



**FINANCE COMMITTEE MEETING
Monday, September 16, 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 4:30 PM.

ROLL CALL WAS TAKEN AND THE FOLLOWING TRUSTEES WERE PRESENT:

Do not have a committee quorum – Daniel Boggan, Stanley M. Schiffman.

And Valerie D. Lewis arrived late.

TAB #2 ACTION: Approval of Minutes

ACTION: A motion was made, seconded, and unanimously approved the Minutes of the July 16, 2013 Finance Committee Meeting as presented.

AYES: 2

NAYS: None

ABSTAIN: 1

ABSENT: None

TAB #3 Financial Forecasting and Analysis – No Report

TAB #4 Financial and Operations Reporting

A. REPORT: Financial Update for the Month Ending March 31, 2013

Jim Strong, Interim CFO, reported the financial results for the month of July 2013 with and without the effect of Delivery System Reform Incentive Pool (DSRIP) revenues and expenses for the month.

- July 2013 **Net Operating Income** was a negative\$91K (without DSRIP) resulting in a positive variance of \$33K (26.6%) **over** budget and a negative variance of \$1.4M **for** prior year actual.
- July 2013 **Total Operating Revenue (without DSRIP)** was \$50.4M and was **under** budget by \$181K (0.4%).

-
- **Total Operating Expenses** were \$50.5M and were **under** budget by \$214K (0.4%).
 - July 2013 **Total Income (with DSRIP)** **was** \$490K resulting in a positive variance of \$1.6M (**143%**) **over** budget and a negative variance of \$1.4M **under** for prior year actual.

In addition to the bottom line results, Mr. Strong reviewed several areas in the financial statements with the Finance Committee. He noted the following points.

1. The month of July is the first month of the fiscal year and reflects the new budget.
2. There was higher census than budget and lower OP visits, but higher than last year.
3. Labor performed right at budget, but was \$2.0M higher than last July. Nevertheless the rate of expense is still not acceptable. Mr. Strong noted that there was 18.5 FTE's over fixed budget; and 22.2 FTEs over earned budget. He reminded the Finance Committee that there will be staff reductions in October 2013 and January 2015. The 5.9 FTE/AOB is the target by year end with about 85 FTE reductions. Mr. Strong and Jeanette Loudon-Corbett, Chief Human Resources Officer are reviewing posted positions weekly. Also the Finance department is breathing new life into Action-OI and there are now bi-weekly nurse manager meetings regarding variable staffing.
4. Mr. Strong also highlighted the cash flow projection and noted the following items.
 - Cash flow has been negatively impacted by the July 2013 implementation of Soarian Financials.
 - Currently cash flow projects a working capital loan balance of \$171M. This is in excess of the yearend target of \$110M.
 - We are not currently collecting sufficient cash to meet the yearend working capital loan balance target.

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

Jim Strong, Interim CFO, presented the status report on the MedAssets cost management initiative with the following highlights.

- The targeted total project savings is \$19.6 M and the **identified** savings (through the work of the teams) to date is \$15.7M (80%) (annualized).
- AHS has **realized** \$8.9M (57%) (annualized) of the identified savings since the beginning of the project.
- Slow and delayed execution of the initiatives continues to be addressed by the Executive Sponsors. However, based on the "Savings" graph we are making progress with the bottom line. We have better management of process to meet the targets and expect to realize the \$13M Agreed Savings by January, 2014. Wright felt that MedAssets was comfortable that we would hit the target.
- The teams continue to identify additional savings opportunities.

B. REPORT: Cash Forecast Need for Alameda Health System to include San Leandro Hospital and Alameda Hospital

Jim Strong, Interim CFO, provided a three year cash forecast update that included San Leandro Hospital and Alameda Hospital. Over the next three years, the transition of San Leandro Hospital, Alameda District Hospital and implementation of strategic initiatives to attain financial sustainability will require a cash infusion of approximately \$220M. The major areas requiring cash are as follows.

