ALAMEDA COUNTY MEDICAL CENTER

Highland Campus • Fairmont Campus
John George Psychiatric Pavilion • Ambulatory Healthcare Services

FINANCE COMMITTEE MEETING
TUESDAY, June 12, 2012

Central Administration Offices Located at Highland Hospital
1411 East 31st Street Oakland, CA 94602
Barbara L. McElroy, Clerk of the Board
(510) 437-8468

MINUTES

TAB #1 CLOSED SESSION - None

THE MEETING WAS CALLED TO ORDER AT 4:42 PM.

ROLL CALL WAS TAKEN AND THE FOLLOWING TRUSTEES WERE PRESENT:

Kirk E. Miller, Ronald D. Nelson, Daniel Boggan were present.
Valerie D. Lewis, Esq. was in transit.
Stanley M. Schiffman was excused.

TAB #2 ACTION: Approval of Minutes - None

TAB #3 Financial Forecasting and Analysis

A. REPORT: Presentation of the FY 2013 Budget

I. Wright Lassiter, III, Chief Executive Officer, described the significant initiatives underway or completed in FY 2012 in relation to the pillars of quality, service, access, workforce, finance, and community.

- The Electronic Health Record (EHR) project relates to quality, access and service. EHR met the milestones that qualify ACMC for $18M in incentive payments, $3M of which was received last week. ACMC's total capital investment in EHR comes to approximately $18M. EHR went live at Eastmont Wellness Center on June 6th, and will go live at Winton Wellness Center and Newark Health Center in July, at Fairmont and John George in September, at the Highland ED in November, followed by the rest of Highland and culminating with Sorian Financials (Revenue Cycle) in spring 2013.
- Mr. Lassiter thanked the Board for supporting ACMC's 3-year LEAN initiative related to service, finance and workforce development. LEAN is now in its 7th month. Training for the first wave of senior executives and medical leadership is completed. Training for the next wave, consisting of Directors, other medical staff and new executives, kicked

off last week. LEAN promotes its objectives of improved efficiency, reduced waste, higher quality and stronger cost structure through workforce involvement, emphasizing engagement and respect for employees. ACMC will train 800 to 1,000 staff with the goal of developing 75 certified healthcare LEAN specialists in house.

- ACMC is on track to complete the 2012 DSRIP milestones related to the pillars of access and finance. This CMS incentive program provides approximately $30M yearly for 5 years to improve access and quality.
- ACMC achieved baby-friendly designation, one of only three Bay Area hospitals so designated. This enhances community perception and quality which in turn becomes a service driver.
- One of the goals on the FY 2012 scorecard was lowering the level of workplace injuries, which relates to the pillars of workforce and finance. There has been a 50% reduction in such injuries over previous year.
- Mr. Lassiter credited Jeanette Louden-Corbett, Chief Human Resources Officer, the Human Resources team, Kimberly Horton, Chief Nurse Executive, and Bill Manns, Chief Operating Officer with successful negotiation with our labor partners on wage re-openers, work related to the pillars of workforce and finance.
- Mr. Lassiter appreciates the assistance of the Board of Trustees on the strategic planning initiative. The initiative began in FY 2011 with the 10-year financial plan developed with Kaufman Hall, and continues as ACMC works with Kurt Salmon to develop a 3-year implementation plan to achieve the identified strategic priorities.
- ACMC obtained Federally Qualified Health Center (FQHC) status for Highland clinics, which will provide a richer funding stream for outpatient services for Medi-Cal patients. Cost-based reimbursement for these services will help compensate for anticipated reductions in supplemental revenues, addressing the pillars of service and financial stability.
- Also related to the finance pillar is ACMC's recent renegotiation of contracts with Blue Cross and the Alameda Alliance for Health, which will result in additional revenue for ACMC.
- Extensive transition planning for the Highland Care Pavilion (HCP), which opens May 2013, was started in FY 2012. The HCP will support increased service and access, and contribute to ACMC's financial strength.
- ACMC attained a 48% reduction in patient harm as of December 2011. Additional harm reduction initiatives have been undertaken with BOT support and relate to the pillars of quality, service and finance.
- ACMC's first facility acquisition was Newark Health Center, and services are growing there, increasing access and ACMC's presence in the southern Alameda County.

