MINUTES OF THE PUBLIC SESSION OF THE NASSAU HEALTH CARE CORPORATION BOARD OF DIRECTORS' MEETING HELD ON DECEMBER 17, 2007

<u>Directors Present</u>
Martin D. Payson, Chair
John M. Brickman, Esq.
Joseph Capobianco, Esq.
Bradley L. Gerstman, Esq.
Rosemarie Guercia, MD
Jemma Marie-Hanson, RN
George W. Miner, MD, MBA
Frank J. Saracino, EdD

<u>Not Present</u>
Leonard A. Benedict, MD, MPH
Lawrence E. Elovich, Esq.
Barbara Ross-Lee, DO
Greg-Patric Martello, Esq.
John F. Ragano, Esq.
Asif M. Rehman, MD

<u>Non-Voting Directors Present</u>
Arthur A. Gianelli, President/CEO

<u>Hospital Administration</u>
Gary Bie, SVP/CFO
Julie L. Mirkin, RN, SVP for Patient Care Services
Sharon Popper, Esq., SVP for Legal Affairs
Paul J. Rowland, SVP/COO
Larry Slatky, SVP Extended Care
Steven J. Walerstein, MD, SVP Medical Affairs
Joan A.Soffel, Assistant to the Board/CEO

1. Martin D. Payson, Chairman, Board of Directors of the Nassau Health Care Corporation, opened the meeting at 8:40 a.m.

2. **<u>Adoption of Minutes</u>**. Upon a motion made and duly seconded, the minutes of the November 19, 2007 Board of Directors meeting were approved, all in favor.

3. **<u>Report of the Chairman</u>**. Mr. Payson wished everyone happy holidays. 2007 has been a good year with challenges and accomplishments. For 2008, Mr. Payson would like to continue quality improvement and have NHCC become a break even operation. The search for an OB/GYN chair has been completed and a proposal to appoint the candidate will be presented to the Board. Mr. Payson congratulated Mr. Gianelli, his team, the Union and employees for their cooperation in working together for the institution and making it much better. Approval of the Successor Agreement is part of the challenge and Mr. Gianelli will have a report on that.

4. **<u>Report of the President/CEO</u>**. Mr. Gianelli reported that the Corporation lost $3.8 million (after investment income). In November, the Corporation lost $700 thousand for the month. Contributing to that loss was the effort to obtain the licensing for the operation of the detox unit (losing $250 thousand a month) and the delayed opening of the adult 35-bed psychiatric unit in mid-October (losing $240 thousand month). In addition, the cash balances are low. The primary issue is reconciliation of balances with the County and the fact that NHCC receives the IGT distribution in a lump sum in March of each year. A. Holly Patterson is performing very well. The ventilator census was down in November, but back up in December.

   <u>Business Growth</u>. If NHCC does not grow business, the costs go up $10 million every year; we must identify initiatives to offset those costs. Administration is tackling that problem from two angles. Staff attended a two-day offsite retreat regarding business growth and reviewed a report generated by Manatt Phelps and Phillips and also marketing strategies with information from North Shore/LIJ in terms of opportunities. Over the next 45 days Mr. Gianelli will be meeting with chairs to discuss their targets for 2008 regarding volume growth which is critical. NHCC has the proper leadership to work on the infrastructure, business redesign plans, patient satisfaction and quality. There must be a reorganization of

ambulatory services in order to grow business. NHCC must also control expenses. Mr. Gianelli has a good relationship with the Union and they are working out collective bargaining agreements; NHCC needs a cost structure that matches revenues, which right now it does not have. NHCC needs to better align cost and revenue over the course of 2008.

Modernization Plan. Mr. Gianelli had hoped to present the updated modernization plan, but will wait until next month to present that report. There are many more projects than dollars, and the projects need to be prioritized over the next four weeks.

Business Planning. Regarding the retreat, Mr. Gerstman asked for feedback from department chairs in meeting their goals. Mr. Gianelli felt there was enthusiasm and a general recognition of where opportunities lie. There is real opportunity to penetrate Medicare Part B. There was concern from clinical leadership that they need proper infrastructure. Processes must change in admission/discharges, operating room, ambulatory care and patient satisfaction. The main area NHCC needs to go after is to rewire the place. We did not talk about significant volume by service—the chairs know that from the Manatt report. The organization's growth is poor—it needs 1,000 increased discharges every single year or 5% a year. The corporation has grown discharges only 6% over the past 7 years.

