



FINANCE COMMITTEE MEETING

THURSDAY June 1, 2017

5:00PM – 6:30PM

Conference Center at Highland Care Pavilion

1411 East 31st Street Oakland, CA 94602

Vikki Brown, Interim Clerk of the Board

(510) 535-7515

LOCATION:

Open Session: HCP Conference Center

MEMBERS

Anthony Thompson, Chair

Gary Charland

Kinkini Banerjee

Michele Lawrence

MINUTES

THE MEETING WAS CALLED TO ORDER AT 5:01pm

ROLL CALL WAS TAKEN AND THE FOLLOWING TRUSTEES WERE PRESENT:

Anthony Thompson, Gary Charland, Kinkini Banerjee, Michele Lawrence

A Quorum was established.

Open Session

TAB #1 CONSENT AGENDA: ACTION

- A.** Approval of the Minutes of the May 4, 2017 Finance Committee Meeting.

Action: A motion was made and seconded to approve the Minutes of May 4, 2017 Finance Committee Meeting. The motion passed.

AYES: Trustees Banerjee, Charland, Thompson, and Lawrence

NAYS: None

Abstention: None

TAB #2 RETROSPECTIVE REVIEW OF PRIOR CONTRACT APPROVALS

- A. Agreement with Alliance One Receivables Management, Contract to provide a wide array of patient collection services, approved May, 2015.
David Cox, Chief Financial Officer

Mr. Cox reported that Alliance One is a vendor that identifies accounts that have gone into bad debt. They send notices out to customers informing them of the outstanding debt; they are compensated on a percentage of the accounts that they collect. As a result of their work, Mr. Cox explained that the organization is now caught up on old accounts and doing well with current accounts. He stated that while AHS has been satisfied generally with their work, the plan is to issue an RFP to see what other companies have to offer. He noted that Alliance One will submit a bid in response to the RFP.

TAB #3 CONTRACT APPROVAL: ACTION ITEMS/DISCUSSION

- A. Amendment with East Bay Foundation for Graduate Medical Education (“EBFGME”) to administer the East Bay Residency Program for surgical residents under the UCSF School of Medicine. The term of the proposed amendment is July 1, 2017 through June 30, 2018. The estimated impact of the proposed agreement is \$2,497,942.69. Inclusive of this contract and prior contractual commitment (July 1, 2016 – June 30, 2017), the overall obligation to this vendor is estimated at \$4,878,852.15.
Ghassan Jamaledine, MD, Chief Medical Officer

Action: A motion was made and seconded to approve the Amendment with the East Bay Foundation for Graduate Medical Education to administer the East Bay Residency Program for surgical residents under the UCSF School of Medicine. The motion passed.
AYES: Trustees Banerjee, Charland, Thompson, and Lawrence
NAYS: None
Abstention: None

- B. Third Amendment with Universal Hospital Services, Inc. for the provision of durable medical equipment management and maintenance services. The term of the proposed amendment is July 1, 2017 through June 30, 2020. The estimated impact of the proposed amendment is \$3,888,049.00.
Luis Fonseca, Chief Operating Officer

Action: A motion was made and seconded to approve the Amendment with Universal Hospital Services, Inc. for the provision of durable medical equipment management and maintenance services. The motion passed.
AYES: Trustees Banerjee, Charland, Thompson, and Lawrence
NAYS: None
Abstention: None

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- C. Two Statements of Work (“SOW”s) with MModal Services, LTD for the provision of two Clinical Documentation Improvement (“CDI”) Specialists and one CDI Manager to support the AHS CDI Program. The term of the proposed SOW’s is June 15, 2017 through March 31, 2018. The estimated impact of the proposed SOW’s is a combined total of \$717,400.00. Inclusive of these SOW’s and prior contractual commitments (July 1, 2016 – March 31, 2018), the overall obligation to this vendor is estimated at \$1,856,402.55.
Dave Gravender, Chief Information Officer

The committee confirmed that services under this statement of work would be compatible with the electronic health record product to be selected. Mr. Gravender confirmed that the services were compatible with the Epic and Cerner systems under consideration.