II. Mr. Manns presented the initiatives undertaken to achieve ACMC's Board approved five strategic priorities, related focus areas, and the volume assumptions for the FY 2013 budget .

1. Strategic Priorities
    a. Improve organizational cost effectiveness
    b. Enhance revenue opportunities
    c. Develop an efficient physician operating model
    d. Increase access to primary and specialty care
    e. Explore affiliation and partnership opportunities

2. Key Focus Areas for Achieving Strategic Priorities
    a. *Continuation and completion of key initiatives*
        i. For EHR implementation, in addition to design/build costs and capital expenditures, the proposed budget funds staff and provider education for the new skill sets required.
        ii. Transition to the Highland Care Pavilion is budgeted with $1.5M to prepare for occupancy. In addition, there is $2.2M in the budget for surgical and moveable minor equipment and to cover contingencies.
        iii. Development of the System Transformation Center started with hiring its new Director who starts on June 18th. The department has a $2.5M budget and provides oversight of DSRIP, patient satisfaction and safety, harm reduction, cost management and LEAN initiatives and is responsible for maximizing EHR integration after implementation.
        iv. Operating room expansion provides additional revenues, costs and volumes that have been budgeted in perioperative services.

            <u>Discussion</u>

            Mr. Lassiter noted that OR space limits have slowed expansion in specialty care, as specialists need to be able to refer patients for surgery if needed. Orthopedics was successfully expanded last year, but ACMC is now nearing full OR capacity, which is one factor in our interest in developing space for ambulatory outpatient and elective surgeries off the Highland campus.
        v. Completion of the Fairmont B building sprinkler system is an unfunded CMS mandate that will reduce daily census in the Skilled Nursing Facility (SNF) by an average of 16 during FY 2013. The revenue loss, $2M capital cost and savings in non-productive hours are included in the proposed budget.

            <u>Discussion:</u>

            Mr. Lassiter pointed out that our SNF beds are usually full, and reducing capacity impacts the community. The proposed budget is maximally conservative in that 100% of the bed

reduction is reflected as revenue loss. ACMC is looking at leasing beds in other facilities and other options that could recoup some of the lost revenues and fulfill the community need.

Mr. Manns noted that ACMC will ask the County to pay for the $2M capital cost, as this is a basic building infrastructure cost.

vi. Conversion of Medicare and commercial billing activity from the Behavioral Health Care Agency to ACMC effective July 1, 2012 is budgeted to increase net revenues by $1.3M.

b. *Improving financial and operational efficiencies*

i. Implementation of the cost management initiatives identified by MedAssets is budgeted to produce labor savings of $5.1M from improved OT usage and productivity, $1M from registry and temporary contract renegotiations and $4M from vendor sourcing modifications and supply chain redesign.

ii. Continuation of the LEAN initiative adds $450K of cost for the Kaizen Program Office (KPO) and $665K for the 2nd year of our 4-year contract with Rona Consulting.

Discussion

Mr. Lassiter explained that the benefits produced by the profound culture changes initiated through LEAN are longer term, while MedAssets has identified more immediate cost improvements.

Mr. Manns described some tracking of LEAN improvements that is being maintained by the KPO, with work underway to set up a more comprehensive tracking structure.

Marion Schales, Chief Financial Officer, reiterated that the LEAN project changes culture, while the work planned with MedAssets focuses on immediate cost reduction/revenue enhancement. Because of the range and variety of the changes ACMC has undertaken, the MedAssets project includes developing a governance and reporting structure to allow ACMC to track and quantify changes as they occur. Increased revenue and service and reduced cost produced by changes in behavior may be difficult to track to a specific initiative.

Trustee Boggan wants to be sure that our efforts are adding value. He mentioned that one way to organize the reporting might relate outcomes to the BOT-approved five strategic priorities.

