

Washington Hospital Budget Estimate



FY 2023

DIRECTORS AND OFFICERS

WASHINGTON TOWNSHIP HEALTH CARE DISTRICT

2000 Mowry Avenue
Fremont, California 94538
(510) 797-1111

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WASHINGTON HOSPITAL

TABLE OF CONTENTS

	<u>SECTION</u>
Mission Statement	
Budget Estimate	1
Narrative.....	2
Statistics	3
Volumes	
Performance Indicators	
Revenue.....	4
Patient Service Revenue	
Other Operating Revenue	
Expense Summary	5
Operating Expenses	
Non-Operating Income	6
Capital Budget.....	7








**BUDGET
FY 2023**

MISSION STATEMENT

M I S S I O N S T A T E M E N T

As the local Health Care District, our mission is to meet the health care needs of the District residents through medical services, education and research.

Within this scope, Washington Township Health Care District is committed to assuming the leadership role in improving and maintaining the health status of the residents by:

-  Identifying and assessing community health care needs.*
-  Developing mechanisms to respond to the identified needs within the financial capabilities of the District.*
-  Committing to a culture of patient safety and accountability.*
-  Adopting identified best practices.*
-  Providing access to high quality, cost-effective health services through an integrated delivery system.*
-  Partnering with a diverse medical staff, academic medical centers and other providers to meet the health care needs of the District residents.*
-  Providing appropriate employee, professional and community educational resources to enhance patient care and health promotion throughout the District.*

To support the fulfillment of the mission, the District's strategic vision is to be the regional medical center of Southern Alameda County offering services that span the full range of care within the available financial resources.



Washington Township Health Care District
Resolved by the Board of Directors
Washington Township Health Care District
April 22, 2020

**BUDGET
FY 2023**

ESTIMATE

**WASHINGTON HOSPITAL
BUDGET ESTIMATE**

(In thousands)

I.	<u>REVENUE</u>	\$557,292
A.	<u>Net Operating Revenue</u>	\$533,318
	Patient Service Revenue	\$2,288,870
	Less: Contractual Allowances and Provisions	1,761,788
	Net Patient Service Revenue	527,082
	Other Operating Revenue	6,236
B.	<u>Net Non-Operating Revenue</u>	\$23,974
	Investment Income	\$2,530
	Rental Income, Net of Amortization	1,000
	General Obligation Bond Property Tax Revenue	18,194
	Foundation Donation	2,250
II.	<u>EXPENDITURES</u>	\$557,292
A.	<u>Operating Expenditures</u>	\$510,823
	Salaries, Wages & Benefits	\$306,177
	Supplies & Services	148,609
	Insurance	3,863
	Utilities	6,844
	Reserves - Depreciation	45,330
B.	<u>Non-Operating Expenditures</u>	\$46,469
	Plant & Equipment	\$47,280
	General Obligation Bond Debt Service	17,881
	Revenue Bond Debt Service	15,686
	Funding of Affiliate Operations, Net	23,093
	Reserves - Capital & Operations	(57,471)

