



**FINANCE COMMITTEE MEETING**

**Tuesday, June 17, 2014**

**Central Administration Offices Located at Highland Hospital**

1411 East 31<sup>st</sup> 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, Michele Lawrence, Valerie D. Lewis, Esq., Stanley M. Schiffman, Kirk E. Miller, Kinkini Banerjee, Joe DeVries, James Lugannani, J. Bennett Tate  
Anthony B. Varni, Barry Zorthian

**TAB #1 ACTION: Presentation of the FY2015 Budget**

Mr. Wright Lassiter, CEO, introduced the FY-2015 Budget and reviewed fiscal 2014 accomplishments and challenges.

1. Alameda Alliance has financial challenges including exclusion from Covered California
2. Payor mix shift - shows last year's graphs showing largest shift to Medi-Cal from HPAC
3. Guiding principles: strategic goals, true north metrics, pillars of success,
4. FISCAL OBJECTIVE: investment grade rating = moody's baa rating.
5. Staff are prospecting additional access into North Oakland for primary care, also Tri-Valley with primary and secondary. Access Care in Pleasanton needs a place to refer specialty and imaging referrals; expansion of PES in other location(s) such as Washington Hospital or Alameda Hospital under consideration.
6. Acute Rehab still expected to move to SLH - architectural pre-planning of \$250K included in budget.
7. Working on "designated public hospital" status for both SLH and AHD will provide another \$8.0M funding (\$4.0M each).
8. Staff are successfully negotiating more managed care contracts for the system and expect \$5.5M additional revenue.
9. BETTER-II - continue to focus on supply chain etc. to provide another \$5.0M to be realized thru cost improvements.
10. Staff will be presenting a partnership for revenue cycle for five year focus on reimbursement, charge capture, denials management = \$6.0M in revenue

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- included in the budget. The business plan and vendor agreement will be presented at the next meeting.
11. Covered California growing due to addition AHD and SLH = \$8.0M.
  12. Expecting continued transition from HPAC to Medi-Cal/Insurance contracts generating improvement in funding of \$7.0M.
  13. Increased Medicare population with the addition of SLH and AHD.
  14. LEAN projects include service enhancements with cost improvements of \$2.0M built into the budget.
  15. Centralized scheduling/referral & authorization process overhaul expected to generate net improved reimbursement and cost savings of \$4.5M.
  16. No dollars are budgeted for administrative space allocation and it is still under consideration. The need for space is at the Highland campus particularly is great, but the system does not need to incur additional costs at this time.
  17. Introducing a new patient experience tool costing about \$300K.
  18. Preparing for capitation includes \$250K additional cost.
  19. The PHO (aka Alameda Health Partners) is budgeted with an investment of \$740K. There have already been some costs absorbed in fiscal 2014.
  20. Care management transitions/process across the system to be integrated and standardized with a \$7.0M investment.
  21. Multi-media to include SLH and AHD, expansion to other media includes ongoing commitment of \$2.5M; community outreach initiatives thru participation in community events.

Mr. Richard Gianello, Interim CFO, presented Budget FY2015:

1. Note: "CORE" excludes Alameda and San Leandro when presenting information on this budget.
2. No major changes in volume at the different facilities; increases related to more surgeries at SLH and AHD; added census for observation and OB days at Highland for more deliveries.
3. Assumed the volumes and dollars for the projection were the same as April; Mr. Gianello expects to meet the PROJ2014 volumes. There was general discussion about how to conduct the questions during the review.
4. Overall increase in census at HGH about 19 ADC; averaging about 32 ADC at SLH going to 42 ADC in budget.
5. JGPP emergency visits include impact of LEAN redesign for processing patients with fewer spent hours in PES.
6. Increased surgeries at SLH as mentioned earlier by Mr. Lassiter.
7. Continued higher surgeries at AHD thru the budget -- trying to transfer impacted patients from HGH to receive care sooner.
8. Clinics have greater increase partly due to Hayward clinic relocation and a lot around productivity. LEAN actively redesigning how to schedule the patients.
9. CORE income statement shows substantial improvement. This is due partly to higher reimbursement rate 26.5% which is due to the conversion of patients to Medi-Cal, increased utilization, adding new providers with patient volumes of