- Alameda Hospital and Alameda Health System liquidity problems require approximately \$44M.
- Onetime acquisition expenses to establish IT platforms, advisor fees and other HR assets require approximately \$60M.
- Capital equipment and construction costs require approximately \$118M.
- Debt restructuring requires approximately \$54M.
- San Leandro Hospital operating EBITDA losses related to covering operating shortfalls requires approximately \$25M.

Sources of funding are as follows; \$29.6M Restricted Hospital Fee, \$14M from Sutter; County commitment of \$1.0M per year, City of Alameda commitment of \$1.0M per year; and Eden Hospital District commitment of \$17M. An additional \$220M is required for construction and liquidity. A more refined forecast with cash flow and capital requirements will be developed in the coming weeks with information on financing available to be presented at November 2014 Board Retreat.

Mr. Strong explained that there is a six month to a year ramp up window for Medicare and Medi-Cal before we can do any billing while SLH is expected to have about \$7M per month expenses in labor. The Trustees requested more information about the strategy around cash flow.

Mr. Strong continued to explain that SLH will have zero accounts payable at day-one; however, we're already placing supply orders for SLH to be prepared on the first day of operations. Trustee Schiffman wants to understand what we're going to do while we're hemorrhaging cash until we catch up.

Wright Lassiter, CEO, commented that we normally show accrual based accounting and that Mr. Strong was presenting a cash flow; we are being more conservative because we're talking about cash. This is not the worst case scenario, but it is conservative. He stated that Dr. Peruzzi has been working with the physicians. There are orthos wanting to practice at SLH; vascular team wants to expand; and we are considering how to offload some of our backlogged patients from HGH.

Trustee Boggan commented that the cash needs include the existing A/P for AHS, IT systems, construction, the float for SLH while waiting for CMS and

DHS. We're already writing checks. Mr. Strong stated that he cannot answer how we will secure the funding. Mr. Lassiter stated he wasn't asking for decisions, but rather wanted to frame the issue. Trustee Boggan asked how are we going to be sure that we will get the \$220M before we commit the available funds. Mr. Strong stated that Mr. Lassiter has been working with the county on a plan.

Trustee Lewis stated that there is an obligation for management to bring issues to the board. She feels that just teeing up the issue isn't adequate consideration without a plan to address shortfalls/opportunities specifically. She feels that she doesn't have sufficient information. Mr. Lassiter stated that with SLH we continue to be under time pressure leading to steps coming out of sequence. He also stated that SLH has a Medicare payer mix twice our size and we plan to grow Medicare. SLH fits into that strategy really well, along with broader physician base and access. We've approached both Cal Mortgage and HUD for financing.

C. Discussion/Action: Authorization to spend Hospital Fee on Mergers and Acquisitions

Jim Strong, Interim CFO, provided the background and request to spend the Board Restricted Hospital Fee funds to support the SLH purchasing for infrastructure and then run the hospital until we can start billing Medicare and Medi-Cal

- In November 2010, the Board of Trustees passed Resolution No. 2010-03 to restrict the use of AB1653 Hospital Fee revenues to provide working capital for large capital projects.
- As of August 31, 2013 the balance in the Hospital Fee restricted account is \$29,338,702.
- Management is requesting that the Finance Committee recommend authorization to the Board of Trustees to spend the Restricted Hospital Fee funds on the acquisition of San Leandro Hospital and Alameda Hospital.

ACTION: A motion was made, seconded, and unanimously approved to recommend to the Board of Trustees authorization to spend Hospital Fee on Mergers and Acquisitions as presented.

AYES: 2

NAYS: None

ABSTAIN: 1

ABSENT: None

D. Report: Board Request for San Leandro Risk Assessment of Mergers and Acquisitions

Jim Strong, Interim CFO provided the Board requested Risk Assessment Table. He noted several "known" risks such as cash flow and waiver advocacy. Trustee Boggan stated that he is assuming that we can mitigate many of these risks. Trustee Schiffman asked if there was a timeline for mitigation and/or resolution and what resources are needed? Mr. Strong noted that most of the identified risks do have tight timeframes for resolution, but many do not yet and are being studied.