INCOME STATEMENT

<i>(In thousands)</i>	Budget Estimate FY 2023	Projected FY 2022	Change	Percent Change
Patient Service Revenue				
Inpatient	\$1,366,163	\$1,385,869	(\$19,706)	-1.4%
Outpatient	922,707	948,844	(26,137)	-2.8%
Total Patient Service Revenue	\$2,288,870	\$2,334,713	(\$45,843)	-2.0%
Contractual Allowances	(\$1,718,211)	(\$1,777,281)	\$59,070	3.3%
Provisions for Charity and Doubtful Accounts	(\$43,577)	(\$37,955)	(\$5,622)	-14.8%
Total Contractual Allowances and Provisions	(\$1,761,788)	(\$1,815,236)	\$53,448	2.9%
Contractual Allowances as a % of Revenue	75.1%	76.1%		
Provision for Charity and Doubtful Accounts as a % of Revenue	1.9%	1.6%		
Net Patient Service Revenue	\$527,082	\$519,477	\$7,605	1.5%
Other Operating Revenue	\$6,236	\$5,902	\$334	5.7%
Net Operating Revenue	\$533,318	\$525,379	\$7,939	1.5%
Operating Expenses				
Salaries	\$244,325	\$241,195	(\$3,130)	-1.3%
Benefits	61,852	56,460	(5,392)	-9.6%
Professional Fees	38,837	34,135	(4,702)	-13.8%
Supplies	67,091	70,149	3,058	4.4%
Purchased Services	29,350	27,024	(2,326)	-8.6%
Utilities	6,844	6,264	(580)	-9.3%
Insurance	3,863	3,087	(776)	-25.1%
Marketing & Advertising	1,048	620	(428)	-69.0%
Software Licenses & Maintenance	6,966	6,767	(199)	-2.9%
Other Expenses	5,317	4,584	(733)	-16.0%
Depreciation	45,330	46,392	1,062	2.3%
Total Operating Expenses	\$510,823	\$496,677	(\$14,146)	-2.8%
Income from Operations	\$22,495	\$28,702	(\$6,207)	-21.6%
Operating Margin	4.2%	5.5%		
Net Non-Operating Income & Expense				
Investment Income	\$2,530	\$2,505	\$25	1.0%
General Obligation Bond Property Tax Revenue	18,194	17,299	895	5.2%
Interest Expense	(21,281)	(20,810)	(471)	-2.3%
Rental Income, Net	1,000	284	716	252.1%
Bond Issuance Cost	-	(456)	456	100.0%
Realized Gain/(Loss) on Investments	-	(324)	324	100.0%
Unrealized Gain/(Loss) on Investments	-	(8,183)	8,183	100.0%
Foundation Donation	2,250	1,030	1,220	118.4%
Federal Subsidies	-	153	(153)	-100.0%
Total Net Non-Operating Income & Expense	\$2,693	(\$8,502)	\$11,195	131.7%
Net Income	\$25,188	\$20,200	\$4,988	24.7%
Net Margin	4.7%	3.8%		
Net Loss of Affiliate Operations	(\$24,612)	(\$23,991)	(\$621)	-2.6%
Total Net Income / (Loss)	\$576	(\$3,791)	\$4,367	115.2%

**BUDGET
FY 2023**

NARRATIVE

DATE: June 17, 2022

TO: BOARD OF DIRECTORS

FROM: Kimberly Hartz, Chief Executive Officer

SUBJECT: Proposed Fiscal Year 2023 Budget Estimate for the Washington Township Health Care District

The Budget Estimate for Fiscal Year 2023 will be presented to the Board of Directors at the June 22, 2022 meeting. Upon approval by the Board of Directors, the Budget will constitute authority for the Chief Executive Officer to meet the financial obligations of the Washington Hospital Healthcare System within available funds, in accordance with the District's Mission Statement, applicable laws, regulations, procedures and precedents pertaining to the District.

The FY 2023 Budget for Washington Hospital provides for net operating revenue in the amount of \$533,318,000 and total operating expenses of \$510,823,000. This year, total depreciation is budgeted at \$45,330,000. We are projecting an operating income of \$22,495,000. Our Capital spending requests are budgeted at \$47,280,000. These capital requests will be funded with \$23,336,000 of bond proceeds and donations as well as \$23,944,000 of District funds. In addition, the proposed FY 2023 Budget Estimate includes \$24,612,000 to fund operations of the Washington Township Hospital Development Corporation and Washington Township Medical Foundation. These two entities are integral to meeting our goal of continuing to improve the health status of the residents of our District.

Over the last two years, Washington Hospital has experienced some of the most unprecedented medical and economic challenges during the COVID-19 pandemic. The pandemic has had a heavy financial toll on California hospitals including Washington Hospital. During FY 2022, Washington Hospital continued to experience significant surges of COVID-19 patients with the Omicron variant peaking in terms of hospital admissions at the beginning of 2022.