- \$17M, revenue cycle improvements, etc. Average CDM rate increase overall was 10% with higher rate increase in trauma.
10. Other revenue: decreasing HPAC funding with shift to Medi-Cal, AB915 offset by Measure A increase of 5%, plus additional AB85 aka Covered California revenue for patients once the State agrees on the billing process.
  11. Labor increase due to more FTE's, patient volume increases, full year of key leadership positions, COLA's, compensation program provision, startup expense of \$743K for PHO.
  12. Non labor expenses increased substantially starting with contracted physicians - expecting to generate about \$17M in revenue to cover \$22M in cost for contracted physicians resulting in a \$5M subsidy, also reduced use of outside medical services to be covered by these physicians along with fewer HPAC patients requiring system underwriting for services provided off-site.
  13. BETTER-I and BETTER-II is expected to provide \$10.0M in cost improvements.
  14. MedAssets has contingent contract for collecting on rebilling of FQHC claims.
  15. Southland Mall expanded operating costs built in.
  16. Questions coming from Trustee Lawrence around reimbursement development - actual vs. projected for the budget. General discussion.
  17. Trustee Schiffman - why is the ADC for Alameda so small - there's a lot more capacity there; Stebbins noted that HGH hasn't been able to send as many patients to AHD due to drops in ED visits; working on strategies with CHCN to garner more referrals from those CBO's. Mr. Lassiter mentions "project island" to drive further patient volumes towards AHD. He also mentions that there are significant reimbursement pressures to prevent readmission, reducing the LOS.
  18. Trustee Lewis wanted to see the current year Budget compared to actual performance for grounding going into the budget. Staff will add this to the package and re-distribute.
  19. Trustees asked about changes in LOS, thinks there was a substantial drop in CORE -- moving the patients thru the system more efficiently further reducing the LOS due also to care management process improvements
    - i. Further questions on why we would be adding providers if they're costing us money.
    - ii. Mr. Lassiter - Trying to streamline physician arrangements with the implementation of the PHO, explains how CORE physicians are mostly "captive" so that we subsidize -- should be reporting this out -- because we cover all patients regardless of ability to pay.
    - iii. Noted that JGPP is at capacity as to patient days; think about expanding psych into other facilities.
  20. Alameda Hospital is definitely getting patients from HGH; SLH patient days increase is due to Renoir marketing efforts primarily in the OR with an increase from 2-3/day up to 7-9/day, getting physicians to re-join the medical staff.
  21. Mr. Gianello projected that the County working capital loan will be at about \$180-\$190M at June 30.

22. Mr. Lassiter expanded: Three extraordinary items occurred in fiscal 2014 that were unplanned and/or unexpected: two months of extraordinary loss of patient volumes generating \$12M in losses (February and March); took on two acquisitions without planning all the expenses as needed (SLH and AHD); rate of IT costs has exceeded the projections for the year even for the approved planned projects. Trustee Boggan added that we failed to do some cutting that was budgeted.
23. Mr. Gianello mentioned the new staff committee in place to oversee the budget requests and will continue to ensure budget compliance.
24. Mr. Lassiter wants to make sure that everyone understands that ACMC/AHS inherited a large indebtedness and not due to a present cash flow problem; repayment creates significant cash flow pressure currently. Trustee Varni notes that we have not honored our agreed obligation to the County. Mr. Lassiter said that the failure to meet the county schedule due to external pressures such as discussed above along with extensive delays with receipt of cash from the State in particular.
25. Trustee K. Miller wondered how it's possible to add surgeries with so few patient admits/days.
  - i. Are we using other services to generate patient volumes at Alameda Health besides the ED.
  - ii. General discussion about outpatient vs inpatient sources of patients.
26. Trustee Schiffman said this is the clearest and cleanest budget presentation and the trustees are able to understand the budget assumptions.
27. Trustee DeVries questioned how we generate centralized scheduling savings vs. keeping the ability to throw off revenue. Mr. Gianello described the impact contribution to the bottom line -- more productive with fewer people, added clinic visits as the positive side of this initiative. Ms. Edwards mentioned that we're missing opportunities for patient access that could bring more volume and revenue into the system, including creating infrastructure for getting pre-auths for services to ensure collections on commercial payors. Ms. Edwards thinks we should reconsider our inpatient volumes might be too conservative.
28. Trustee DeVries asked about why a North Oakland clinic expansion? Mr. Lassiter responded that there is so little primary care at HGH that northern Oakland really doesn't have sufficient primary access. The added location would improve diversity of payor mix as well as access. Mr. Lassiter mentioned that we would probably put mental health services in both north Oakland and tri-valley locations.
29. Mr. Gianello reviewed the San Leandro budget assumptions. Mr. Lassiter mentioned that if there is a risk in the budget, it is the plan to collect \$5.0M from Eden Township. The amount included in the budget is based on conversations ongoing with many parties. This would only be what we might collect in fiscal 2015. Not collecting will leave SLH with a \$10M loss.
30. Mr. Lassiter noted the profitability trend graph which shows that cost and revenue are both increasing; total income for BUD2015 within norms for AHS historically.
31. Mr. Gianello reviewed summary of FTE's in the system.

