



**FINANCE COMMITTEE MEETING
Tuesday, May 20, 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 March 18, 2014 Finance Committee Meeting as presented.

TAB #2 Financial Forecasting and Analysis

Budget 2015 Status Update

Richard Gianello, Interim CFO, reported the Budget FY2015 Status Update:

- a. Mr. Gianello - Effort started with plan to get managers more involved with the development budget to ensure accountability going forward; however, the deficit is much higher than they can handle; starting over with zero-based balanced budget adjusted for volume. We have a committee in place discussing evaluation/justification of any FTE increases. The committee includes clinical people.
- b. Trustee Boggan - clarified that we're zeroing from Budget 2014; timeline to meet FC meeting in June; notes that BUD2015 had to be whittled down from a run rate loss of \$40M for fiscal 2014.
- c. Trustee Schiffman asked about process problems.
- d. Mr. Lassiter noted that there were more than 100 additional FTE's requested out of Ambulatory which are being challenged in terms of productivity expectations, efficiency goals, added volumes, new patients and revenue

-
- associated with support staff; IT division trying to leverage staff vs. contractors to support all systems, evaluating response times, and duplication of costs.
- e. Trustee Schiffman – Assumptions of calculated FTE's per AOB; goal is to try to get to 5.9/AOB.
 - f. Mr. Gianello - Adding Physician Contracts- Making sure that we have accounted for volumes and revenues to cover costs; new service levels need to pay for themselves.
 - g. Mr. Gianello – Probably going to be an Executive meeting to prioritize and determine what initiatives we can afford; goal to reach breakeven.

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 March 2014 including AHD (acquisition costs only) and SLH.

(I) Alameda Health System

Month-to-Date:

- March 2014 Net Operating Income was negative (\$5.6M) (without DSRIP) resulting in a negative variance of (\$7.9M) (348%) **under** budget and negative variance of (\$5.9M) under prior year actual.
 - Total Operating Revenue (without DSRIP) was \$49.1M and was **under** budget by (\$2.6M) (5.1%). Total Operating Expenses were \$54.8 M and were **over** budget by (\$5.3M) (10.6%).
- March 2014 Total Income (*with* DSRIP) was negative (\$5.3M) (10.7% margin) resulting in a negative variance of (\$6.5M) (520%) **under** budget and (\$5.7M) under prior actual

Year-to-Date:

- YTD Net Operating Income was negative (\$19.1M) resulting in a negative variance of \$(26.9M) (345%) under budget and a negative variance of (\$22M) **under** prior year actual.
 - Total operating revenue was (\$7.6M) (1.7%) **under** budget and total operating expenses were (\$19.4M) (4.3%) **over** budget.
- YTD Total income (*with* DSRIP) was negative (\$15.6M) with a negative variance of (\$14.3M) (1072%) **below** budget and (\$22.6 M) **under** prior year actual.

(II) San Leandro Hospital:

- March 2014 Total Operating Revenue was \$5.3 M, Total Operating Expenses \$7.4 M and Net Operating Income negative \$ 2.1M (negative 40.6% margin).