However, with the increasing vaccination rates locally and across the country, the situation is improving. We realize that COVID-19 is not going away completely and that we must learn to live with this "new normal." During FY22, we incorporated many operational changes that were required during the early part of the pandemic into day-to-day normal operations. We also successfully worked to stabilize operations. This entailed cost savings initiatives along with a strong focus on revenue initiatives including improving care coordination/utilization management processes along with our revenue cycle processes. These two areas of focus entail staff, physicians and management working collaboratively to ensure success. They are two extremely important initiatives to our future success and will continue into FY23.

The last component was to begin to build the infrastructure for new growth and operationalize growth strategies in specific product lines. The infrastructure growth initiatives will take multiple years, in some cases, to bring to fruition and will be an important focus for FY23. They include: the buildout of the Washington UCSF Ambulatory Care Center in Warm Springs, the buildout of the remaining space in Morris Hyman Critical Care Pavilion and the design and initiation of construction for our next phase of the Facility Master Plan. These, along with other shorter term projects including the Washington-UCSF Cancer Center and the Acute Rehabilitation Unit, are

important initiatives to meet the future needs of our community. We have spent extensive time in moving these projects forward this past year and will continue our efforts in FY23. We are extremely thankful to our community for supporting the next phase of our Facility Master Plan and our ability to meet the California seismic requirements through general obligation bonds.

Over the next two years, we will continue to implement plans to improve our operations and to lay the groundwork for the future success of Washington Hospital Healthcare System. This will be characterized as “Our Road to Recovery and Growth.” During Fiscal Year 2023, we will focus on continuing to build the foundation for growth and success of Washington Hospital Healthcare System into the future. That said, there is still a level of uncertainty. We will be facing new economic headwinds that have developed, including increasing costs driven by labor, drugs and supplies as well as the impact of higher economy-wide inflation.

Like many hospitals, we are facing ongoing workforce shortages that will continue to drive increases in labor costs in FY23 and beyond. We have had outside consultants assist us with market compensation assessments to not only retain our staff but to recruit new staff and physicians. We experienced what many are calling “The Great Resignation” and have seen staff and physicians leave Washington to be closer to family which has often left us with vacancies in positions that we are struggling to fill. Global supply chain challenges also continue to plague us. We are seeing escalating expenses in many areas including pharmaceuticals and basic supplies coupled with shortages - all of which result in day to day procurement challenges.

The FY 2023 budget also provides the necessary resources to sustain, and to continue to improve, our clinical excellence, and supports our important institutional commitment to the Patient First Ethic.

Our budget assumptions directly depend on the continued improvement in the COVID-19 situation throughout the year. The overall volume assumptions underlying this budget are based on improvements in care coordination along with volume growth in key product lines. This is offset by the significant outmigration of our joint surgeries to the ambulatory surgery setting. Our improvement in net revenue is based on improvements in utilization management, revenue cycle and value-based purchasing initiatives. It should also be noted that, during FY 2022, Washington Hospital did not receive any substantial local, state or federal provider relief funding. It does not appear that additional funding will be available to the Healthcare System in the future.

Overall, we still face some degree of uncertainty. The effect of the pandemic on the economy in the long term continues to be impossible to determine at this point. The impact of increasing inflation and a potential recession are unknowns. What we do know is that maintaining our financial health is essential to caring for our community, investing in new technologies and services, and preparing for future pandemics and other unexpected emergencies. We also firmly know that the hard work, resilience, and compassion shown by our staff and physicians each and every day, will ensure that even during uncertain or difficult times the health care needs of our patients will be met and exceeded by their independent, local community hospital.