Trustee Miller pointed out that uncertainty in the national and state healthcare arena means challenges may manifest at

any moment. Knowing the timing and anticipated results for each project would be beneficial.

c. *Prepare for Strategic Plan Implementation*
   i. ACMC re-branding will start with an internal campaign budgeted at $200K.
   ii. Preliminary planning for the physician operating model is underway. The proposed budget includes $500K for legal and consulting costs as ACMC develops the optimum model to centralize provider services and education and coordinate billing and collections. In addition, four positions to staff the Management Services Office have been added starting Jan 1, 2013; their cost is offset by added revenue based on improvements in physician charge capture and coding.
   Douglas Habig, General Counsel, and Kurt Salmon consultants have been meeting with the President of the Medical Staff and groups of physicians to develop a model that ACMC will recommend to the trustees. Meetings will continue over the summer.
   iii. For the San Leandro Hospital (SLH), there are no volume, staffing costs or income in the proposed budget, but $700K for financial analysis, marketing, communications and IT assessment, and $300K for legal fees.
   Discussion
   Mr. Lassiter expects to brief the BOT in closed session at its meeting in June 26th about SLH-related developments.
   Developments related to St. Rose are on hold. Washington Hospital has a six-month due diligence period to assess the option of taking over St. Rose. This period ends Sept. 30, when Washington Hospital will declare its intention or extend the assessment period.
   iv. Ambulatory expansion projects are budgeted to generate 25,000 visits more in FY 2013 than in FY 2012.
   v. Network development does not impact the ACMC operating budget as current planning efforts are funded through DSRIP.
   Discussion
   Mr. Lassiter added that ACMC is broadening its relationships with the Community Health Center Network, particularly Axis (serving the Pleasanton area), Lifelong (serving Berkeley and North Oakland) and Asian Health Center, each of which plans to expand to new facilities. One option would be to partner or co-locate ACMC specialty physicians at these primary care sites.

d. Heavy investment in workforce competency and engagement was budgeted at $1.4M for increased internal resources ($1M for clinical

education, $400K for in service training) plus $665 for Rona Consulting and the LEAN initiative.

e. Improving the patient experience is included in the proposed budget through the internal education budget and through the new position of Director of Patient Experience, who has been hired and will start in June 18th.

III. Volume Assumptions

1. Patient days are expected to decrease by 4% overall, due primarily to a 19% reduction in Skilled Nursing days at Fairmont related to decreased capacity during the sprinkler system upgrade, offset by increases in Acute Rehab and Medical/Surgical/ICU days. OB/GYN and Psychiatric days are projected to remain the same.
2. Surgery volumes are projected to increase by 12% due to full use of the 7th OR suite and extended hours for one suite.
3. Deliveries are projected to increase 6%.
4. Outpatient volumes are budgeted to increase by 9% (25,945 visits). Additional specialty clinics at Highland in H4 are planned to contribute to the 3% increase at this site. Adult medicine and pediatrics are increasing at Eastmont, which will also open an extensive specialty pod, producing a 19% increase. The remodeled Newark clinic will increase visits by 8% through added providers. Winton will improve productivity to produce a 14% increase in visits using tools developed during patient visit redesign. Fairmont has added provider hours to increase outpatient rehab clinic visits by 115%.

   Discussion

   Trustees asked about barriers to achieving the budgeted visit increases.

   Mr. Manns and Mr. Lassiter agreed that ACMC is highly confident that there is demand at all locations. Mr. Lassiter noted that there has been little competition for our patient population. However, Washington Hospital is opening a primary care center near Newark Health Center, raising the possibility of a dampening effect on demand in South County.

IV. Proposed FY 2013 Budget

Ms. Schales thanked the executive team and the finance department for their hard work in putting the budget and budget presentation together. She then presented the proposed budget for FY 2013, including key financial performance trends, onetime expenditures, the operating budget, the DSRIP budget and the capital budget and cash flow.

The proposed budget is a financial translation of the material presented by Mr. Manns.

1. Key trends in revenue are increasing net patient revenue and decreasing revenues from supplemental programs for a net increase of 5%.

Expenses increase by 4% due to increases in wages, benefits and non-labor expenses, generating net operating income of $16.6M. From that, $12M in other pension expense benefits (OPEB) and $662K in interest on ACMC's capital loan from the County must be deducted, resulting in a total income of $3.96M excluding DSRIP.

2. One-time expenditures total $7M, and include the EHR project, opening the Highland Care Pavilion, setting up the Medical Staff Office, rebranding, installing a sprinkler system that provides 100% coverage in SNF, and preparatory work related to the San Leandro Hospital initiative.

   Discussion

   Trustee Miller suggested a different summary slide for the BOT budget presentation expanded to include all transformational expenses and suggested that it include LEAN and the cost management project.