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32. Cash flow and capital – Mr. Gianello mentioned that we are expecting to bring a capital leasing financing to the BOT in the coming months, expecting to spend about \$30M towards \$60M in deferred maintenance and equipment needs. The cash flow assumes paying the County \$13M even with the hoped-for refinancing of the working capital loan.
- i. Mr. Lassiter noted that DSRIP is scheduled to sunset at the end of fiscal 2015 and commented that the DSRIP program is a state "problem" and not just AHS, and AHS is involved in working towards renewal for 2016.
  - ii. Trustee Miller asking about skilled nursing acquired at AHD; wants to see that service line separate from the acute business/service line. Mr. Lassiter promising to aggregate post-acute care activities separately for the BOT as a separate service line and the same for mental health vs. acute etc.
  - iii. Trustee Schiffman comments that ACMC was not set up to make money or function as profit-making entity; expresses that there are four metrics he tracks - days in accounts payable, FTE's, days in accounts receivable, and the profit. He further mentioned that FTE's/AOB were 5.7 in fiscal 2011 compared to original goal of 5.6 FTE's/AOB – suggested that the trustees focus on nursing for monitoring profitability. Mr. Schiffman compared FTE's at FMT are 2.4 compared to AHD of 1.5; problem with too-high FTE's/AOB at FMT - needs rebalancing. He commended staff on the job being done.

**Recommendation: Motion to approve acceptance of the budget - one naysayer.**

**TAB #2 ACTION: Resolution to fund the 401(h) Health Benefits 6:05 – 6:15 pm**  
**Accounts Provided by ACERA (Resolution 2014-2015)**  
Doug B. Habig, General Counsel

**Recommendation: Motion approved unanimously.**

- Resolution that the board approves annually for ACERA to re-fund the 401(h) post employment health insurance from profits of the pension. Authorizes ACERA to transfer funds to the health benefit.

**TAB #3 Contract & Capital Authorization 6:15 – 6:25 pm**

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

1. Mr. Gianello presented an increase to the Standard Register purchase agreement for fiscal 2014. The system name change drove the cost over the \$1.0M not in the original budget. Trustee Lewis asking about having only five days to review the forms for approval - should try to get an extension to maybe ten days. **Motion approved.**

2. Mr. Gianello reminded Finance Committee members of the presentation in January, 2014 on the status of the EHR project indicating that the project was running approximately \$5.0M over plan. Today, Mr. Gianello is requesting authorization in the form of a contract amendment for Siemens to cover the \$5.0M overrun for which we failed to request authorization to pay for invoicing. **Motion approved.**
- Farewell from Trustee Schiffman and Trustee Boggan.

**ADJOURNMENT: THE MEETING WAS ADJOURNED AT 6:44 PM.**

Respectfully submitted,

Marla Cox  
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by: \_\_\_\_\_

  
Douglas B. Habig, Esq.  
General Counsel