KIMBERLY HARTZ
Chief Executive Officer

PLANS AND PRIORITIES

The Strategic Map for FY 2023 is a starting point for developing our Budget. The major activities of the Strategic Map are:

- Develop and Implement Growth Strategies and Marketing Strategies for Targeted Services Lines
 - Cardiac Services
 - Oncology
 - Maternal Child Health
 - Neurosciences
 - Orthopedics
- Complete Design and Begin Implementation of the Third Phase of the Facilities Master Plan (MHCCP Infill Projects)
- Identify, Prioritize, and Implement New Inpatient and Outpatient Opportunities
- Secure Trauma Center Designation and Begin Implementation
- Leverage Mission Critical Technology to Enhance the Patient Experience
- Implement Utilization and Revenue Cycle Strategies
- Drive Continuous Improvements in Quality and Safety
- Strengthen Recruiting and Retention Across WHHS

These priorities have been included in the FY 2023 budget.

SERVICE VOLUMES

Admissions for FY 2023 are budgeted to increase 1.0%, driven by an increase in inpatient Cath Lab cases, offset by a decrease in inpatient Operating Room cases. The decrease in inpatient Operating Room cases is resulting from a decrease in inpatient orthopedic cases.

A decrease in Patient Days and Average Daily Census of 6.0% is projected in the budget. The decrease in patient days is directly related to quality initiatives aimed at improving the average length of stay.

Surgical cases overall are budgeted to decrease by 6.0% driven by the outmigration of outpatient joint replacement cases to the Peninsula Surgery Center, offset by growth in the inpatient cardiac and neurosurgery programs.

Total Cath Lab cases are budgeted to increase by 8.0%, driven by increases in cardiac, neuro radiology, and non-vascular cases.

Outpatient visits are expected to increase 1.0% compared to FY 2022.

These changes are reflected in revenues, reimbursement and expenses in this Budget.

PATIENT SERVICE REVENUES

Gross patient revenue is expected to decrease 2%, largely due to the outmigration of outpatient joint replacement cases to the Peninsula Surgery Center.

The improvement in the contractual write-off and provision for doubtful accounts percentage is related to improvements in some of our commercial payer contracts as well as the implementation of revenue enhancement initiatives.

Net Patient Revenue is expected to increase by 1.5% resulting from the improvement in contractual allowances.

OTHER OPERATING REVENUES

The 6% increase in other operating revenues primarily reflects new revenue related to management services being provide to the Washington-UCSF Radiation Oncology Joint Venture, and an increase in supplemental funding from the State's Quality Improvement Program for district hospitals. Washington Hospital is a top performer in that program.

OPERATING EXPENDITURES

Significant factors influencing the overall 3% increase in operating expenditures for the budget year are as follows:

- Salaries and Wages are expected to increase 1% due to wage inflation being offset by a reduction of FTE's resulting from the lower patient days.
- Employee Benefits are expected to increase 10%. In FY 2022 we enjoyed a net actuarial gain from the pension plan which is not expected to recur in FY 2023. Medical expenses are also expected to increase.
- Professional fees are expected to increase 14% primarily due to market-based compensation increases being provided to retain hospital-based physicians, Medical Directors and Physician Advisors. We also expect increased costs related to legal and audit services.
- Supplies are expected to decrease 4% due to the outmigration of outpatient joint replacement cases to the Peninsula Surgery Center and implementation of cost saving initiatives. The decreases in cost are expected to be offset by inflation in supplies and pharmaceutical expense.
- Purchased Services are expected to increase 9% due services retained for the simplification of our Charge Description Master and other revenue enhancing activities, as well as increased costs related to staff training and the upcoming District election.

We expect revenue increases of \$4.0 million in FY2023 as a result of the revenue enhancement activities.

- Utilities are expected to increase 9% largely due to inflation in energy and garbage collection prices.
- Insurance is expected to increase by 25% due to rate increases in both professional liability and property insurance. The increases are resulting from catastrophic losses incurred in the industry and unfavorable District claims experience over the last several years.
- Marketing & Advertising is expected to increase 69% due to a new marketing campaign for the cardiac services program.
- Software Licenses & Maintenance is increasing 3% due to inflation.
- Other expenses are increasing 16% due to anticipated costs related to preparations to become certified as a Level 2 Trauma Center.
- Depreciation is decreasing 2.0% due to the amortization of existing fixed assets partially offset by the anticipated capital spending during the year.