3. The operating budget reflects 0.7% margin with $3.96M net operating income excluding DSRIP and capital contributions.
   a. Revenues are budgeted to increase by 5%, or $26.7M.
      - The $29.4M rise in net patient revenue is due to the improved FQHC rate for Highland, volume increases, charge master rate increases of 10%, inflationary rate increases for Medi-Cal and Medicare fee for service (as published in the federal register), revenue cycle and charge capture improvements related to physician billing and rate increases for Medi-Cal managed care resulting from new contracts with Blue Cross and the Alameda Alliance for Health.

        Discussion

        Trustee Boggan asked for detail on related risks.

        Ms. Schales explained that the amount budgeted for FQHC income is based on ACMC's interim rate, which is not the full rate. Actual income is expected to be higher. The risk related to income generated by volumes is that ACMC may deliver fewer services than budgeted.

        Mr. Lassiter reminded trustees that ACMC had increased its charge master pricing by 8-10% for each of the last six years. ACMC charge master prices are still 20-30% below market, an indication of how far below market ACMC is.

        Mr. Lassiter repeated that the revenue budget is conservative. Ms. Schales noted that the revenues are very sensitive to changes in volume and changes in payer mix, so unanticipated shifts in payer mix would also put the income projections at risk.
      - The net $2.7M decrease in non-patient revenues results from decreased waiver and AB915 funds offset by increases in county funding for HPAC, and the HIV incentive pool (patients formerly

covered by Ryan White). The HPAC contract is a 3-year bridge to healthcare reform, and FY 2013 is its last year.

<u>Discussion</u>

Trustee Miller recommended simplifying the revenue details for the BOT.

Trustee Lewis stated that the revenue assumptions are optimistic and requested detail on ACMC's emergency or disaster budget, as complete programs may be totally eliminated in the current situation.

Ms. Schales stated that the expense budget is also conservatively budgeted, and in budgeting with this level of unknowns, uncertainty is addressed in the aggregate so that if one area of the budget falls short, there are still other contingencies within other areas of the budget to offset and keep the overall budget on track.

Trustee Lewis wants to be sure that the Trustees have enough information to feel that they are voting for a budget that allows ACMC to survive disaster level changes in the economic forecast.

- Measure A revenues are projected as flat compared to anticipated FY 2012 Measure A revenue.

  <u>Discussion</u>

  Trustee Nelson asked how ACMC's FY 2013 Measure A budget of $84M was budgeted.

  Mr. Lassiter stated that ACMC reviews the County's forecast, compares it to payment trends received by ACMC and then budgets amounts that are flat or slightly below trend. The FY 2013 budget reflects expectations of neither improvement nor decline in the economy or sales tax revenue.
- In other operating revenue, a $2.2M increase is expected, largely from the funding for the San Leandro Hospital transition, and partly from increased pharmacy and other non-patient receipts. Lower ARRA incentive payments are due to the fact that physician incentive payments are largest in the first year, and FY 2013 is the second year.
- FY 2013 payer mix reflects a 2% shift away from Medi-Cal and Medicare and a 2% increase in HPAC and Commercial Insurance.

b. Operating Expenses are anticipated to increase by 4% or $23.2M.
   - Salaries and wages increase by 2%, or $5.4M. Inflationary increases, volume related increases and training costs are offset by cost management initiatives in scheduling and productivity that reduce labor costs by $6M.

- Benefits increase by 8%, or $7.9M largely due to increases for ACERA contributions and health and welfare benefits. Health and welfare increases are related to budgeting positions as fully benefitted although experience shows that a portion of those hours will be covered by Services As Needed (SAN) or Registry usage.
  - Net number of FTEs decrease by 10, excluding provisional employees for DSRIP projects and EHR training and development.
- Contracted Physician Services, which include all the physician contracts, increase by 12%, or $6.2M largely due to increases in ambulatory and perioperative services, and incentives and increases in specialty care approved in the Oakcare contract.
- Purchased Services increase by 9%, or $3.3M largely due to the E.H.R. project and transition costs for the Highland Care Pavilion, partially offset by cost management initiative savings of $1.6M.
- Pharmaceuticals, medical and non-medical supply cost decreases by 2%, or $1.1M, largely due $2.3M in cost savings from the cost management initiative.
- Outside medical services increase by 3%, or $292K, based on utilization trends.
- Other expenses (General & Administrative, Repairs and Maintenance, Building & Equipment) increase (in aggregate) by 2%, or by $416K. Of that, $508K is an increase in support for the ACMC Foundation.
- Depreciation increases by 9%, or $756K.

