



# Harris County Hospital District

**FY 2012 Strategic Capital Update  
(June 2011)**

# Harris County Hospital District

FY 2012 Strategic Capital Update

Executive Summary

## Introduction

The District completed its strategic planning process, and had the plan approved by the Board of Managers in May of 2010. The document – “Harris County Hospital District, Strategic Plan 2011 to 2015, Positioned for the Future” – was presented to County Commissioners on June 22, 2010. Critical success factors identified in the plan related to capital construction and improvements included 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) by February 2014.
- 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.

On January 27, 2011, the District’s Board of Managers approved the District’s Operating Budget, Standard Capital Budget, and affirmed the multi-year Strategic Capital Plan (initially approved January 31, 2008). The multi-year Strategic Capital Plan 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.

## Accomplishments / Status of Strategic Capital Projects

- The El Franco Lee Community Health Center, along with the Eligibility Center, was completed at a cost of approximately \$19.0 million, and opened in May 2009. Total patient visits were 56,444 in FY 2011. It is on track for 75,000 visits in FY 2012, making it the second busiest primary care clinic in the District behind People’s Clinic, which had 87,476 visits last year.

- Construction of the replacement MLK Community Health Center and adjacent Eligibility Center was completed at a cost of about \$21.6 million and opened at the end of May 2010. Total patient visits were 53,105 in FY 2011.
- During October and November 2010, the District automated the inpatient physicians and nursing clinical order entry and documentation, completing the transformation of our medical records from paper to electronic medical records (EMR). The path to achieving the total transformation of our patient business systems and medical records has taken many years, and a cumulative capital investment since FY 2003 of over \$70 million. The integration of certain supporting systems (radiology upgrade, operating room, obstetrics, oncology, etc.) will continue during the 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 2012 and 2013.
- Construction was completed on the new LBJ General Hospital Emergency Center (EC), and the new facility was opened in February 2011. The new facility increases the EC capacity at LBJ by 20%. The second phase of the project – renovation of the old EC space to relocate the infusion therapy (chemotherapy) and inpatient dialysis functions, and reclaim 15 beds for inpatient use at LBJ – is currently underway, and expected to be completed by February 2012. The final project cost is expected to be \$49.2 million.
- Construction on the Ambulatory Care Center on the Holly Hall campus is proceeding well. The 1,200 space parking garage for the project was completed and opened for employee parking in September 2010. The infrastructure for the five-story, 167,807 square foot, ambulatory center was topped out in May, 2011, and the \$118.4 million project is scheduled to be completed by September 2012.

On April 20, the Harris County Hospital District announced its largest single, private donation — a gift of \$15 million from The Lester and Sue Smith Foundation to the Harris County Hospital District through the Harris County Hospital District Foundation. The donation is dedicated to the ambulatory care center. The new five-story facility, designed exclusively for outpatients, will be named Smith Clinic in recognition of the couple's commitment to improving healthcare for all residents of the region. Smith Clinic, with more than 100 exam rooms, will house outpatient cancer treatment and comprehensive diagnostic services, including two linear accelerators, two MRIs, three ultrasound units, a PET scanner, six digital mammography units, two

stereotactic biopsy units and 26 infusion therapy stations. Many of the specialty clinics currently located at Ben Taub General Hospital will be relocating to the Smith Clinic when it opens.

- Construction on the new Ambulatory Care Center on the LBJ campus should begin in June 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. Expected completion is estimated to be early 2013, at a total projected cost of \$60.1 million.
- The District will be opening a new pediatric clinic in Pasadena on June 27, 2011. The Baylor College of Medicine pediatric primary care practice will relocate from Ben Taub Hospital to the 10,000 square foot leased space in Pasadena, providing room for growth in the practice.

### **Projects still in design or approval process**

- HCHD is also finalizing lease arrangements to open two group practice primary care clinics in northwest Harris County, currently projected to be ready to open early in 2012. Each clinic will have four primary care providers, in a standard physician office design.
- Construction is planned to begin in July 2011 on the Old Tower (the old Ben Taub Hospital building) renovation project at Ben Taub. The purpose of the project is to move the 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.
- Ben Taub and Holly Hall Data Centers – this project is in the Architectural and Engineering phase (A&E). In order to provide updated facilities and an acceptable backup plan in the event of a disaster, data centers are being integrated into the new Holly Hall and renovated Ben Taub sites. The total expected cost is \$12.4 million, with expected completion of September 2012 at Holly Hall and early 2014 at Ben Taub.
- Ben Taub EC Holding area remodel – we are targeting the commencement of the A&E phase of this project in August, 2011. 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 in October 2012.

