



FINANCE COMMITTEE MEETING

Tuesday, March 18, 2014

Central Administration Offices Located at Highland Hospital

1411 East 31st Street Oakland, CA 94602

Marla Cox, Clerk of the Board

(510) 437-8468

MINUTES

THE MEETING WAS CALLED TO ORDER AT 4:00 PM.

ROLL CALL WAS TAKEN AND THE FOLLOWING TRUSTEES WERE PRESENT:

Daniel Boggan, Stanley M. Trustee Schiffman , Valerie Lawrence, Michele Lawrence
And Valerie D. Lewis

TAB #1 ACTION: Approval of Minutes

ACTION: A motion was made, seconded, and unanimously approved the Minutes of the January 21, 2014 Finance Committee Meeting as presented.

TAB #2 Financial Forecasting and Analysis

Richard Gianello, Interim CFO, reported the FY2015 Budget Assumptions. The goal is to present the Budget to the board in May instead of June. Mr. Lassiter noted that we put the budget on the full board meeting agenda for May as requested.

- Goal to have draft of income statement by end of March for leadership input.
- Work with department heads during April and come up with balanced budget.
- Budget strategy includes expanded clinics. It will also include budgets for San Leandro Hospital and Alameda District Hospital.
- EHR will continue into next year.
- ICD10 must be in place by October 1st, 2014 with an estimated cost of \$11M total cost for implementation. A portion of this will be included in 2015 budget.
- Physician Healthcare Organization (PHO) development will be included. Dr. Peruzzi spending time on development already.
- Trustee Schiffman asking if ACA is a positive or negative force; Mr. Gianello responded that there is not yet enough experience to guess the directional impact on AHS.

- Mr. Lassiter reported Alameda Alliance has been excluded from Covered California due to extreme financial straits; the Alliance is our primary source of managed care Medi-Cal patient volume.
- HGH patient volumes in 2015 budget:
 - Highland clinic volumes will drop in 2015 related to EHR implementation and Soarian Ambulatory product. The drop will be temporary.
 - AHS medical staff will be going after Medi-Cal deliveries, better reimbursement using waiver formula than Sutter can generate.
 - Trustee Schiffman asking what are the variables around deliveries. Trustee Boggan wants to track deliveries quarterly and understand the variables for meeting or missing the targets due to missed efforts in the past.
 - Mr. Lassiter informed that Sutter wants to lose the Medi-Cal deliveries and AHS is in conversation with the Alta Bates CMO and LaClinica to move Medi-Cal patients to HGH or to Alameda Hospital (for low risk births).
- Trustee Schiffman pushing back on the volumes for Consult & Liaison in ambulatory care budget. Why are the numbers so low?
 - Ms. McLarin notes that staff are still developing the model and that there is limited capacity in the OP clinics. Staff are looking for more ways to provide the service.
 - Mr. Qvistgaard noted that provider-to-provider volumes are not reported as visits. "Consults" when primary care physicians are consulting with the psychs are not reflected in the budget numbers because they are not "billable."
 - Mr. Lassiter not investing yet in the planned "Lighthouse behavioral services" because of other priorities that needed access to capital.
 - Ms. Lawrence noted that capacity is a problem with many growth strategies.
- Mr. Gianello reported that the budget for San Leandro includes an increase to 43 ADC. San Leandro had an ADC of up to 36 in March from 31 in February. Surgeries will be the driver for the increased census. Mr. Gianello noted that AHS is not adding a lot of emergency volume over FY2014.
 - Working with physician (groups) around increasing the market share particularly around the surgeries - IP and OP.
 - Marketing physician practices in San Leandro to bring in growth to the providers.
- Mr. Gianello continued that AHS will be adding rooms for specialty services for Hayward with the Southland Mall relocation and expansion; there will be a full year of Eastmont Specialty clinics.
- Fairmont SNF & subacute at full capacity after the sprinkler system was replaced during FY 2014.
- Acute Rehab currently reflects only a small increase, but staff are looking for a marketing solution with a potential joint-venture partnership -- two or three companies in discussion

