ben Taub pediatric clinic volume to a new location. Visit volume grew 5.8% last year as the clinic transitioned from Ben Taub. Projected volume for FY 2013, based on the first three months data, is for 50% growth this year to about 14,000 visits.
- Construction was completed on the new LBJ General Hospital Emergency Center (EC), and the new facility was opened in February 2011. Renovation of the old EC space has just been completed, and is expected to ease some of the workflow issues that the EC is currently experiencing.
- The Pediatric Clinic at Bear Creek (5870 Highway 6 in northwest Houston) opened in April, and is expecting over 5,000 patient visits this year.

Strategic Capital Construction in Progress:

- The Pediatric Clinic in Cypress (12340 Jones Road) is scheduled to open on June 18th. It is similar in size and capacity to the Bear Creek clinic.
- Construction of the Smith Clinic on the Holly Hall campus is nearing completion, with services scheduled to begin in September and October 2012. The 1,200 space parking garage for the project was completed and opened for employee parking in September 2010. The new five-story ambulatory care facility will house outpatient cancer treatment and comprehensive diagnostic services. In addition, many of the specialty clinics currently located at Ben Taub General Hospital will relocate to the Smith Clinic when it opens.
- Construction on the new Ambulatory Care Center on the LBJ campus began in 2011. The project includes the construction of a 367 space parking garage to complement the three-story, 83,000 square foot center and the 30,000 square foot structure connecting the clinic to the hospital. The relocation of the specialty clinics from LBJ will allow the recapture of 19 beds that are currently being used as clinic space for inpatient use in the hospital. In addition, the center will contain a day surgery unit with four operating rooms and appropriate pre-op and recovery areas. The garage will be completed and in service by October 2012, and the ambulatory care center should be ready for occupancy by June 2013. The final phase of the construction will be renovating the vacant clinic space within the hospital, which should be completed in 2014.

- Construction is underway on the Old Tower (the old Ben Taub Hospital building) renovation project at Ben Taub. The purpose of the project is to move the Ben Taub surgical clinics, laboratory, medical records, coding, biomedical engineering and the employee health clinic into the vacant space in the old tower and recapture prime hospital space for future patient care expansion. The exterior and the shell are scheduled for completion by July 2013, with the interior completion expected early in 2014.

Strategic Capital Projects still in design or approval process:

- HCHD is also evaluating additional lease arrangements to open several other primary care clinics in Harris County, dependent on the availability and timing of supporting funding under the Texas Medicaid 1115 Waiver Delivery System Reform Incentive Payment (DSRIP) program. The DSRIP initiatives may allow the District to obtain federal matching dollars to supplement dollars invested by the Harris County Hospital District that are related to approved incentive projects under the waiver.
- Data Centers – in order to provide updated facilities and an acceptable backup plan in the event of a disaster, a data center is being integrated into the new Smith Clinic site. The expected completion of the data center is the summer of 2013. A second data center, providing recommended redundancy, was originally projected as part of the Ben Taub renovation; however, after further study, that option is not feasible. Options for other locations in or near the medical center are currently under consideration.
- Ben Taub EC Holding area remodel – the timing for this project has been delayed by the work on the old Ben Taub building, but we are commencing the A&E phase of this project in June 2012. The purpose is to facilitate better rooming / separation of patients in the current EC holding area, to improve patient care and privacy, and reduce infection control risks, as we bring the physical emergency room facility up to the community standard of care. The early estimate of project cost is \$41.8 million, with an estimated completion yet to be determined (targeting 2014).
- Ben Taub 2nd Floor Day Surgery – this project is not yet out of the concept stage, with the goal being to create an outpatient surgery venue that is separate from the inpatient surgery suites and the trauma program, and more convenient for patients. Other options may be a lease or purchase of an existing ambulatory surgery center, or continuing to outsource overflow demand.

- Future considerations – Facility Master Plan. HCHD engaged the architectural planning firm HOK last year to develop a facility master plan to supplement and enhance the strategic plan. The key tenets of the facility master plan are: Improving the standard of community care, minimizing the growth in care delivery cost, growing access to Primary Care, optimizing inpatient beds and hospital resources, controlling the overuse of Emergency Centers for low acuity care, and reducing the amount of capital spent on buildings versus process and operations improvements. Additional capital opportunities are being considered to assist in the accomplishment of our strategic objectives in future years, but none are ready for discussion or action at this time.

Exhibit B provides a summary listing of projects and updated capital cost, as well as the source of financing for those projects. In addition to the 2007 bond funds of \$158 million, which will be fully expended this summer, the District is funding the projects from a combination of internally generated funds and the capital campaign being conducted by the Harris County Hospital District Foundation.