- Ben Taub 2<sup>nd</sup> 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. A preliminary option proposes the addition of six outpatient surgery suites, pre-op holding and recovery areas, endoscopy and expanded central sterile processing. A possible 12-bed observation unit to relieve the stress in the emergency center has also been proposed. No design work has been done, and a definite time frame has not yet been established, although the option identified could not occur until after the old tower renovation project is completed.
- Future considerations – Facility Master Plan. HCHD has been working with the architectural planning firm HOK (founded in 1955 by Hellmuth, Obata and Kassabaum) to develop a facility master plan to supplement and enhance the strategic plan approved last year. The plan is nearing completion, and has as its key tenets the following: 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 amount of capital spent on buildings versus process and operations improvements. Some additional capital opportunities are being considered to assist in the accomplishment of our strategic plan objectives in future years.

The approved annual Capital Budget (Exhibits A) for the fiscal year ending February 28, 2012 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. This past year, we have seen an increase in the number of Harris County residents coming to the District for their health care services. In FY 2009, the District treated 272,882 unduplicated patients. In FY 2010 that number increased by 9.8% to 299,583 and for FY 2011 it was 310,532, a 3.7% increase over FY 2010.

### **Standard Capital Expenditures (Exhibit A)**

For the FY 2012 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 The

University of Texas Health Science Center. The assessment and prioritization process addressed patient safety, obsolescence, new technology, building safety and code compliance requirements.

Given the final operating margin for FY 2011 and the uncertainty for FY 2012, and the resulting cash flow impact, the regular capital budget recommendation was limited to \$29 million in FY 2012, about 68% of the prior year depreciation of \$42 million.

### **Multi-year Capital Plan (Exhibit B)**

In addition, the Hospital District expects to commit approximately \$60 million of capital funds related to the strategic capital projects during FY 2012, while the total cash outflow for the strategic capital projects is forecast to be \$83.8 million (many of the commitments for the Holly Hall project were made in FY 2011, with much of the cash outflow scheduled to occur in FY 2012 and FY 2013).

Exhibit B provides a listing of Phase I, II and III projects, as well as the source of financing for those projects. In addition to the 2007 bond funds of \$158 million, 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.

### **Discussion of FY 2012 Operating Challenges**

The District prepared a breakeven budget for FY 2012, compared to the loss of \$11.0 million for FY 2011. The Texas legislature recently completed the regular session of the budget for the next biennium, resulting in an additional 8% cut in Medicaid rates for the state fiscal year which begins September 1, 2011. If the reduction is applied to current HCHD rates, the impact on the last six months of our fiscal year would be approximately \$6 million (\$12 million annualized impact). However, the special session that is currently going on has already seen several attempts to amend the legislation. In addition, the Texas Health and Human Services department is also proposing to restructure the Medicaid SDA (Standard Dollar Amount – the equivalent of the Medicare DRG case rate) methodology, which could mitigate some or all of the negative rate impact for HCHD.

Operating results for the first quarter show HCHD slightly favorable to budget year-to-date FY 2012 (see Exhibit C). Management's goal of a breakeven margin for this fiscal year will be achieved through ongoing revenue cycle improvement, as well as numerous initiatives and redesign and reengineering efforts currently being evaluated. Included in those initiatives are the following:

Work with medical staff to prioritize, develop and implement evidence based protocols for high volume, high cost admissions and outpatient procedures. Goals include timely services, elimination of medically unnecessary procedures or visits, and timely patient discharge or dismissal.

Project management teams to facilitate evaluation, work flow redesign and implementation of plans for high impact improvement opportunities. Goals are to substantially reduce rework and to eliminate work flow barriers to timely service.

Ongoing evaluation of fixed positions which are not directly involved in patient care, in conjunction with the work flow redesign, to reassign existing staff, or not replace departing staff, as the improvements are realized.

Evaluate changes to the HCHD post-employment health plan, for new hires and employees who have not yet attained full eligibility for plan benefits.

## **Conclusion**

Together, the FY 2012 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.

While there is still uncertainty as to the final FY 2012 impact of legislative and regulatory changes to Medicaid reimbursement rates, and possible changes to the Disproportionate Share and Upper Payment Limit (DSH/UPL) programs, management remains confident that revenue cycle improvements, work flow redesign, and utilization and expense management initiatives that we have undertaken will allow us to meet or exceed our breakeven target for the year.