-
- YTD Total Operating revenue was \$35.2M, Total Operating Expenses \$32.6M and Net Operating Income \$2.6 M (7.3% margin).
 - a. Mr. Gianello reported that AHS posted a loss of \$5.3 in March excluding SLH and AHD; about \$2.5M is due to volume variance off budget; labor over by about \$2.9M; switch on payer mix from HCAP to Medi-Cal with an increase of about 18% and small % of commercial.
 - b. Trustee Schiffman identified that the revenue from the County is lower than in the past and determined by the county.
 - c. Mr. Lassiter commented that with ACA, many patients are now eligible for Medi-Cal coverage so the County is no longer responsible for many former patients. Gov. Brown removed the re-alignment from the counties. Alameda County lost about \$40M from the State due to ACA levers; revenue that previously came to AHS no matter what, is now a reduced amount based on expected metrics as well as on overall volume decrease. Mr. Lassiter noted that this creates cash flow/liquidity issues with changing to Medi-Cal and disproportionate share funding timing vs. monthly routine payments from the County.
 - d. Mr. Gianello noted that AHS is losing about \$18M YTD; ADC is lower than last year combined with lower ED visits mean lower revenue than projected. The budgeted salary reduction for January was not implemented and the budget deficit will continue through the end of the fiscal year. There is a substantial overspend in purchased services especially due to IT and revenue cycle work related to Soarian and costs related to the mergers with San Leandro and Alameda Hospitals.
 - e. Trustee Boggan – this is a real loss, what are we doing to avert a year end loss? Mr. Gianello responded that the execs were reviewing new and existing contracts for delays on special projects, scrutinizing overtime for reduction, delaying moves of departments, executives reviewing all new hires, outside travel request, and other expenses.
 - f. Trustee Schiffman – are we using our own nurse pool? Mr. Lassiter- yes, we put the pool together three years ago; however, it does not completely eliminate the use or registry.
 - g. Mrs. Lawrence asked what is causing the dis-connect with managers and their own budgets? Top management is trying to put their finger in barrier? Submitting a budget with \$40M hole tells her that managers have a disconnect with their budgets in the overall. Mr. Lassiter responded that if we look at where we are today against actual, 85% of the variance has been in the last two months. He noted that we had been following plan up to February pretty well. AHS needs to increase sensitivity of the front line managers to using and responding to financial tools such as EPSi. Yes, there are a lot of priorities and require investment (i.e.,IT) including incorporating goals to create greater access. Mr. Lassiter noted that there may be bigger disconnect issues with Ambulatory division – we have challenges. The budget process still needs to get rid of the duplication and re-prioritize. Mr. Lassiter is uncomfortable with all the spending to meet all

the goals we have adopted and likely we will have to make harder choices the next couple of years.

- h. Mr. Gianello – believes that managers and executives are trying to do the right thing – taken on two hospitals combined with a fair amount of manager turnover, major IT conversion. He noted that CMS is hitting all hospitals with ICD-10 and that MUST happen; Trustee Schiffman “not impugning” management, but want to assure themselves that leadership is grappling with the issues and implementing measures to resolve.
- i. FC members asked about whether there is ~\$20M hole for ACT2014 plus ~\$40M for BUD2015. Trustee Boggan says this would add up to a \$55M gap in cash.
- j. Mr. Lassiter noted that we will not bring forward an operating plan that will have a \$40M hole for approval; knew that BUD2014 had a higher than best FTE/AOB; difficulty with negotiations adversely impacted ability to restructure staffing mid-year as planned – didn’t have a contingency for this negative impact – can’t make up for it at this late date.
- k. Trustee Schiffman asked about occupancy levels in market, or is decline impacting just AHS. Mr. Lassiter has heard that East Bay Sutter is expecting about \$190M loss this year. An executive candidate from Kaiser indicated that of the three Kaiser hospitals opening two are shelling-out floors that will not be opened because of over-building. Mr. Lassiter reported that the new Highland campus will have only 159 acute beds rather than the 236 on the current license. Mr. Lassiter mentions how well SLH is doing with up to 30 ADC.
- l. Mr. Lassiter reported intense pressure around readmissions – no reimbursement on readmissions is a piece of it. Mr. Lassiter noted that the two-midnight rule that went into effect in 2013 requires patients to be in house for two midnights to qualify as inpatient. This adds up to increasing pressure on outpatient procedures rather than costly inpatient procedures.
- m. SLH is seeing more ED visits which is helping that campus profitability. The Sutter operating subsidy of \$14M is still supporting SLH. Mr. Gianello reported that he assumed AHS would not get the \$2.0M from the city and the County before the end of the fiscal year.
- n. Mr. Lassiter signed agreements with both Alameda County and the City of San Leandro for the \$2.0M subsidies agreed to during the negotiations last fall and expects payments before July.
- o. Mr. Lassiter reported that Sutter expects to extract funds from Eden Township and then turn it over to AHS in the near future, but no agreement is in place between Sutter and AHS to guarantee the funds transfer. Supervisor Chan is assisting with Sutter discussions.
- p. Mr. Gianello mentioned that Renoir is working at SLH and everyone expects improvements in the operating to meet break even by end of fiscal 2015 with an overall loss for the year. That means that 2016 would be profitable overall.
- q. Trustee Varni asked if the budget is predicated on experience this year. Mr. Gianello responded that there is a little increases in volumes in OB a

