SPECIAL MEETING OF THE BOARD OF DIRECTORS
MINUTES
Thursday, June 18, 2015 at 3:00 p.m.
Eskridge Conference Room,
Tahoe Forest Hospital, 10121 Pine Avenue, Truckee, CA

1. CALL TO ORDER
   Meeting called to order at 3:00 p.m.

2. ROLL CALL
   Board: Karen Sessler, President; Chuck Zipkin, Vice President; Greg Jellinek, Secretary; Dale Chamblin, Treasurer; John Mohun, Director
   Staff: Crystal Betts, Chief Financial Officer; Judy Newland, Chief Nursing/Operations Officer; Jayne O’Flanagan, Chief Human Resources Officer; Patricia Barrett, Clerk of the Board
   Other: Steve Gross, General Counsel

3. CLEAR THE AGENDA/ITEMS NOT ON THE POSTED AGENDA
   None.

4. INPUT – AUDIENCE
   None.

5. INPUT FROM EMPLOYEE ASSOCIATIONS
   None.
   General Counsel read the board into Closed Session.
   Open session recessed at 3:02 p.m.

6. CLOSED SESSION:
   Discussion held on a privileged mater.

7. OPEN SESSION:
   Open session called to order at 3:10 p.m.
   Report out from Closed Session:
   On February 24, 2015, by unanimous vote of the Board, the Board determined it was in the best interest of the District to purchase Medical Office Building (MOB) unit #210 owned by David G. Kitts MD, Inc. and authorized Mr. McConn to negotiate the purchase agreement. On April 28, 2015, by unanimous vote of the Board, the Board authorized Mr. McConn to execute the agreement on behalf of the District.

8. CONSENT CALENDAR
   8.1. Resolution Authorizing The Purchase Of Medical Office Building Condominium Unit #210, 10956 Donner Pass Road, Truckee, California and Authorizing a Signatory On Behalf Of The District

Denotes Action Item
General Counsel indicated that the resolution will reflect February 24, 2015 as the date the board determined to purchase the office space, and May 5, 2015 as the date the Purchase and Sale Agreement (reflecting the date of the last signature).

**ACTION:** Motion made by Director Zipkin, seconded by Director Chamblin, to approve Resolution 2015-03 Authorizing The Purchase Of Medical Office Building Condominium Unit #210, 10956 Donner Pass Road, Truckee, California And Authorizing A Signatory On Behalf Of The District. Roll call vote taken. Passed unanimously.

9. **ITEMS FOR BOARD DISCUSSION AND ACTION**

9.1. **Approval of TFHD Budget FY 2016**

The CFO provided a review of Fiscal Year (FY) 2014-15 financials and the FY 2015-16 operating and capital budget.

The operating and capital budget for Fiscal Year (FY) 2015-16 was prepared in collaboration with the Administrative Council and the Department Directors of Tahoe Forest Hospital District (TFHD). The budget assumptions were the guidelines the Finance Department used in building this budget.

FY 2014-15 was another challenging year for TFHD. Management focused on effectively controlling operating expenses, while navigating through a terrible winter season, all in an effort to balance the TFHD’s financial position. The year was plagued by multiple challenges in market conditions. Notwithstanding the dismal winter season, TFHD’s market began to realize the impact of the second year implementation of the Affordable Care Act with the continuation of both the California and Nevada Insurance Exchanges, as well as the expansion of the California MediCal program, and its transition to MediCal managed care. Statewide, Tahoe Forest and similar hospitals with Distinct Part Skilled Nursing Facilities (DP/NF) worked diligently to mitigate the threat of retroactive reimbursement reductions, and are still faced with these threats in FY 2015-16.

A significant change to the organization’s payor mix continues to be seen, driven primarily by the Insurance Exchanges, MediCal expansion, and aging population utilizing Medicare.

The 2015-16 fiscal year is an aggressive year. Management is projecting earnings from operations (EBIDA) of only around $2 million and a drop in cash reserves of approximately $1.4 million, however, the day’s cash on hand target remains at 157 days due to a reduction in our expense per day. Management is projecting $8.5 million in favorable cash flow from operations, philanthropic activities and property tax revenues.