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- Mr. Lassiter noted the charge description master (CDM) rates have been far below the market. Staff lowered San Leandro to AHS rate range from Sutter's levels, but rates will be increased to the market area level in April. Further discussion occurred around the relationship between charges and net revenue for board education.
 - Mr. Gianello noted that the waiver is a cost-based program and staff are waiting for most recent update to the State level estimates to complete budget planning. DSRIP will be the same as fiscal 2013. HPAC will be about \$40-\$45M for FY2015.
 - Trustee Schiffman asked about staff reduction plans and noted that it always takes six months to effect the planned reduction. Mr. Lassiter agreed that we don't always leave enough time to implement labor reductions.
 - Mr. Gianello noted that the budget started with what we've been running before building any open positions are allowed into the budget.
 - Budget 2015 general inflation factors will be about 2-5% except MD contracts.
 - Capital and working capital loan repayment estimated at \$20 million each pending the needs identified during the budget process.

TAB #4 Financial and Operations Reporting

A. REPORT: Financial Update for the Month Ending January, 2014

Mr. Richard Gianello, Interim CFO, reported the financial results for the month of January 2014 with and without the effect of Delivery System Reform Incentive Pool (DSRIP) revenues and expenses.

Month-to-Date:

- January 2014 Net Operating Income was (\$2.9M) (without DSRIP) resulting in a negative variance of (\$3.9M) (382.6%) **under** budget and negative variance of (\$3M) under prior year actual.
 - Total Operating Revenue (without DSRIP) was \$50.8M and was **under** budget by \$803K (1.6%). Total Operating Expenses were \$53.6M and were **over** budget by \$3M (6.1%).
- January 2014 Total Income (*with* DSRIP) was (\$2.6M) (5.1% margin) resulting in a negative variance of (\$3.3M) **under** prior year actual.

Year-to-Date:

- YTD Net Operating Income was (\$5.7M) resulting in a negative variance of \$(8M) from budget and a negative variance of (\$7.8M) **under** prior year actual.
 - Total operating revenue was (\$154K) **under** budget and total operating expenses were \$7.9M **over** budget (2.2%).
- YTD Total income (*with* DSRIP) was (\$3M) with a positive variance of \$1.8M (36.7%) **over** budget and \$8.6M **under** prior year actual with

operating expenses running about \$7M above budget; primarily purchased services (qv., information systems-EHR, patient accounting issues due to Soarian financial install, behind on MedAssets achievement by about \$2.M in the year, Kaufman & Hall, legal costs).

- Trustee Boggan wants to make sure that the DSRIP is NOT part of the operating budget; do not focus on the total income with DSRIP money.
- Trustee Schiffman commented that we still can't meet revenue cycle targets that we make. Mr. Lassiter agreed that AHS still isn't where it needs to be with the right combination of structure, process and people. Soarian Financial has revealed many more process and structural problems than we ever knew we had. Over the next five (5) years, AHS could see multi-million dollar improvement in revenue cycle with the use of Soarian financials and the new tools it provides.
- Mr. Gianello noted that managers need to understand their goals, why they are or are not meeting their budgets. Mr. Lassiter has asked MedAssets to begin to plan "BETTER-II" to present other ideas for a second round.

San Leandro Hospital (SLH):

- January 2014 Total Operating Revenue was \$3.3M, Total Operating Expenses \$6.3 M and Net Operating Income \$ 2.9M (87.5% margin)
- YTD Total Operating revenue was \$26.5M, Total Operating Expenses \$19.3M and Net Operating Income \$7.2M (27.2% margin).
- Mr. Gianello reported that SLH patient billing is ahead of plan. Staff are looking for the remaining subsidies from other entities. The operation hasn't built up to where we're making money yet, but using the Sutter subsidy to offset losses as planned.
- SLH hasn't billed for Medi-Cal yet due to change of ownership, so there is still a delay of cash flow. Mr. Lassiter noted that the CDM was adjusted downward because it was so high and that SLH is now losing about \$1.0M/month. The charge master will be increased to a more appropriate level April 1st.
- Mr. Lassiter met with Eden Township representatives this morning about the remaining subsidy. He was disappointed in the progress and not expecting the full allocation in 2015 - maybe about 50 to 60%.
- Mr. Gianello is estimated net patient revenue at SLH at 20% until we have better experience determining collection rates.

