



**FINANCE COMMITTEE MEETING
TUESDAY, March 19, 2013**

**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 5:37 PM.

ROLL CALL WAS TAKEN AND THE FOLLOWING TRUSTEES WERE PRESENT:

Daniel Boggan, Jr., Michele Lawrence, Valerie D. Lewis, Esq., Ronald D. Nelson, and Stanley M. Schiffman.

ACTION: A motion was made, seconded, and unanimously approved moving all ACTION items to the top of the agenda.

MOTION: Trustee Schiffman

SECOND: Trustee Lawrence

AYES: Trustees Boggan, Lawrence, Lewis, Nelson, and Schiffman

NAYS: None

ABSTAIN: None

ABSENT: None

TAB #2 ACTION: Approval of Minutes

ACTION: A motion was made and seconded approving the Minutes of the January 15, 2013 Finance Committee Meeting as presented.

MOTION: Trustee Schiffman

SECOND: Trustee Lawrence

AYES: Trustees Boggan, Lewis, Nelson, and Schiffman

NAYS: None

ABSTAIN: Trustee Lawrence

ABSENT: None

TAB #3 Financial Forecasting and Analysis

A. Report: FY2014 Budget Assumptions

Joe Demont (VP Finance) reported on the budget assumptions for FY14

Marion R. Schales, Chief Financial Officer, reported that the budget methodology is based on a top down approach. Forecasted FY 2014 is used as the baseline budget (from the updated 10-year forecast completed by Kaufman Hall). Then the baseline budget will incorporate known changes, new assumptions on initiatives currently underway (e.g. Cost management initiatives, 3-year strategic plan, transition to new building, completion of HER, etc.) and updated inflation factors. Using Forecasted 2014 as the baseline budget continues the direction of net margin improvements of \$164M over ten years.

Mr. Demont reviewed the baseline budget assumptions with the Finance Committee. These assumptions will be reviewed and adjusted over the next 2 months during the budget development.

B. Report: Hayward Expansion

Bill Manns (COO) reported on the Hayward Expansion project plan.

The Hayward Wellness expansion project is a new clinic located in the Southland mall. The project is aligned with AHS's Strategic plan and is designed to improve patient care through access to primary and specialty care in Hayward and the surrounding areas. The full cost of the project is estimated at \$11.5 million. The initial start-up cost is funded by DSRIP.

Reason for Recommendation – AHS is experiencing acute access challenges in the Hayward area. There is a 2 to 6 month wait to get into the present Winton Wellness Clinic and there is no additional adjacent space to expand. There are long waits, patient complaints and many AHS and CHCN patients from Hayward area travel to Highland for Specialty Care and Emergency Service.

The location and lessor of the new clinic is Southland Mall, LP. Lessor will refund \$1.2M of construction costs to remodel the space once the clinic is open and running in October 2013. The DSRIP Oversight Committee has approved \$4.8M to cover initial capital investment and \$1.2M of operating expenses. After year 3, the project is projected to be self-sustaining with positive cash flow. However, as with all long-term projects many financial and feasibility factors may have a material effect on the project.

The Project details are as follows:

- Fully operational October 1, 2013.
- Addition of 30 new FTEs
- Capacity for another 22,000 visits with 12 additional exam rooms
- Total forecasted incremental Cash Improvement over sixteen years is \$6.5M.
(Agenda Item – TAB 8.A.2 – Southland Mall, L.P./Rouse Properties, Inc. Contract)

ACTION: A motion was made, seconded, and unanimously approved the contract with Southland Mall, L.P./Rouse Properties, Inc. as presented.

MOTION: Trustee Schiffman

SECOND: Trustee Lawrence

AYES: Trustees Boggan, Lawrence, Lewis, Nelson, and Schiffman

NAYS: None

ABSTAIN: None

ABSENT: None

TAB #4 Financial and Operations Reporting

C. REPORT: Financial Update for the Month Ending January 31, 2013

Ms. Schales reported the financial results for the month of January 2013 with and without the effect of Delivery System Reform Incentive Pool (DSRIP) revenues and expenses. Ms. Schales gave a brief overview of January operating and volume results.