- few clinics, but for the most part, based on FY2014 YTD. Mr. Lassiter reported that he is pushing the team to identify capacity and accomplish a plan to meet the budget.
- r. Mr. Lassiter reported that Sutter/Alta Bates wants to transfer a number of deliveries to AHS. Medical staff and clinical staff are evaluating if we can put tactical plans in place to accommodate the larger number of deliveries. Mr. Lassiter noted that AHS has additional reimbursement not available to Sutter. This scenario will be brought to the board at later date when we have a plan with planning committee input and will NOT be in the budget forwarded next month. He noted that there will likely be a secondary program at either SLH and/or AHD since HGH cannot handle all of it.
 - s. Mr. Gianello mentioned that there are increased patient volumes at SLH and AHD due to planned services.
 - t. Mr. Gianello reported that AHS just got its tie-in notice today for San Leandro from the State so that we can now bill Medi-Cal \$8.0M not yet billed. He reported further that there is a debate at State whether SLH could be licensed as a "designated public hospital" (translates to \$4.0M in additional supplemental hospital). He thinks our argument may stand but so far the State has told AHS-SLH to bill as "non-designated."
 - u. Mr. Lassiter determined to discuss the complex reimbursement and some of the Medi-Cal funding and licenses issues, the wildly complicated formula which involves all 21 hospitals, the policy debate and future recalculation of the distribution of funds at a future meeting. He notes that the State has never acquired more hospitals before. The State has agreed that maybe SLH should be designated as "public" but the CAPH policy distribution calculation in the five-year waiver agreement needs to be-visited. Mr. Lassiter said that nothing was resolved at last Friday's CAPH board meeting around the public hospital supplemental formula. Now Santa Clara Valley is looking at affiliating with two Daughters of Charity Hospitals in lower south bay, so it's becoming a bigger discussion than Alameda County centric.
 - v. Mr. Gianello noted that the disproportionate share supplemental is about \$90M this year without San Leandro and Alameda hospitals.
 - w. Mr. Gianello also noted that affiliation costs for AHD show only the costs spent on the merger so far this year and not any of AHD's operations.

B. INFORMATION: Morrison Food and Nutrition Services

Richard Gianello, Interim Chief Financial Officer

Morrison was engaged on a consulting basis in May 2012 to support AHS making changes in its food and nutrition operations in order to respond to major safety concerns raised during our April 2012 Department of Health Services regulatory review.

During the 24 months that Morrison has managed AHS food and nutrition services, we have improved the quality of food provided to our patients and in our retail locations. The new café in the Highland Care Pavilion was opened on March 8, 2014 and the food offerings have significantly increased along with revenue. Our budget analysis shows we are realizing a food cost savings of almost \$250K per year.

There are a number of improvements underway related to improving wellness for our patients through providing greater choice and healthier food.

- a. Mr. Lassiter reporting Finance had asked for quarterly report on outsources arrangement on how partnership is going.
- b. Mr. Lassiter noted that AHS will need to decide between two companies to use (AHD using another company – Sodexo) for the system; SLH in house in the coming months.
- c. Need to revisit the reason for outsourcing management – cost per meal, better meal planning, some capital investment, meeting regulations and food safety.
- d. Trustee Schiffman - looking for cost per meal or revenue per meal. He expressed that there was no quantitative analysis in the presentation that was presented to finance committee; some detail between costs per meal for inpatient vs cafeteria, etc.
- e. Mr. Gianello reported that AHS Cafeteria services budget is ahead ~\$20K/Month between revenue and added cost.
- f. Mr. Lassiter noted that staff will report back at a future meeting with before and after contracting costs per meal, what we expected to gain with the contracts vs benefits in fact, per board request.

C. REPORT: Progress of Alameda Health System Foundation Business Plan

Debra Barnes, CFRE, Executive Director

Progress report on the Foundation's FY13 - FY15 Three-year Business Plan

Fundraising Business Plan Goals:

- Launch the largest Capital Campaign in the Foundation's 20+-year history;
- Increase Annual Fund gifts;
- Rebrand the Foundation in step with AHS's rebranding effort;
- Build our Board of Directors; and
- Commence a Planned Giving Program of bequests and charitable trusts.

Capital Campaign

Since the program was launched last June, the Capital Campaign it has raised \$2.8M. Currently we are in the midst of closing \$350,000 in additional pending requests, and we are strategically staging the solicitation of approximately \$5.5M in additional gifts this summer into early fall.