The largest impact on cash is the exceptional number of capital projects that are scheduled to be staged during the fiscal year. The scope of projects includes the continuation of information system transitions, funding of personal property for Measure C project occupancies, installation of the surgical lights and booms, replacement of the nurse call system, and significant projects for Incline Village Community Hospital. The IVCH projects include the replacement of the siding, enhancements to the HVAC system for the isolation room, second floor upgrades that will be funded by donor support, replacing the 30 year old chiller system, and replacing a portion of the roof. Just these noted
Capital projects exceed over $6.5 million in capital investment for the District. Combined with the phase-in of the third year of the Affordable Care Act and the predictable pressure on shifting payor reimbursements associated with the new large deductible commercial products, management will continue its efforts to reduce overall operating expense to maintain level operating margins.

Budget assumptions for FY 2015-16 have been carefully constructed to balance key investments with a conservative approach to the maintenance of a strong, yet fragile capital structure. To complement this approach, management will continue to take an aggressive and proactive position on managing controllable expenses in FY 2015-16 to assure that we are able to balance our budget in this dynamic era of health reform. Balance sheet management and organization redesign will continue to be dominant themes as we lead TFHD through these challenging times.

9.2. Approval of TFHD Rate Increase Proposal

The CFO provided a review of current room rates and indicated that District management proposes a 5% rate increase in room rates for only specific areas, and an increase to Emergency Department (ED) Level charges to take effect August 1, 2015 in order to gain gross revenue. This equates to approximately a $750k increase in net revenue.

Discussion took place related to the cohort report data comparison. Data reflected for California is one year old and data reflected for Nevada hospitals is two years old. The CFO provided an overview of the proposed Emergency Department Level charge increases and how they compare to other hospitals in the cohort.

Discussion took place related to out migration of patients as a result of costs.

Discussion took place related to what ED levels are seen at THF. The CFO indicated that TFH follows a bell curve and most often sees levels 1 – 3.

Director Jellinek shared concerns expressed by the public related to the amount of charges incurred during ED visits.

Director Mohun expressed concern related to out migration of patients seen for levels 1 – 3 services; indicating that adding a 5% increase at this point and time sends the wrong message.

The CFO shared that outmigration is not normally related to ED visits, rather primarily related to outpatient services. Director Sessler clarified that outpatient costs remain static and that no adjustments have been made in this area.

Discussion took place related to urgent care services compared to emergency room services. Director Jellinek inquired about the benefits of engaging a consulting firm to assess the out migration issue for the District. Discussion took place related to outmigration and the lack of available data pertaining to outpatient services. The interim CEO has been looking at physician referral data which may help to inform on what may be going on with patients.
Discussion took place related to payor mix and charity care.

CFO provided an explanation as to what is included in the ED level charge; facility, staff time, and minor supplies that cannot be billed.

Discussion took place related to the survey data used to identify annual salary increases included in the MOU for each employee association; anomalies in the survey data resulted in unusually high percentage increases. It was noted that the District needs to remain on a competitive level in order to recruit and retain employees.

Discussion took place related to work being done to push down costs of orthopedics and the impact on these reductions should the Board decide to increase room rates more rather than increasing ED level charges. The CFO noted that the supply cost reductions are a first step in price decline methodology; there is a potentially strong impact for being able to provide this type of service at a reduced cost with high quality.

The following corrections to the budget packet were noted:
- Page 22 will be corrected to reflect ENT versus Enterology.
- The color coding on page 39 will be corrected.

Discussion took place related to the focus by the Wellness Neighborhood. The Wellness Neighborhood currently provides services to help progress the organization and community toward the triple aim component related to wellness.

Karen Gancitano, Director of Acute Services, provided an overview of the Wellness Neighborhood budget identified for FY 2016 noting the program’s goals are aligned with the Triple Aim.

9.3. Approval of TFHD 3 Year Capital Plan – FY 17-19
The District has restricted capacity to fund any capital expenditures from operations for FY 2016 after performing a detailed analysis of the Statement of Cash Flows for FY 2016.