NON-OPERATING INCOME

- Investment income is projected to increase 1% due to anticipated higher account balances during the year.
- Rental income is estimated to increase due to new tenants anticipated in the Fremont Office Center and Washington Properties.
- As part of the District's continuing budget policy, realized and unrealized gains or losses on the investment portfolio are not budgeted due to the unpredictability of market performance.
- General Obligation Bond Property Tax Revenue of \$18.2 million provides for the debt service requirements on our General Obligation Bonds for the budget year.
- Foundation donations are expected to increase 118% from Fiscal Year 2022 due to an ongoing capital fundraising campaign for the new Cancer and Infusion Center.
- Interest Expense is expected to increase by 2% due to new debt service on the \$20.0 Million general obligation bond issue that was completed in April 2022.
- There are no bond issuances anticipated in FY 2023, therefore no bond issuance costs are budgeted.

**BUDGET
FY 2023**

STATISTICS

VOLUMES

	Budget Estimate FY 2023	Projected FY 2022	Change	Percent Change
Admissions	9,576	9,484	92	1%
Patient Days	53,834	56,968	(3,134)	-6%
Average Daily Census (ADC)	147	156	(9)	-6%
Outpatient Observation Days	4,007	4,117	(110)	-3%
Average Length of Stay	5.56	5.85	(0.29)	-5%
Deliveries	1,430	1,430	0	0%
Surgical Cases	4,330	4,626	(296)	-6%
Joint Replacement Cases	1,794	2,117	(323)	-15%
Cardiac Surgical Cases	170	152	18	12%
Neuro-Surgical Cases	354	326	28	9%
Other Surgical Cases	2,012	2,031	(19)	-1%
Cath Lab Cases	2,636	2,440	196	8%
Cardiac Cases	1,163	1,010	153	15%
Peripheral Vascular Cases	586	586	0	0%
Neuro-Radiology Cases	83	65	18	28%
Non-Vascular Cases	804	779	25	3%
Emergency Room Visits	54,467	54,467	0	0%
Outpatient Visits	93,455	92,602	853	1%

PERFORMANCE INDICATORS

	Budget Estimate FY 2023	Projected FY 2022	Percent Change
<u>Productivity</u>			
Total Productive FTEs	1,374.8	1,388.1	1.0%
Non-Productive FTEs	183.2	198.8	7.8%
Total Paid FTEs	1,558.0	1,586.9	1.8%
Paid FTEs/Adjusted Occupied Bed	6.33	6.04	-4.8%
Productive FTEs/Adjusted Occupied Bed	5.58	5.28	-5.7%
<u>Financial Indicators</u>			
Contractual Allowances as a % of Revenue	75.1%	76.1%	
Provision for Charity & Doubtful Accounts as a % of Revenue	1.9%	1.6%	
Supplies/Net Patient Revenue %	12.7%	13.5%	
Operating Margin	4.2%	5.5%	
Net Margin	4.7%	3.8%	

BUDGET FY 2023

REVENUE

PATIENT SERVICE REVENUE

<i>(In thousands)</i>	Budget Estimate FY 2023	Projected FY 2022
	<hr/>	<hr/>
Patient Service Revenue:		
Inpatient	\$1,366,163	\$1,385,869
Outpatient	922,707	948,844
	<hr/>	<hr/>
Total Patient Service Revenue	\$2,288,870	\$2,334,713
	<hr/>	<hr/>
Contractual Allowances and Provisions:		
Contractual Allowances	(\$1,718,211)	(\$1,777,281)
Provision for Charity and Doubtful Accounts	(\$43,577)	(\$37,955)
	<hr/>	<hr/>
Total Contractual Allowances and Provisions	(\$1,761,788)	(\$1,815,236)
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Total Net Patient Service Revenue	\$527,082	\$519,477
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Total Net Patient Service Revenue as a Percent of Patient Service Revenue	23.0%	22.3%