Mr. Payson asked how do new units fit into this percentage. Mr. Gianelli said the units are already full. Psychiatry beds will be 90-95% filled by early 2008. Mr. Payson asked how much of the 1,000 discharges will come from the new units or are they already embedded in that number. Mr. Gianelli said they are already imbedded. All discharges in Nassau County went down. NUMC had more in 2007 than 2006—most hospital's lost discharges. Over the next 45 days, Mr. Gianelli will focus on being very specific with chairs as to what is expected. The OR has had a decline in retention of trauma cases. There is significant leakage of patients going to their own doctors and the response has been that there is insufficient secretarial help. Mr. Gianelli has asked, if you get clerical employees, what is the bottom line, what is your productivity.

A. Holly Patterson. Mr. Payson asked the status of A. Holly Patterson. Mr. Gianelli said that a certificate of need was filed on 12/14/07 after a meeting with the architect. Mr. Gianelli has a meeting scheduled this Thursday in Albany to follow up and make sure there is nothing more needed. AHPECF is within the bed cap on the amount it will be reimbursed for construction costs. Investment bankers have been interviewed for financing. The bond counsel interviews are in process to be brought to the Board in January, when the Board will also get a presentation regarding the environmental impact assessment. Financing is in place, awaiting DOH approval. In order to buy time, Mr. Gianelli has asked Mr. Slatky to commence with construction documents. AHPECF should receive approval of the CON within the next three months; construction bid documents should be completed in six months. At the same time we will get the firms on board and hopefully start work at the end of the year.

Group Price. Mr. Gianelli will continue to push on group pricing. He met with legislative leaders, Senator Hannon and Assemblywoman Hooper who submitted legislation on NHCC's behalf. There will probably be no movement from the senators until January; Mr. Gianelli will continue to pursue this administratively if needed. Mr. Gianelli will be meeting with Dennis Whalen who understands the group pricing issue. The case was made to the Department of Health that for NHCC to obtain approval would not create a precedent for Erie or Westchester counties; in fact, Westchester received $25 million/year through the Medicaid program, and NHCC did not get a dime of that.

Successor Agreement. The Successor Agreement is making its way one more time through the County. There have been problems for months and Mr. Gianelli is not optimistic that approval will be given today by the Legislature. The Governor's budget comes out in a month, and there has been a call for reduction in Medicaid funding, estimated between $5-10 million. There have also been some good discussions in Albany regarding coverage of uninsured and bad debt and charity care. HealthFirst and Deborah Bachrach had a proposal regarding a Medicaid demonstration project having to do with the SSI population (currently run through managed care whereby patients would receive their pharmaceuticals through us). Mr. Capobianco noted that NHCC is only receiving $9 million as opposed to $13 million in 2008. Mr. Gianelli said that the County is looking to secure $4 million in budget relief by reducing this payment one time and would make that up by providing a separate $4 million payment in tobacco funds that would be unrestricted. How the County would authorize funding is one of the issues being questioned by the legislature and whether it is wise for the County to do that. From our perspective the money will come in from one bucket or another. Ms. Popper asked if the County does not agree on the Successor Agreement, what will happen to the accounts receivable financing. Mr. Gianelli said would be an issue if NHCC does not find a means to release the County's liens.

Real Estate Development. Mr. Capobianco asked if there are current plans to sell portions of the East Meadow campus. Mr. Gianelli reported that NHCC has pre approval for $34 million of debt relief from the State of New York: $14 million in Uniondale property and $20 million for East Meadow property. The objective in East Meadow is to create an academic village with its own resident housing added to it, plus housing for students and NYCOM once a deal is worked out. Around that, there are also plans for offices and research space, creating a synergy with the operation of the hospital. The first step is to think that through with the land use planner. Mr. Gianelli has discussed this with counsel for real estate matters to get a land use planner for the East Meadow property. While that process is going on, NHCC is also looking at its land at the corner of Carman Avenue and Hempstead Turnpike which is a commercial zone lot. There is also interest from an individual subcontractor for occupational health and workers compensation to lease space from the Corporation and build a facility on the campus to complement the types of services NUMC provides. NUMC would provide ancillary imaging, orthopedics and PM&R.