- January Total Loss (*excluding* DSRIP) was \$1.0M resulting in a negative budget variance of \$0.3M (37.9%) and a positive variance of \$1.1M compared to prior year actual. Total Operating Revenue was over budget by \$1.3M (2.8%) and operating expenses were over budget by \$1.5M mostly due to labor (3.3%).
- YTD Total Loss (*excluding* DSRIP) was \$5.3M resulting in a negative budget variance of \$4.5M and a negative variance of \$9.9M compared to prior year actual. Total operating revenue was \$4.0M (1.2%) over budget and total operating expenses were \$8.4M (2.6%) over budget.
- January Total Income (*with* DSRIP) was \$0.7M with a favorable budget variance of \$0.9M and a positive variance of \$0.9M compared to prior year actual.
- YTD Total Income (*with* DSRIP) was \$5.6M with a positive budget variance of \$3.0M and a negative variance of \$11.8M when compared to prior year actual.

Mr. Demont discussed the work being done by the Financial Improvement Teams (PITs) and explained that there are 14 individual departmental action plans underway to address the current budget variances. He pointed out that the last two

pay periods suggests that progress is being made to reduce the overtime spending in the nursing areas.

D. REPORT: Building Excellence Through Timely Expense Reduction (BETTER) Initiative Status

Jack Datz, Executive Director, MedAssets

Mr. Datz presented the status report on the MedAssets initiative. His presentation covered the following elements.

- MedAssets is employing a partnering approach with ACMC. The overall direction of the initiatives is provided by the Executive Strategy Committee whose membership is the ACMC Executives.
- The 2013 budgeted savings is \$10.3M; the targeted total 18 month project savings is \$19.6M, and the identified annual savings (through the work of the teams) to date is \$10.3M.
- As of February 2013, AHS has achieved realized savings \$471K of the identified savings. This realization rate is below expectations thus the implementation activity needs to be accelerated.
- Mr. Datz reviewed the scorecard results for each of the initiatives.
- AHS has added a fourteenth (14th) initiative called "Financial Performance Improvement (FPI)." This initiative focuses on identifying areas and departments who are experiencing unfavorable budget variances. Management is expected to develop and implement Action Plans to course correct and the FPI team is charged with monitoring the progress of these Action Plans. The Executive in charge of the department/area is ultimately responsible for ensuring that the course correction is achieved.

Mr. Datz explained that transformation is not easy and it takes time to change culture. Additional focus has begun to identify and resolve barriers that are preventing implementation of the actions required to achieve the identified savings. Trustee Boggan stated that he expects to see better progress on the realized savings numbers by the next Finance Committee meeting.

E. REPORT: Progress of Alameda Health System Foundation Business Plan
Debra Barnes, CFRE, President and Marion R. Schales, CFO

Ms. Barnes presented an annual first year progress report of the three-year Foundation Business Plan. The design of the three year business plan focuses on transformation of the Foundation into a fundraising organization serving Alameda Health System's philanthropic needs.

- The FY13-FY15 Business Plan presented last March included clear projections of the funds to be raised via a capital campaign from private foundation grants for programs and other restricted purposes and from appeals to donors for unrestricted funds. It provided financial performance projections for each year in each area and described the resources necessary to fund the plan. These resources were approved by the Board of Trustees in

the form of a three-year contractual agreement between Alameda County Medical Center and the Foundation.

- A four-phase capital campaign plan to raise \$15 million for the Acute Care Tower (\$12 million) and to establish a foundation endowment (\$3 million) has been developed.
- In other related activity, the Foundation is trending above its FY13 financial targets for non-campaign donations in both restricted and unrestricted categories. These are gifts that result from direct mail appeals, events, grant proposals and other fundraising activities and are a part of the multifaceted approach described in the plan. These results are being achieved while keeping operating costs below projections.
- As of December 31, 2012, the Foundation has raised a total of \$391K on an investment from AHS of \$175K.
- Progress has also been achieved in other areas of the business plan. The Foundation hired new fundraising staff and relocated its corporate office to Oakland's Frank Ogawa Plaza. A new Board Chair with extensive leadership, fundraising experience and campaign philanthropy was installed at the January Annual Meeting. Also, the Board unanimously voted to change the organization's name to Alameda Health System Foundation.