Of the capital requests for FY 2016, the following are recommended for approval as the 2016 Capital Budget:
1) Prioritized capital requests up to $1,418,900, of which $1,250,000 is funded by the municipal lease
2) IT Infrastructure and other prioritized projects up to $559,300
3) Health Information (EMR)/Business Systems totaling $500,000
4) Building projects for TFH & IVCH totaling $4,487,480
5) GO Bond project personal property not funded by Measure C totaling $500,180
6) Measure C Scope Modifications not funded by Measure C totaling $749,287

Meeting recessed at 5:05 p.m.
Meeting reconvened at 5:10 p.m.
It is recommended that District management be provided the discretion to prioritize and approve any capital item request, provided the cash position of the District reflects the ability to do so and as long as it's within the scope described above.

A summary of professional fees was provided.

Public comment:
Gaylan Larson addressed the Board expressing pleasure about decreasing costs to patients. He shared that he is discouraged by comments made related to costs for services and feels data previously reported was not accurate. Mr. Larson stated his belief that management is either lying, they don’t know, or both. Raising rates is a big deal for some and the Board will get a lot of push back from the community. Mr. Larson addressed payor contracts and indicated his understanding that the discounts given by TFHD are significantly different than those given to other hospitals.

The CFO responded that the market share data reported was what was available at that time; there was no lie as the data is always two years behind. Discussion took place related to availability of data.

Dr. Spohr thanked the CFO for presenting complex information thoroughly. Dr. Spohr shared that he has a couple of concerns related to the MSC clinics loosing money each year. The Board needs to look at how to increase revenue or decrease expenses. The cost of cancer drugs are another area of concern. The hospital currently charges 5 ½ times the cost, and he believes this to be egregious. Medicare allows for a 6% mark up. Hospital is exploiting the patient. It is immoral.

Jack Cashton echoed what Dr. Spohr stated related to the profit on cancer drugs and losses by the MSC. The Board and the new CEO need to look at all of the programs and identify what is essential for the community and do some serious cost cutting.

ACTION: Motion made by Director Chamblin, seconded by Director Zipkin, to approve the selective 5% increase as presented.

Discussion on the motion:
Director Jellinek expressed concern related to the public perception and that the community will be unhappy with the proposed increase. Director Chamblin indicated that he shares Director Jellinek’s concern.

Director Mohun believes there is opportunity to offset the $750k through a reduction in pro fees rather than through rate increases. He is concerned that rate increases may result in an outmigration of ED patients.

Director Sessler feels positive that the CFO has brought a budget without a 5% across the board increase; this is a budget that strikes an acceptable balance. Director Jellinek agrees, and stated the importance of how this is presented to the community. Director
Chamblin echoes Director Sessler’s comments indicating the presentation to the public is going to be important to ensure their understanding.

Director Zipkin expressed that the best way to serve the community is to keep this hospital financial viable.

The CFO reminded the Board that orthopedics is phase 1 of the pricing reduction strategy. There is a need to make changes in a sustainable manner and adjustments must be made in balance and cannot be done all at once.

Roll call vote taken. Approved unanimously.

**ACTION:** Motion made by Director Chamblin, seconded by Director Zipkin, to approve the FY2016 Budget.

**Discussion on the motion:**
Director Mohun asked for confirmation that that future budget variances would not be coming to the Board.

The CFO stated that there has only been one request for a budget variance in the past 11 years. The FY2016 Budget includes everything she and her staff are currently aware of and reminded the Board that the Wellness Neighborhood budget is not yet confirmed and the budget reflects a placeholder amount as previously directed by the Board. Future variance requests related to the Wellness Neighborhood will need to be evaluated by the Board.

Roll call vote taken. Approved unanimously.

**ACTION:** Motion made by Director Sessler, seconded by Director Zipkin, to approve the three year capital budget as presented. Roll call vote taken. Approved unanimously.

10. **REPORT OF ACTIONS TAKEN IN CLOSED SESSION**
Report out from Closed Session took place at the beginning of open session.

11. **ITEMS FOR NEXT MEETING**
None.

12. **BOARD MEMBERS REPORTS/CLOSING REMARKS**
The CFO recognized and thanked Jaye Chasseur and the management team that supported the budgeting process. Director Jellinek reinforced the CFO’s comments.

13. **MEETING EFFECTIVENESS ASSESSMENT**
The Board will identify and discuss any occurrences during the meeting that impacted the effectiveness and value of the meeting.
14. **ADJOURN**

   Meeting adjourned at 6:03 p.m.