Annual Fund

Progress has been made in growing our Annual Fund Donation income which comes to us from our events and other appeals. We are trending on target through February even before the most recent April 26 Gala that set a new record in net income, as did our Galas in 2013 and in 2012. Our Annual Golf Classic continues to sell out and to raise major unrestricted support.

- a. Mrs. Barnes - sharing routine report that goes to their board monthly; have three funding streams - annual fund, program grants, capital campaigns. Promised to raise \$15M for the system (i.e., ATR needs). Approximately \$9.0M is targeted for diagnostic services center including replacement of the MRI for diagnostic imaging service center; about \$1.0M for maternal child health center equipment including and labor & delivery room outfitting; about \$2.0M for a nursing education simulation lab; and about \$3.0M for an endowment fund for future needs.
- b. The Foundation has raised \$2.8M so far with 15 large gifts.
- c. Update on solicitations to date; employee and contractors "giving campaign" is starting up in June.
- d. Ms. Barnes reported that \$370K was raised at the gala before expenses.
- e. Need to increase donor base to meet self-sustainability - currently at 200 – employees.
- f. Completing rebranding and new website.
- g. Added four new director positions to board.
- h. Mr. Lassiter noted that he is very pleased with the performance of the Foundation.
- i. Trustee Schiffman, Trustee Boggan – compliments.

TAB #5 CFO Update

REPORT: Chief Financial Officer Update, Rich Gianello, Interim Chief Financial Officer – Oral Report

- a. Looking for guidance around contract with revenue cycle vendor – Accretive vs. Siemens submitted proposal.
- b. The accounts receivable billing error report (EBEW) is down to about \$50M from about \$100M in December. It is expected to have an ongoing balance of about \$30M.

- c. Mr. Gianello reported that Siemens was focused around working the EBEW. He reported that Accretive has performed a several week assessment including Soarian folds, physicians, staff; suggesting operational redesign of revenue cycle, technology tools to ensure identification of guarantors, training with productivity metrics, coding documentation, lost charges, denial management.
- d. Discussion on whether the concept is the right approach; support from Trustee Schiffman but why aren't we outsourcing the whole business of revenue cycle. Mr. Gianello reported that new revenue cycle leadership will be starting in a couple of weeks.
- e. Trustee Varnie wanted to know what other hospitals in the area are using as far as management structure; Mr. Gianello reported that Accretive has been at Santa Clara for a couple of years and doing a good job; this would be a long term contract/partnership.
- f. Mrs. Lawrence has a problem with discussing a contract such as this with all the important priority setting. She finds it difficult to follow the direction of the organization – help her understand where the dollars are going, commitment, is revenue cycle part of the ~\$40M budget shortfall? How should she as a board member reconcile with the budget constraints?
- g. Mr. Lassiter committed to presenting a full blown education around how the receivables are collected, turned over to other vendors, etc, in context with bringing an Accretive contract forward.
- h. Trustee Schiffman commented that AHS has so many outside contracts for collecting our receivables even after we have installed the system, he thought it would take care of some of this. He wants to see due diligence around the strategic plan making sure that there is an appropriate review of the vendor before any marriage.
- i. Trustee Boggan wants a water-fall chart showing revenue stream vs issues that work against their successful collection.
- j. Mr. Lassiter trying to bring plans forward for Board education that have a big impact on AHS before getting to the decision making point.

Mr. Lassiter reported that he is expecting to have a CFO on board by end of June or at least the candidate identified.

Trustee Schiffman thanked Trustee Boggan for his service on the board; more acknowledgement coming from staff at next week's board meeting; Mr. Lassiter acknowledged two new members of finance committee. Mr. Gianello thanked the committee for its help and guidance

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:

NONE

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

NONE

C. List of approved contracts \$500K - \$1M (15 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.

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

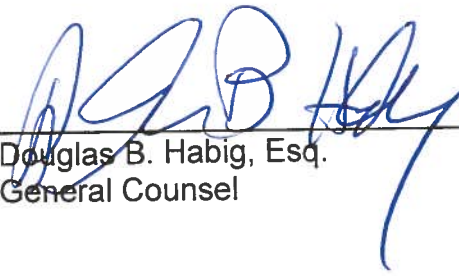
ADJOURNMENT: THE MEETING WAS ADJOURNED AT 6:00 PM.

Respectfully submitted,

Marla Cox
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by: _____


Douglas B. Habig, Esq.
General Counsel