

NUECES COUNTY HOSPITAL DISTRICT

Briefing Paper

SUBJECT: Fiscal Year 2027 Specified Annual Percentage

Purpose

To brief the Board of Managers regarding the proposed Fiscal Year 2027 Specified Annual Percentage under the CHRISTUS Spohn Health System Corporation Amended and Restated Membership Agreement and the associated resolution approving the percentage agreed upon by the parties.

Background

The Nueces County Hospital District, CHRISTUS Spohn Health System Corporation, and CHRISTUS Health are parties to the CHRISTUS Spohn Health System Corporation Amended and Restated Membership Agreement dated November 18, 2015. Article V of the Membership Agreement governs member distributions of net patient revenue.

Section 5.03(a) of the Membership Agreement provides for the parties to confer annually and agree upon the percentage of net patient revenue allocated to CHRISTUS Health in consideration of its contributions to support CHRISTUS Spohn and the percentage allocated to the District in recognition of its ongoing support for CHRISTUS Spohn's operations as a public, safety-net hospital in Nueces County.

Annual Review and Considerations

As part of the annual process for the ensuing year, CHRISTUS Spohn prepared a hospital budget and projected net patient revenue. The District and CHRISTUS Spohn subsequently discussed the proposed budget, projected net patient revenue, and factors relevant to establishing the Specified Annual Percentage.

The supporting correspondence identifies considerations that include CHRISTUS Spohn's role in operating programs in the community, the District's role as the Region 4 Anchor, the District's tax collection responsibilities, continuation of the Texas 1115 Demonstration Waiver and directed payment programs, physician residency programs, and other circumstances expected to affect the parties' operations during Fiscal Year 2027.

Fiscal Year 2027 Specified Annual Percentage

For the period October 1, 2026 through September 30, 2027, the parties have agreed, subject to Board approval, that the Specified Annual Percentage will be 89 percent. The remaining 11 percent of applicable net patient revenue will be transferred to the District in accordance with Section 5.02 of the Membership Agreement.

The allocation recognizes the respective contributions and responsibilities of the parties under the Membership Agreement and the District's membership in CHRISTUS Spohn and role in supporting the continued delivery of hospital services in Nueces County.

Revenue Allocation

Specified Annual Percentage: 89%

District Revenue Allocation: 11%

Applicable Period: October 1, 2026 through September 30, 2027

The actual dollar amount associated with the District's allocation will depend upon net patient revenue generated during the applicable period. The resolution approves the percentage allocation rather than establishing a fixed dollar distribution.

Fiscal and Budget Considerations

The District's share of net patient revenue represents an important component of its operating revenues. Because the distribution is percentage-based, the amount ultimately received by the District will vary with CHRISTUS Spohn's actual net patient revenue during the fiscal year.

The agreed percentage provides the basis for determining the parties' respective shares for Fiscal Year 2027 and allows the District to incorporate anticipated membership revenue into its annual financial planning and budget process.

Administrative Authority

The proposed resolution acknowledges that the parties have completed the annual conference process and approves the Specified Annual Percentage memorialized in CHRISTUS Spohn's July 10, 2026 correspondence to the District.

The Administrator, acting in his capacity as Secretary of the Board, would be authorized and directed to perform the necessary acts, execute related documents, and certify the resolution as being in conformance with state law and the District's Bylaws. The resolution would take effect immediately upon passage.

Board Consideration

The Board is being asked to consider approval of the Fiscal Year 2027 Specified Annual Percentage agreed upon by the parties. Approval would establish the agreed revenue allocation percentage for the period October 1, 2026 through September 30, 2027 and authorize the related administrative actions necessary to implement the resolution.

Summary

The proposed resolution approves the Fiscal Year 2027 Specified Annual Percentage under the Membership Agreement. For the ensuing year, 89 percent of applicable net patient revenue would constitute the Specified Annual Percentage, with the remaining 11 percent transferred to the District in accordance with the Membership Agreement. The arrangement continues the annual process established by the parties for allocating net patient revenue while recognizing their respective roles and responsibilities in supporting hospital services in Nueces County.