



**MINUTES OF THE MAY 17, 2016 REGULAR MEETING OF THE
PETALUMA HEALTH CARE DISTRICT BOARD OF DIRECTORS**

CALL TO ORDER

President Hempel called the meeting to order at 12:00 PM in the lobby conference room at 1425 N. McDowell Blvd.

PRESENT

Fran Adams, RN, BSN, Secretary
Elece Hempel, President
Robert Ostroff, MD, Vice President
Josephine S. Thornton, M.A., Treasurer
Joseph Stern, Board Member at Large

ALSO PRESENT

Ramona Faith, CEO, PHCD
Erin Howseman, Board Clerk, PHCD
Andrew Koblick, Controller, PHCD
Don Bouey, legal counsel for PHCD
Jeff Adams
Wayne Fairchild, consultant
Panos Lykidis, Camden Group
Jane Read, VP Operations, PVH
Kitty Brown, RN PVH
Ra Criscitiello, NUHCW

MISSION AND VISION

Director Stern read the mission and vision of the Petaluma Health Care District.

The mission of the Petaluma Health Care District is to improve the health and well-being of our community through leadership, advocacy, support, partnerships and education.

Petaluma Health Care District envisions: A healthier community; a thriving hospital; local access to comprehensive health and wellness services for all.

CALL FOR CONFLICT

President Hempel called for conflict. There was none.

CONSENT CALENDAR

President Hempel noted that Director Thornton requested, as an amendment to the minutes from the May 2, 2016 special board meeting, the inclusion of the words: “Director Thornton stated that she objected strongly to the District using public funds to pay Wayne Fairchild to do the retrospective financial analysis.” A motion was made by Director Ostroff to approve the May 17, 2016 agenda, and the May 2, 2016 amended minutes, which was seconded by Director Adams. This motion was passed by a vote of 5 ayes (Directors: Hempel, Ostroff, Thornton, Adams, Stern) and 0 noes.

PUBLIC COMMENTS

Kitty Brown, RN at Petaluma Valley Hospital, requested information on discussing PVH’s recent 990s, (*IRS Form that many federally tax-exempt organizations must file annually*), with PHCD’s board because she would like to get the board’s assessment of the data. President Hempel noted that although the board could not respond to questions, this item would be placed on the agenda at a future board meeting, and/ or Ms. Brown could speak to board members individually.

BOARD COMMENTS

President Hempel wished Director Adams a happy birthday.

ADMINISTRATIVE REPORT

PRESIDENT’S REPORT

President Hempel reminded the board that the CEO’s job is to implement board decisions and policies, and if the CEO determines that circumstances have changed or developed in such a way as to adversely affect the board decisions or expectations, the CEO has the authority and should act on such matters. The CEO would bring the matter back to the board for further discussion. Director Adams requested clarification if that was board policy or compliance with law. President Hempel stated that it is board policy and part of how a public board must operate. President Hempel clarified that the CEO has the discretion to stop a process that the board has put in place if the process goes in a different direction than what the board approved and/or expected, and bring it back to the board for discussion.

President Hempel reported that she and CEO Faith attended the ACHD Annual Meeting which was a great learning experience.

CEO REPORT

There were no questions on the CEO Report. CEO Faith reported that Community Health Initiative for the Petaluma Area (CHIPA) sponsored a screening on May 12, 2016 at the Boulevard14 Cinemas in Petaluma of *Paper Tigers*, a documentary on adverse childhood experiences, followed by a panel discussion on Petaluma’s efforts to address this issue. Ms. Faith reported there were over 200 people in attendance, and that the Petaluma community is coming together to create trauma-informed care.

Ms. Faith called the board’s attention to the information regarding the opportunity to serve on the LAFCO board and noted that the application deadline in May 20, 2016. Also included in the board’s packet was the LAFCO budget. Ms. Faith reported that LAFCO had questioned her regarding a parcel tax for PHCD, and she had responded that PHCD does not receive a parcel tax. Ms. Faith also noted a press release mentioning District activities in May (designated Health Care District Month) including the PHCD Community Partnership Appreciation Breakfast. The packet also contained an article about the PVH union and staffing

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at Memorial and Petaluma Valley Hospital, and an article about preschool in Sonoma County. In regard to the article about the hospital union, Director Ostroff asked if the response from St. Joseph Health, which had been sent out to board members previous to the meeting, had been included. Ms. Faith responded that it had not.

FINANCIAL SUSTAINABILITY

March 2016 Financials

Andrew Koblick, Controller, reviewed the March 2016 financials.

As of March 31, 2016 the Statement of Net Position reflected assets of \$9,824,842 and liabilities and deferred revenue of \$869,161 leaving the net fund balance at \$8,955,681.

The month ended March 31, 2016 showed the net loss of \$82,439 which is \$17,051 better than the budgeted loss of \$99,490. The nine months ended March 31, 2016 showed a year to date net loss of \$743,341 which is \$96,269 better than the budgeted year to date loss of \$839,610.