TAB #5 CFO Update

REPORT: Chief Financial Officer Update

Ms. Schales (CFO) provided an update on the status of AB 97, the Skilled Nursing Facility (SNF) rate reduction. In 2011 Governor Brown signed AB97 which included a 10% across the board Medi-Cal provider rate reduction for SNFs. The rate reduction also rolls rates back by 10% to June 2011. In response to this several organizations filed lawsuits to prevent the reduction from occurring. In December 2012, a federal appeals court upheld the state's right to reduce payments. Additionally the 2012/13 Governor's budget proposal intends to move forward with the rate reductions. The impact to AHS is as follows.

- The rate roll back to June 2011 would result in a reduction of \$5.1M in cash flow. This would be offset by the SNF supplemental funding payment of \$2.6M; however the supplemental payment will not be received for about 12 months. Thus the net loss in funding impact would be: \$2.7M.
- The reduction in rates on an ongoing basis would be a loss in funding of \$240K per month. This would be offset by the SNF supplemental funding payment of \$120K per month; however the supplemental payment will not be received for about 12 months. Thus the net loss in funding impact would be \$120K per month/\$1.4M per year.

In February 2013, AB900 was introduced to stop these proposed cuts. Staff will monitor the progress of this issue and determine if the cuts should be included in the FY 2014 budget.

TAB #6 Financial Policy Development - No Report

TAB #7 Healthcare Reform & Regulatory Changes - No Report

TAB #8 Contract and Capital Authorization

A. ACTION: Authorization for the CEO to Execute Three Operating Contracts:

1. Contract Renewal with American Red Cross/Healthplus Shared Services for the period April 1, 2013 through March 31, 2015 not to exceed \$3,500,818 for blood and blood product services.

ACTION: *A motion was made, seconded, and unanimously approved the contract renewal with American Red Cross/Healthplus Shared Services as presented.*

MOTION: *Trustee Schiffman*

SECOND: *Trustee Lewis*

AYES: *Trustees Boggan, Lawrence, Lewis, Nelson, and Schiffman*

NAYS: *None*

ABSTAIN: *None*

ABSENT: *None*

2. New Contract with Southland Mall, L.P./Rouse Properties, Inc. for the period April 1, 2013 through September 30, 2029 not to exceed \$11,500,335 for base lease of space plus estimated costs for utilities, etc., plus tenant improvements.

This item was approved under TAB 3.B – REPORT: Hayward Expansion.

Agenda item TAB 8.A.3 – Contract with Traditions Behavioral Health was pulled.

4. Contract Renewal with University of the Pacific for the period April 1, 2013 through March 31, 2016 not to exceed \$1,902,472 for Oral Maxillofacial Services. (Estimated impact of the renewal is a net increase of \$55,409).

ACTION: *A motion was made, seconded, and unanimously approved the contract renewal with University of the Pacific as presented.*

MOTION: *Trustee Schiffman*

SECOND: *Trustee Lewis*

AYES: Trustees Boggan, Lawrence, Lewis, Nelson, and Schiffman

NAYS: None

ABSTAIN: None

ABSENT: None

B. ACTION: Authorization for the CEO to Execute Capital Contracts:

No capital contracts

C. List of approved contracts \$500K - \$1M (3 contracts), for Trustees' information

D. Table of vendors with cumulative contracts (2 vendors), for Trustees' information

TAB #9 Annual Finance Committee Agenda Calendar and Follow-up

A. INFORMATION: Annual Finance Committee Agenda Calendar and Follow-up Worksheet were provided.

TAB #10 REPORT: Legal Counsel's Report on Action Taken in Closed Session

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

Public Comments: None.

Board of Trustees Remarks: None.

ADJOURNMENT: THE MEETING WAS ADJOURNED AT 7:49 PM.

Respectfully submitted,

Barbara L. McElroy
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by:



Douglas B. Habig, Esq.
General Counsel