Action: A motion was made and seconded to approve the Two Statements of Work with MModal Services, LTD for the provision of two Clinical Documentation Improvement (“CDI”) Specialists and one CDI Manager to support the AHS CDI Program. The motion passed.
AYES: Trustees Banerjee, Charland, Thompson, and Lawrence
NAYS: None
Abstention: None

- D. A Statement of Work (“SOW”) with Colin Construction Company for the provision of construction services for the Simulation Lab project located at Highland Hospital. The term of the proposed SOW is July 1, 2017 through June 30, 2019. The estimated impact of the proposed SOW is \$1,369,756.30.
Luis Fonseca, Chief Operating Officer

Action: A motion was made and seconded to approve the Statement of Work (“SOW”) with Colin Construction Company for the provision of construction services for the Simulation Lab project located at Highland Hospital. The motion passed.
AYES: Trustees Banerjee, Charland, Thompson, and Lawrence
NAYS: None
Abstention: None

- E. New Agreement with McKesson Technologies for the provision of revenue cycle tools for electronic claims submission and management. The term of the proposed agreement is June 26, 2017 through June 30, 2020. The estimated impact of the proposed agreement is \$2,659,964.72.
Ghassan Jamaledine, Chief Medical Officer

Action: A motion was made and seconded to approve the New Agreement with McKesson Technologies for the provision of revenue cycle tools for electronic claims submission and management. The motion passed.
AYES: Trustees Banerjee, Charland, Thompson, and Lawrence
NAYS: None
Abstention: None

- F. Ratification of a New Agreement between Alameda Health Partners and OakCare Medical Group for the provision of professional clinical, teaching and administrative services. The term of the proposed agreement is July 1, 2017 to June 30, 2020. The estimated impact of the proposed agreement is \$124,725,323.14.
Ghassan Jamaledine, Chief Medical Officer

Karla Avila reviewed in detail the clinical services that will be available under the new form of the contract, including administrative and teaching services and service areas in several departments. Ms. Avila reviewed the financial terms of the agreement, noting the overall increase – taking into account the service increases and deferred increases from the prior contract – resulted in a 3.8% compensation increase over the first year of the contract and 3% in subsequent years; this rate of increase is similar to prior years. Ms. Avila also noted that 3% of total compensation was tied to incentive terms.

Action: A motion was made and seconded to approve the New Agreement between Alameda Health Partners and OakCare Medical Group for the provision of professional clinical, teaching, and administrative services. The motion passed.

AYES: Trustees Banerjee, Charland, Thompson, and Lawrence

NAYS: None

Abstention: None

TAB #4 OPERATION REPORTS

- A. Chief Financial Officer Report:
David Cox, Chief Financial Officer
- April 2017 Financial Report

Mr. Cox noted the following:

- It was a favorable month financially even though patient activity was down.
- Staff is working on an addendum to the Health Pac contract that will add \$12M, spread out over four months at \$3M per month.
- A reconciliation of our contract with Behavioral Health Care Services resulted in additional revenue of \$4.2M; all of which will be booked in one month. This largely accounts for the favorable revenue activity.
- Expenses were over budget but better than prior periods.
- The organization had record cash collections in May of \$37.5 million.

- B. FY2017-2018 Budget – Budget Approval¹
Delvecchio S. Finley, Chief Executive Officer
David Cox, Chief Financial Officer
- Operating Budget

The CFO reviewed the current status of the FY2018 budget with the Committee. The CFO reviewed assumptions underlying the proposed budget relative to revenue, wage increases and increases in the cost of living. To key labor issues affecting the budget include the need to account for nurse rest periods and the effort to move contracted workers to full time employees.

¹ Trustee Jensen attended the meeting as an invitee and was present at this point.

The CFO addressed an issue raised in the last meeting, regarding the impact of a 4% EBIDA margin projection. The CFO demonstrated the impact of the lower EBIDA margin on the NNB with the county and the long-term financial plan and capital expense. The CFO compared performance with the lower margin against a margin of 6-7% and that the lower margin did not increase risk with the NNB and that the capital expense budget would not be affected significantly.

The CFO next reviewed several trends reflected in the budget, including revenue (earned and supplemental), labor costs (per AOB and FTE), patient days (discharges, visits, and length of stay), and products and services. The CFO explained that the flat volume and increasing staff led to an increase in the labor cost per AOB; it was also noted that other factors also influenced this number upwards (i.e., adjusting rest period compensation). A Trustee asked how this number compared to other hospitals. The CEO noted that this benchmarking comparison was challenging giving the mix of services within the system – the plan is to improve the ability to do this benchmarking in the coming year. The Trustee encouraged this effort in order to identify budgeting variances in the coming year.