Standard Capital Expenditures (Exhibit A)

For the FY 2013 Capital Budget, the District conducted an assessment of its facilities, equipment and technology to determine the priorities for replacement, repair and any new acquisitions. The assessment and prioritization process included representatives of the medical staff from both Baylor College of Medicine and UT Health. The assessment and prioritization process addressed patient safety, obsolescence, new technology, building safety and code compliance requirements. The major projects, beyond the routine replacement of existing equipment and technology, included in our annual capital budget are:

- The electronic medical record (EMR) was implemented in 2010. An upgrade to the radiology system was recently completed and the integration of other supporting systems (operating room, obstetrics, oncology, clinical case management, etc.) is underway, and will continue during these next two budget years. In addition, new decision support and business intelligence software tools, that will significantly enhance our analysis of cost, clinical utilization and efficiency, are being implemented in FY 2013.
- The planned conversion of hospital inpatient rooms to private / semi-private configuration (from four-bed wards) is scheduled to occur over the next three years at both the Ben Taub and the LBJ Hospitals.
- The redesign and renovation of the GI (gastrointestinal) suites at LBJ Hospital.
- Renovation of the food service preparation and delivery system at Ben Taub Hospital, designed to substantially improve patient satisfaction and match the system currently in place at LBJ Hospital.

Discussion of FY 2013 Operating Challenges

The District prepared a breakeven budget for FY 2013, compared to the positive operating margin of \$5.5 million for FY 2012.

Operating results for the first two months of FY 2013 show HCHD slightly unfavorable to budget, as volumes have exceeded expectations, and the payer mix for the increased volume is unfunded. Management's goal of a breakeven margin for this fiscal year, in spite of the increase in unfunded patient care services, will be achieved through additional recovery of uncompensated care costs through the Uncompensated Care pool established by the Texas Medicaid 1115 Waiver, ongoing revenue cycle improvement, as well as ongoing redesign and reengineering efforts and other cost saving initiatives.

Changes to the eligibility requirements for the HCHD post-employment health plan were authorized by the Board of Managers in April 2012. The District is working with its actuarial firm to determine the impact on the long-term liability and employee benefits expense related to the changes. The result should be a reduction of annual benefit cost, which will enhance our ability to address the increasing patient care service demand.

While there is still uncertainty as to the final FY 2013 impact of possible changes to the Disproportionate (DSH) Share program, and the replacement of Upper Payment Limit (UPL) Medicaid supplemental payments by the Uncompensated Care pool, management believes that the net impact will approximate the FY 2013 budget expectations for DSH and Uncompensated Care. We are cautiously optimistic that there will be no significant or unexpected changes that negatively impact the rule setting process for the establishment of the 1115 Waiver program. The rules are expected to be finalized later this summer, and we hope to be able to calculate the final impact of any changes before our mid-year report is due to Commissioners Court in September.

Conclusion

Together, the FY 2013 Capital Budget, and Multi-year Capital Plan represent the District's continuing progress to improve the health status of the residents of Harris County. Balancing the facilities platform for primary care, specialty care and inpatient acute care is imperative if HCHD wishes to achieve the greatest efficiency – both in terms of cost and clinical efficacy – in healthcare delivery in future years.

EXHIBITS

EXHIBIT A
Capital Budget Summary
(In Thousands)

Category Totals	FY2013 Budget
Facility Projects	\$ 18,786
Information Technology – Ongoing Projects	4,424
Information Technology – New Projects	5,271
Medical Equipment	8,606
Other (Pyxis Capital Leases, Emergency Capital)	5,029
Community Health Choice (HMO) Capital	3,125
Total FY2013 Capital Budget	\$ 45,241

Notes: FY 2012 Depreciation Expense was \$46.8 million

EXHIBIT B

Multi-Year Capital Plan

(In Thousands)

	Current Cost Projected	Status (Planned Completion)
Phase I Capital Projects		
El Franco Lee Health Clinic & SW Eligibility	\$ 18,764	Completed April 2009
MLK Primary Care Clinic & SE Eligibility	21,340	Completed June 2010
Holly Hall Parking Garage	17,025	Completed September 2010
Holly Hall Ambulatory Care Center	96,379	Construction in progress (August 2012)
LBJ Emergency Center Expansion	44,188	Completed June 2012
Total Phase I	<u>197,696</u>	
Phase II Capital Projects		
Ben Taub - Old Tower Renovation	46,105	Design development (July 2013)
LBJ Ambulatory Care Center	60,092	Design development (April 2014)
QM - Physical Therapy Rehab Center	2,051	Completed June 2010
Total Phase II	<u>108,249</u>	
Phase III Capital Projects		
Ben Taub 2nd Floor - Day Surgery	19,000	Pre-design (October 2014)
Ben Taub EC Remodel - Holding Area	41,751	Pre-design (October 2013)
Ben Taub and Holly Hall Data Centers	12,395	Design development (July 2013)
Total Phase III	<u>73,146</u>	
Total Estimated Cost of Strategic Projects	<u>\$ 379,071</u>	
Projected Cash Funding of Projects		
Series 2007A Bond Funds	\$ 158,003	Bonds issued October 2007
Board Designated for Future Expansion	32,818	As of February 28, 2007
Set Aside from FY2008 Operating Income	87,631	75% of Actual Margin for FY 2008
Set Aside from FY2009 Operating Income	43,095	75% of Actual Margin for FY 2009
Set Aside from FY2010 Operating Income	10,868	75% of Actual Margin for FY 2010
Investment income - Bond & Designated Funds	25,534	As of February 2012
TOTAL Funds Available for Projects	<u>\$ 357,949</u>	Expended \$124,007 as of November 2011

Note: HCHD Foundation pledge to be included upon receipt. Expected receipt - June 2012.