A motion was made by Director Thornton to approve the March financials, seconded by Director Ostroff. The motion was passed by a vote of 5 ayes (Directors Thornton, Adams, Hempel, Ostroff, and Stern).

PHCD Draft Annual Budget

Andrew Koblick distributed copies of the draft Annual Budget and reported that the draft budget was created for the next six months rather than for a complete year because of financial uncertainties due to the ongoing lease negotiations. The budget is currently projecting a loss of \$760,000 primarily due to lower return on investments, costs of the due diligence process, and costs of the upcoming board election. The profits from Lifeline and HealthQuest are projected to be \$20,000 less. Director Ostroff questioned Mr. Bouey if there is a requirement that a possible hospital lease extension must have fair market value if the negotiations with St. Joseph Health should go past January 17, 2017. Mr. Bouey responded that the lease requires 120% of fair market value, which has yet to be established. The revenue from Lifeline continues to decline due to increase competition in the marketplace. CEO Faith noted that currently, the budget reflects zero amount of revenue from the lease, but when that dollar amount is determined, the lease revenue will offset projected losses currently showing in the draft budget and allow for community investment.

Public Comments

There was no public comment.

RESOLUTION OF THE BOARD OF DIRECTORS ORDERING AN ELECTION OF DIRECTORS TO FILL POSITIONS THAT EXPIRE IN 2020 AND REQUESTING CONSOLIDATION WITH THE NOVEMBER 8, 2016 GENERAL DISTRICT ELECTION

President Hempel read the resolution:

Whereas, an election will be held on November 8, 2016 in the Petaluma Health Care District for the purpose of electing District Directors to fill positions that will expire in 2020;

Be it resolved that the District Directors of said district hereby request consolidation with any election that may be held on the same day, in the same territory or in territory that is in part the same.

The foregoing resolution was introduced by Director Hempel, who moved its adoption, seconded by Director Ostroff and then adopted on roll call by the following vote:

Director Ostroff	Aye
Director Hempel	Aye
Director Adams	Aye
Director Stern	Aye
Director Thornton	Aye

Whereupon, the Chairperson declared the foregoing resolution adopted and SO ORDERED.

Director Adams, Secretary of the Board, signed the resolution.

PETALUMA VALLEY HOSPITAL

Jane Read, VP of Operations for PVH, reported that PVH is back to an “A” for Leapfrog scores (*a combination of their quality metrics, their avoidance of issues for hospitalized patients, and HCAPS (Hospital Consumer Assessment of Healthcare Providers and Systems) scores*). Ms. Read attributed PVH’s success in part to their use of electronic medical records which allows the hospital to demonstrate that it meets standards.

Ms. Read reported that PVH is again taking interns. The emergency department and the Family Birthing Center had already filled positions but in med-surge there is enough work to allow interns to develop a skill set. Regarding staffing, Ms. Read noted that the organizational structure has been modified, and a candidate has been identified for the med-surge director position. The interim director will be leaving the following Friday. Cathy Williamson, surgeon, is leaving and Dr. Wagle will be starting. Ms. Read gave an update on negotiations between SJH and the National Health Care Workers Union: SJH submitted its final offer the preceding Friday and Ms. Read noted that a strike is possible.

Ms. Read reported that the PVH Foundation has funded two iSTAT machines for the emergency department which will be installed in the next month. The technology allows lab results to be delivered directly and quickly to the patient’s bedside. Ms. Read also reported that PVH has received a petition to decertify the California Nurses Association union. The NLRB has released the blocking charge, and SJH will continue to negotiate. The merger of SJH with Providence is moving forward.

Public Comment:

Kitty Brown, RN at PVH, commented that the nurses at PVH feel there is no mandate for SJH to negotiate with the nurse’s union, because 90% of the nurses do not want the union. President Hempel commented that this item will be placed on the agenda at the next board meeting.

INFORMATIONAL ITEMS

CEO Faith called the board’s attention to the informational items listed in the agenda including the upcoming Aging with Grace workshop, the PHCD Community Partnership Appreciation Breakfast on May 26, 2016, and Hospice Golf tournament in June.

PVH RETROSPECTIVE FINANCIAL ANALYSIS PRESENTATION

President Hempel introduced the presentation by Wayne Fairchild by saying that the PHCD board had requested the retrospective financial analysis of PVH at the board meeting on May 2, 2016. Ms. Hempel

instructed the board they might ask for clarification from Mr. Fairchild, but to direct questions to the Camden Group.

Wayne Fairchild introduced himself as a former administrator for PVH, and distributed copies of the report to the board members; copies were also made available for the members of the public in attendance. President Hempel stated that as a public document, the report would be placed on the PHCD website as well.

Mr. Fairchild stated that most of the data presented in the report was derived from California's Office of Statewide Health Planning and Development (OSHPD) from the last 11 years. Data looked at includes revenues, payor mix, contractals, costs, balance sheet and market share. During that time, PVH has reported a loss of \$5.9 million on operations only. On a cash basis, taking out depreciation, PVH generated \$29 million in cash.