In response to a Trustee question regarding expense growth and efforts to control it, the CEO noted that in some ways the growth was a function of baselines that did not accurately reflect the current state – as a result the growth has been exaggerated. This budget seeks to address this discrepancy with a more accurate baseline and plans for more rigorous monitoring.

A question was raised regarding the projected increase in gross patient revenue and whether it was justified. The CFO explained that the projection was a function of volume and pricing and that increases in each drive the number. He noted that significant adjustments to pricing had occurred, accounting for a substantial part of the projected growth. It was also noted that adjustments were also revised in conjunction, that improved collection and revenue cycle improvements would affect this number, and that the increase in providers contributed to increase. The CFO and CEO noted that the increase in outside medical services was due to the new ambulance contract, EHR preparation, and care management improvement.

One of the Trustees noted a concern that periods of good performance have often been followed by marginal performance. He noted that the cycle appeared to be repeating given flattening revenue and the increase in expenses over the last two years (included with this budget projection). The CEO noted that the work in the past two years – where expenses have risen – has been focused on needed fixes, but with some overcorrection due to use of contracted labor. The CEO noted that 4% was not a long-term projection, but rather appropriate to this year in the overall scheme of revenue and growth projections.

The lower EBIDA projection prompted a similar concern from another Trustee; although it was noted that the budget reflected investing money to make money in the future. To address the concern, the CEO noted the markers that could indicate when potential events/circumstances/issues might call for a change in approach. The CEO noted that anticipated labor increases, even if authorized, would not occur automatically, but only after an exploration of actual need and a determination that other measures short of new hires could address the operational need. Likewise, he noted that although the Registry is a potential target for reduction, a special effort was made to insure this projection is realistic.

A discussion ensued concerning potential adjustments to the EBIDA margin. The CEO noted that each percentage of EBIDA margin is equates to essentially \$10M and that increasing the margin by 2% is limited by the fact that most of the expense increase is concentrated in labor costs (salaries, benefits and contracted physician services) that could not be changed without changing the size of the workforce; this would adversely impact progress on any of the critical initiatives and perhaps scaling back certain services. The CEO explained that \$2M had been set aside (perhaps less will be used) in anticipation of creating the Population Health Management/Managed Care structure. The CEO noted that several elements for this strategy must be established before the organization moves to full capitation.

The Committee concluded the discussion with several points:

- Uncertainty with the political and economic climate calls for a cautious approach and the Board question are intended to vet the various aspects of the budget.
- Declining revenue sources (supplemental, Waiver) require careful consideration of expense growth.
- The organization needs to weigh carefully the ability to take on the critical initiatives as set forth in the plan.
- The organization should avoid unrealistic targets that may adversely impact long-term strategies.

Though the Committee did not request further information on reducing current operations to meet an EBIDA goal, the Committee indicated the proposed budget with a lower EBIDA goal would continue to raise concerns that needed to be addressed before approval. The Committee requested that the following items be addressed in further discussion surrounding the budget:

- More detailed analysis of labor cost increases, including any potential options.
- The budget impact (expense, ROI) of the critical initiatives.
- A plan for keeping the Board apprised of change in circumstances that might impact the budget.

The CFO noted that a contract had been signed with AETNA.

- C. Chief Information Officer Report (Written)
Dave Gravender, Chief Information Officer
- *System Wide IT Strategic Plan*

TAB #5 BUSINESS PLANNING

Ishwari Venkataraman, Vice President, Strategic Planning & Business Development

- A. Report on Activities

No Updates

TAB #6 COMMITTEE PLANNING

Anthony Thompson – Chair

- A. Finance Committee Planning Calendar

- B. Issue Tracking

No Updates

PUBLIC COMMENT – None

Trustee Comments - None

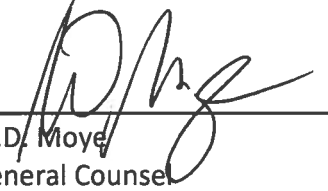
Adjournment – 6:57 pm

Respectfully submitted by:

Vikki Brown
Interim, Clerk of the Board

APPROVED AS TO FORM:

Reviewed by: _____


M.D. Moye
General Counsel