Trustee Boggan reminded that we have to make investments to stay in the game, and may be risky. Trustee Lewis requested specific strategies to mitigate the risks and execution of the plan. Trustee Boggan reiterated that we need the funding to stay in the game while the pieces fall into place. Management was requested to provide details, time frames and objectives at the November 2014 Retreat.

E. Report: San Leandro Hospital Expenditures for Technology Infrastructure

Jim Strong, Interim CFO, provided information about a recent San Leandro Hospital emergency capital approval (at the end of August 2013) to spend \$2.7 million for information systems hardware and software, telecommunications and biomedical services. This was done to ensure that critical infrastructure and services would be live at San Leandro Hospital in time for the October 30 acquisition date and opening on October 31.

TAB #5 CFO Update**REPORT: Chief Financial Officer Update, Jim Strong, Chief Financial Officer**

Jim Strong, Interim CFO focused the CFO report on the status of the Soarian Financial install. The responsiveness of Siemens install is very slow, and oftentimes the system shuts down. AHS-IT team needs adequate resources to help address outstanding items. Mr. Strong stated that internal training of staff was not adequate; metrics for leadership has not been specific enough to track errors. Trustee Boggan requested continued reporting on progress.

TAB #6 Financial Policy Development

None

TAB #7 Healthcare Reform & Regulatory Changes**A. REPORT: Health Care Reform Impact on HealthPACLIHP**

CarlaDenise Edwards, Chief Strategy Officer provided an overview of the anticipated impact of Medicaid expansion and the health benefit exchanges on Alameda County Health PAC enrollees.

- After January 1, 2014 AHS will continue to provide services to these individuals who will have new coverage options as well as those who will remain uninsured.
- Currently AHS has approximately 2,192 HCCI Enrollees.
- Effective October 15, 2013, AHS MCE assigned patients will be automatically reassigned to AHS as new expansion MediCal beneficiaries.
- Effective October 2013 HCCI/Exchange recipients will get letters and telephone calls from Covered California. They will need to choose a plan and actively enroll between 10/13 and 3/14.
- Dr. Clanon explained that volumes are really close -- we expect a shift in payer mix, not the volumes. Some folks may not choose the exchange. Some of the HPAC patients will be shifting to Medi-Cal (administratively) and our check from the county will decrease.
- Overall funding available to care for the uninsured will depend on the negotiations between the County and the state around cuts to realignment.

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:

1. Contract Amendment with Soarian Medical Solutions USA, Inc. for the period **July 1, 2013 through January 31, 2021**, not to exceed the amount of **\$1,065,207**.

Howard Landa, MD, Interim Chief Information Officer

Dr. Landa presented the capital request to purchase Soarian Ambulatory with discount off the license cost. The plan is to install Soarian Ambulatory at Highland and then replace NextGen at the free-standing afterwards. Substantially less expensive piece to maintain than NextGen which is a separate source. Schiffman asks about the expense for the electronic records.

ACTION: A motion was made, seconded, and unanimously approved the contract amendment with Soarian Medical Solutions USA, Inc. as presented.

AYES: All

NAYS: None

ABSTAIN: None

ABSENT: None

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.

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

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

Public Comments: None.

Board of Trustees Remarks: None.

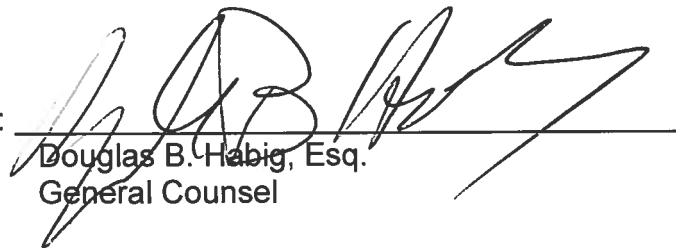
ADJOURNMENT: THE MEETING WAS ADJOURNED AT 6:00 PM.

Respectfully submitted,

Marla Cox
Clerk of the Board

APPROVED AS TO FORM:

Reviewed by:



Douglas B. Habig, Esq.
General Counsel