Regarding an analysis of bad debt, looking at similar hospitals and at SR Memorial Hospital, PVH is running about 1% higher. Mr. Fairchild stated that reducing that to one half of 1% would translate into (over 11 years) \$18 million in additional cash. The report also finds that charity care and cap premiums are higher for PVH, and by normalizing them to levels of other hospitals, cash would be increased.

The report also reviewed administrative services at PVH, Santa Rosa Memorial Hospital and similar hospitals, and Mr. Fairchild stated that PVH is running approximately \$400,000 - \$500,000 per year over the percentages of the other hospitals.

Mr. Fairchild stated that when he began working at PVH, he was told that PVH had no long term debt, however his investigation shows that PVH has a long term bond payable showing from 2004 to the present. Mr. Fairchild stated he believes the bond is being paid off this year. The OSHPD data also shows a long term debt intercompany payable that was liquidated in 2007, resulting in over \$13 million from these two items being paid by PVH for long term debt, cash that will not be expensed in the future.

Mr. Fairchild stated that PVH's equity position has gone down in the last 11 years, and in 2014 and 2015, the hospital reported over \$7 million in profits, approximately \$11 million in EBITDA. (*EBITDA margin is a measurement of a company's operating profitability as a percentage of its total revenue. It is equal to earnings before interest, tax, depreciation and amortization divided by total revenue.*) In 2015, Mr. Fairchild noted that there was an intercompany transfer of \$5.1 million in cash and an equity transfer of \$3.6 million in cash. In 2014, there was also an equity transfer of approximately \$3.6 million in cash. Mr. Fairchild stated he had questions about these transactions.

Since 2008, utilization at PVH, both in-patient and out-patient (other than Hospice) has gone down every year, and some services including cardiology no longer show as a service line on volume reports. Mr. Fairchild stated that while PVH's volumes have declined, Santa Rosa's volumes have gone up, Kaiser's volumes are flat, and another category, "other", has increased. Director Thornton remarked that if the service area is narrowed to the Petaluma primary service area, excluding Rohnert Park, the data shows that volumes of both Memorial and PVH have declined, and Kaiser's volumes have increased substantially, so the selected geographic area affects the results. Mr. Fairchild stated that the question is whether the volume has decreased due to a reduction of services in the community.

Mr. Fairchild reported that the report reviews the (*Medicare Severity*) inpatient DRG trends. (*The MS-DRG is a classification system that groups similar clinical diagnoses and the procedures the hospital furnished to treat those conditions during the inpatient stay.*) Mr. Fairchild reported that on average, the costs for PVH were \$9,000 more than comparable hospitals in charges, while PVH received \$500 less in payments; and the increase of that \$500 would equal approximately another \$400,000 per year. Mr. Fairchild

questioned the reason for the shortfall, and said that these issues relate to the calculation of fair market value.

He stated that his estimate was that if the preceding issues were corrected, it would result in an additional \$4 million - \$5 million per year in cash to PVH, and this does not take into account revenue growth, additional services and reversing the trend of decreasing census. Director Ostroff asked why PVH's bad debt is higher than other hospitals. Mr. Fairchild stated his report does not have answers, but presents questions that should be asked.

President Hempel stated that the PHCD board members would next submit questions to the Camden Group regarding Mr. Fairchild's presentation. Mr. Lykidis of the Camden Group responded that his understanding was that he would share Mr. Fairchild's report and his notes on the presentation with the Camden finance person, receive feedback, and then discuss it with Mr. Fairchild and Jeff Adams. After this process, Camden would report back to the board with the question, the answers, and take any additional questions from the board members.

Public Comment:

Jeff Adams commented that the volume data mentioned by Wayne Fairchild was presented to the Attorney General in the Vizient/MDS report. Mr. Adams commented that Hospice for the last ten years has had contractual allowances based on the profit/loss of about 75%, in other words, for every dollar billed, the net revenue has been 25 cents, for a loss in excess of \$12 million. In the last two reports, with a change in contractual allowances, when SJH separated out services to the hospital from Hospice, although charges and expenses were the same as previous years, SJH earned a profit. Instead of previous revenue of 25 cents, it currently equals 90 cents to the dollar.

Director Adams commented that the PHCD board is not suggesting that SJH has done anything wrong, but wants to look at how the PVH financials have been done and what the opportunities are moving forward. Director Ostroff said there appears to be money to pay our bills and that is reassuring. Director Thornton commented that in the current lease with SJH, part of the long term debt mentioned by Mr. Fairchild was taken on by SJH as part of the arrangement. Director Hempel stated that the board would reconsider the issue at the June 16, 2016 PHCD board meeting if Camden Group is able to complete its review.

ADJOURN TO CLOSED SESSION

President Hempel adjourned the meeting into closed session pursuant to: Government Code §54956.8 closed session; real property transaction; meeting with negotiator – 400 North McDowell Blvd.; The Camden Group.

ADJOURN TO OPEN SESSION

President Hempel adjourned the meeting into open session and reported that no action was taken in closed session.

ADJOURN

President Hempel adjourned the meeting at 3:00 PM.

Submitted by Fran Adams, Board Secretary
Recorded by Erin Howseman, Board Clerk