OTHER OPERATING REVENUE

<i>(In thousands)</i>	Budget Estimate FY 2023	Projected FY 2022	Percent Change
Cafeteria	\$766	\$487	57.3%
Health Education	107	87	23.0%
Outside Services	870	426	104.2%
Quality Incentive Program (QIP) / PRIME	3,592	3,521	2.0%
Other Revenue	901	1,381	-34.8%
Total Other Operating Revenue	\$6,236	\$5,902	5.7%

BUDGET FY 2023

EXPENSE SUMMARY

OPERATING EXPENSES

<i>(In thousands)</i>	Budget Estimate FY 2023	Projected FY 2022	Percent Change
Salaries	\$244,325	\$241,195	-1.3%
Benefits	61,852	56,460	-9.6%
Professional Fees	38,837	34,135	-13.8%
Supplies	67,091	70,149	4.4%
Purchased Services	29,350	27,024	-8.6%
Utilities	6,844	6,264	-9.3%
Insurance	3,863	3,087	-25.1%
Marketing & Advertising	1,048	620	-69.0%
Software Licenses & Maintenance	6,966	6,767	-2.9%
Other Expenses	5,317	4,584	-16.0%
Depreciation	45,330	46,392	2.3%
Total Operating Expenses	\$510,823	\$496,677	-2.8%

**BUDGET
FY 2023**

**NON-OPERATING
INCOME**

NET NON-OPERATING INCOME & EXPENSE

<i>(In thousands)</i>	Budget Estimate FY 2023	Projected FY 2022	Percent Change
Investment Income	\$2,530	\$2,505	1.0%
General Obligation Bond Property Tax Revenue	18,194	17,299	5.2%
Interest Expense	(21,281)	(20,810)	-2.3%
Rental Income, Net	1,000	284	252.1%
Bond Issuance Cost	-	(456)	100.0%
Foundation Donation	2,250	1,030	118.4%
Federal Subsidies	-	153	-100.0%
Subtotal	\$2,693	\$5	53760.0%
Realized Gain/(Loss) on Investments *	-	(324)	100.0%
Unrealized Gain/(Loss) on Investments *	-	(8,183)	100.0%
Total Net Non-Operating Income & Expense	\$2,693	-\$8,502	131.7%

* Washington Hospital does not budget for gains or losses on investments.

**BUDGET
FY 2023**

CAPITAL BUDGET

CAPITAL BUDGET

<i>(In thousands)</i>	Division	Budget Estimate FY 2023
<u>Equipment</u>		
	System Operations & Management Support Services	\$2,928
	Ambulatory Care Services	1,463
	Information Management	638
	Patient Care Services	180
	DEVCO	162
	WTMF	72
	Rehab and Education Services	48
	Finance	9
	Compliance	1
	Total Equipment	\$5,501
<u>Projects</u>		
	MHCCP Infill Project	\$11,000
	Cancer and Infusion Center Redesign	7,580
	FOC Cardiology Build	2,999
	Fremont Office Center (FOC) Tenant Improvements	1,000
	Washington Properties Tenant Improvements	500
	Epic Server Hardware Upgrade	370
	FOC Air Handler Replacements	250
	WTMF Pediatrics Tenant Improvements	212
	Onbase Document Management Software Upgrade	190
	Medical Device Security Solution	185
	Materials Mgt (Storeroom) Refresh	165
	IT Service Ticketing Software Upgrade	125
	PBX Call Management Software Upgrade	110
	Other Routine Projects - Under \$100k	388
	Total New Projects	\$25,074
<u>Committed Projects</u>		
	Bridge Connection - OR to MHCCP	\$11,086
	Warm Springs Buildout - Phase 1	4,353
	Epic Radiant Phase 2	1,266
	Total Committed Projects	\$16,705
	Total Capital Budget	\$47,280