B. REPORT: Alameda Hospital Projected CASH Flow through FY2016

Richard Gianello, Interim Chief Financial Officer

- Alameda Health System has engaged HFS to prepare a monthly cash flow analysis for Alameda Hospital for the future periods covering, six months ended June 30, 2014 (January 2014 is actual results), Fiscal 2015 and Fiscal 2016.

- For preparing the cash flow analysis, HFS has assumed that the affiliation transaction between Alameda Health System and Alameda Hospital will occur on May 1, 2014.
- HFS forecasted operating budget for fiscal 2015 and 2016, based on 2014 operating budget, internal management discussions and Kaufmann Hall projections.
- The cash receipts for the 6 month ended June 30, 2014 are projected at \$44.1M, the cash disbursement are projected at \$10.3M resulting in cash flow from existing operations of \$4.3M.
- For the overall 2.5 years period starting January 2014 and ending Fiscal year June 2016, the cumulative cash receipts are \$275.7M, the cumulative cash reimbursement are \$296.5M and the cumulative cash flow from existing operations are \$20.8M.
- The total incremental cash needed over the projection period is approximately \$14.8M
- A startup cost of \$4M is assumed in May 2014 to be transferred from AHS.

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

Richard Gianello, Interim Chief Financial Officer

Mr. Gianello presented the status on the MedAssets cost management initiative with the following results:

- The targeted total project savings is \$19.6 M and the identified savings (through the work of the teams) to date is \$21.3M (109%) (annualized).
- AHS has realized \$13M (66%) (annualized) of the identified savings since the beginning of the project.
- The teams continue to identify additional savings opportunities.
- Mr. Lassiter noted that nursing savings took a while to implement the centralized staffing office and to realize the \$4M savings in that area. He stated that we are well on our way to integrate the savings into the 2015 staffing.

TAB #5 CFO Update

REPORT: Chief Financial Officer Update, Rich Gianello, Interim Chief Financial Officer

No verbal report.

TAB #6 Financial Policy Development

NONE

TAB #7 Healthcare Reform & Regulatory Changes

NONE

TAB #8 Contract and Capital Authorization

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

Mr. Doug Habig, General Counsel for San Leandro, presented a new contract with Envision Construction & Design, Inc. for construction of the new Hayward Wellness Clinic at Southland Mall, for the period **February 11, 2014** through **September 30, 2014**, not to exceed the amount of **\$3,989,814**.

The Hayward expansion cost increase incorporates an increase due to compliance with State law on prevailing wages. Also, the original drawings were modified to include lessons learned with recent Kaizen workshop for efficiency.

- Further clarification re prevailing wage must be mandated by the requestor (in this case AHS)

ACTION: A motion was made, seconded, and unanimously approved the contract amendment with Renoir Consulting as presented.

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

No action was taken.

C. List of approved contracts \$500K - \$1M (2 contracts), for Trustees' information

D. Table of vendors with cumulative contracts (none), 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.

Mr. Gianello reported that he will be attempting to bring back some leasing agreement options for equipment needs to the next Finance Committee meeting. He will also be reporting on a revenue cycle partner for improving charge capture and documentation to improve net patient revenue.

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

Daniel Trustee Boggan, Jr., Committee Chair, reported there was no Closed Session.

Public Comments: None.

Board

ADJOURNMENT: THE MEETING WAS ADJOURNED AT 6:00 PM.

Respectfully submitted,

Marla Cox
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by: _____


Douglas B. Habig, Esq.
General Counsel