c. Non-operating expense and revenue increases 19%, or by $2.0M, due to increases in other post employment benefits (OPEB). OPEB represents unfunded pension liabilities; due to a change in the accounting rules, organizations are now required to show this expense on financial statements.

d. DSRIP Revenue is budgeted at $23.5M, an increase 8% or $1.7M.

e. DSRIP expense is budgeted at $17.6M to offset DSRIP revenue. Note: The offset is less than 100% because of budgeted DSRIP capital expenses of $5.9M.

f. DSRIP sources and uses of funding:
- Total potential funds available for 2013 is $32.3M
- Reserves for not achieving milestones and audit payback is $6.1M
- Contribution to ACMC overhead is $2.6M
- Project spending identified to date is $3.8M
- Remaining available funds for additional projects is $19.8M

4. The operating budget including DSRIP funds reflects 1.7% margin with $9.9M net operating income.

V. Capital Budget and Cash Flow

a. Cash flow generated from operations is $31.5M.
b. Uses of cash:
   - Capital expenditures are $20M ($3.2M is allocated for replacement capital, $15.8M is allocated for strategic capital, $1M is allocated for emergency/contingency capital)
   - Working capital loan repayment is $10M, an increase from $2.5M in FY 2011 and FY 2012
   - 1993 debt service payment on the 1993 Certificate of Participation Bonds is $885K

Ms. Schales listed some of the risks to achieving the budget as planned. Each year there are external risks related to the fact that the state and federal budgets are completed after ACMC sets its budget, and there are changes in healthcare funding under discussion at each level. Internally, there may be re-prioritization of ACMC's long range strategies, or ACMC may run into performance hurdles in one or more of the multiple major initiatives that ACMC is implementing simultaneously.

***ACTION:* A motion was made, seconded, and unanimously approved to recommend the proposed ACMC budget for FY 2013 as presented for consideration by the Board of Trustees.**

***MOTION:* Trustee Nelson**
***SECOND:* Trustee Lewis**

AYES: *Trustees Miller, Lewis, and Nelson*
NAYS: *None*
ABSTAIN: *None*
ABSENT: *Trustee Boggan excused from meeting early.*

TAB #4 Financial and Operations Reporting

A. ACTION: Resolution No. 2012-008 to Fund the 401(H) Health Benefits Account Provided by the Alameda County Employee's Retirement Association (ACERA)

Mr. Habig presented the annual resolution to approve ACMC's contribution to the non-vested ACERA benefit that provides medical coverage to retirees on a non-taxable basis. The resolution approves the classification of the payment of $2,735,999.30 of ACMC's current contribution to ACERA for use as non-taxable benefits.

Discussion
Trustee Miller suggested that Mr. Habig explain the program clearly at the Board of Trustees meeting.

Trustee Miller asked if ACMC can incentivize its employees and retirees to use ACMC as their primary healthcare provider.

Ms. Louden-Corbett stated that most of the retirees and employees are insured by Kaiser. The percentage of employees insured with Kaiser is 89-90%. Mr. Lassiter and Ms. Louden-Corbett recently met with an organization that could be helpful in exploring the possibility of ACMC becoming self-insured.

Trustee Miller recognized that the task of putting together a budget of this size for an organization so complex under circumstances so uncertain is substantial and complemented the presenters and presentation.

***ACTION:* A motion was made, seconded, and unanimously approved to recommend Resolution No. 2012-008 to the Board of Trustees for adoption.**

***MOTION:* Trustee Nelson**
***SECOND:* Trustee Lewis**

AYES: *Trustees Miller, Lewis, and Nelson*
NAYS: *None*
ABSTAIN: *None*
ABSENT: *Trustee Boggan excused from meeting early.*

TAB #5 REPORT: Legal Counsel's Report on Action Taken in Closed Session

Douglas B. Habig, General Counsel, reported there was no Closed Session.

Board of Trustees Remarks: None.

Public Comments: None.

THE MEETING WAS ADJOURNED AT 6:46 PM.

Respectfully submitted,

Barbara L. McElroy
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by:
Douglas B. Habig, Esq.
General Counsel