We are cautiously optimistic that there will be no significant or unexpected changes that negatively impact the recently approved state budget for Medicaid, or the rule setting process for the establishment of the modified Medicaid SDA rates. The rules are expected to be finalized and go to print in early July, with a thirty day comment period, and implementation to be effective September 1, 2011; the beginning of the state fiscal year. We expect to be able to calculate the final impact of the changes before our mid-year report is due to Commissioners Court in September.

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David S. Lopez, President  
and Chief Executive Officer

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Michael Norby, Executive VP  
and Chief Financial Officer

# EXHIBITS

**EXHIBIT A**  
**Capital Budget Summary**  
(In Thousands)

<b>Category Totals</b>	<b>FY2012 Budget</b>
Facility Projects	\$ 8,685
Information Technology – Ongoing Projects	8,675
Information Technology – New Projects	2,664
Medical Equipment	3,571
Other (Pyxis Capital Leases, Emergency Capital)	5,001
Community Health Choice (HMO) Capital	375
<b>Total FY 2012 Standard Capital Budget</b>	<b>\$ 28,971</b>

Notes:

- FY2011 Projected Depreciation is \$41.5 million
- Community Health Choice strategic capital budget of \$5 million for replacement of the managed care software system (claims and utilization management software) is not included above.

# EXHIBIT B

## Multi-Year Capital Plan

(In Thousands)

<b>Phase I Capital Projects</b>	<b>Current Cost Projected</b>	<b>Status (Planned Completion)</b>
El Franco Lee Health Clinic and Eligibility Center	\$ 18,951	Completed April 2009
MLK Primary Care Clinic and Eligibility Center	21,564	Completed June 2010
Holly Hall Parking Garage	17,025	Completed September 2010
Holly Hall Ambulatory Care Center	101,378	Construction in progress (August 2012)
LBJ Emergency Center Expansion	49,188	Construction in progress (February 2012)
<b>Total Phase I</b>	<b>208,106</b>	
 <b>Phase II Capital Projects</b>		
Ben Taub - Old Tower Renovation	46,105	Design development (October 2012)
LBJ Ambulatory Care Center	60,092	Design development (May 2013)
QM - Physical Therapy Rehab Center	2,052	Completed June 2010
<b>Total Phase II</b>	<b>108,249</b>	
 <b>Phase III Capital Projects</b>		
Ben Taub 2nd Floor - Day Surgery	19,000	A&E funding approved (October 2013)
Ben Taub EC Remodel - Holding Area	41,751	A&E funding approved (October 2013)
Ben Taub and Holly Hall Data Centers	12,395	A&E funding approved (October 2012)
<b>Total Phase III</b>	<b>73,146</b>	
 <b>Total Estimated Cost of Strategic Projects</b>	 <b>\$ 389,501</b>	 (\$83.761 million projected cash expenditures for strategic projects in FY2012)
 <b>Projected Cash Funding of Projects</b>		
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	21,614	As of February 2011
HCHD Foundation	35,000	Includes \$15 million Smith Pledge
<b>TOTAL Funds Available for Projects</b>	<b>\$ 389,029</b>	

**EXHIBIT C**  
**FY 2012 – April YTD Operating Performance**  
(In Thousands)

	May YTD <u>Actual</u>	May YTD <u>Budget</u>	<u>Variance</u>	FY 2012 <u>Budget</u>
Net Patient Revenue	\$ 78,922	\$ 82,566	\$ (3,644)	\$ 324,000
Net Ad Valorem Tax Revenue	124,908	126,248	(1,340)	505,000
Other Operating Revenue	53,278	49,721	3,557	211,837
Tobacco Settlement Revenue	10,753	11,000	(247)	11,000
Interest Revenue and Non-operating	6,594	2,248	4,346	9,300
<b>Total Net Revenue</b>	<u>274,455</u>	<u>271,783</u>	<u>2,672</u>	<u>1,061,137</u>
Total Salaries and Benefits	157,175	155,438	(1,737)	618,991
Total Drugs and Supplies	40,045	40,328	283	158,959
Medicaid Services IGT	30,340	30,340	0	127,000
Purchased Services	9,451	9,529	78	37,015
Utilities	3,263	3,536	273	13,091
Maintenance and Repairs	6,184	5,817	(367)	23,270
Rentals and Leases	1,663	1,977	314	8,042
Other Services	5,216	5,638	422	24,516
Depreciation, Amortization, Interest	13,631	12,792	(839)	50,252
<b>Total Operating Expenses</b>	<u>266,968</u>	<u>265,395</u>	<u>(1,573)</u>	<u>1,061,137</u>
<b>Net Revenue Over Expenses</b>	<u>\$ 7,487</u>	<u>\$ 6,388</u>	<u>\$ 1,099</u>	<u>\$ 0</u>