5. **Report of the Finance Committee**. Mr. Bie noted that due to the holidays and scheduling, a Finance Committee meeting was not held last week. An ad hoc Finance Committee meeting was held at the offsite seminar with Messrs. Payson and Elovich and Dr. Miner. At that meeting, the committee authorized administration to proceed with applying for a $30 million line of credit. Mr. Bie has moved forward with that action. The firm HFG was chosen, after an RFP process and due diligence. The firm is reviewing the hospital's collateral toward obtaining the line of credit sometime between December 31, 2007 and January 15, 2008. Ms. Popper noted that NHCC needs the County's approval and the Board will need to approve a resolution.

Finance Report. Mr. Bie reported that the Corporation lost $692 thousand on $41 million in revenue stream against a budgeted surplus of $46 thousand (after investment income). The Corporation lost $233 thousand for the month of November. Year-to-date the Corporation lost $3.8 million against a budgeted surplus of $35 thousand. The primary drivers for the variances were a budgeted receipt of disproportionate share award of $2.5 million for 2007. NHCC was not successful in meeting that goal. Unrestricted cash is at $4.5 million on November 30, 2007 and represents less than one week of cash on hand. NHCC opened the year with $22 million. The County owes NHCC receivables of $17 million. Mr. Bie thanked Kathy Kugle and Anna Sousa for reconciling those receivables as of December 31, 2007. There is a problem, however: until the Successor Agreement is resolved, NHCC is unable to get paid a portion of those dollars. NHCC elected not to make the pension payment of $17.9 million on December 15, 2007 which would have saved $85 thousand in interest. Due to the cash problem, NHCC elected to wait until the due date of February 1, 2008 in order to give NHCC breathing room through January to get the Successor Agreement resolved. The County recognizes that they will make the 4th Quarter payment of $7.7 million and withheld $4 million subsidy at the Correctional Center. NHCC also, potentially, could receive money for the Institute for Healthcare Disparities subject to the Successor Agreement. Mr. Payson asked whether restricted pension monies had been put aside. Mr. Bie said yes, that is sitting in restricted cash. Mr. Payson said if we fall short between now and February 1, 2008, we will have internal borrowing? Mr. Payson questioned the status of borrowing from the Captive. Mr. Bie said that is sitting in restricted cash. Mr. Payson said there is $10 million and another $27 million in cash that could be tapped in an emergent situation.

Mr. Bie reported that on $34 million in revenue, the hospital lost, after investment income, $255 thousand. The loss was due to the detox unit licensing issues delaying patients admissions for ($200 thousand) detoxing from Methadone and a delay in opening the 35-bed psychiatric unit ($200 thousand). Year-to-date, on $366 million in revenue the hospital lost $1.1 million after investment income against a budgeted surplus of $3.4 million. Mr. Payson asked how do they get reported in the audit financial statement from a public point of view. Mr. Gianelli said we will give them the number we focus on, the bottom line numbers, operating position and cash investment.

Mr. Bie reported that NUMC had unfavorable discharges 1,910 during November against budgeted discharges of 2,068 (158 discharges less), in the adult and pediatric line of business. Psychiatry was up by 66 due to the delays in opening 35-bed unit. 109 discharges for the month equates with $1 million of revenue at the hospital. Year-to-date, discharges were 17,018 against budgeted discharges of 17,411 (adult and peds). Year-to-date, the actual number is 21,184 for 11 months compared to 20,623—up 600 discharges for the same 11 month period. However psychiatry accounts for 400 of 600 discharges and rehab accounts for 30 of the remaining 200. Mr. Gianelli said that NUMC must grow volume on the adult inpatient side. It was noted that psychiatry is paid on a per diem basis while DRGs are based on lower number of days relative to number of discharges (per case, length of stay as low as possible). The average daily census in November was 368 against a budgeted census of 424. Year-to-date the average daily census was 362, last year it was 349 (new psych programs). Case mix index was relatively strong for the year; Medicare 1.39 against budgeted 1.4. Medicaid was 1.23 vs. 1.15. Workers compensation was 1.35 vs. 1.26.

Mr. Gerstman asked if it would be a function of marketing to bring more psychiatry volume in to NUMC. Mr. Gianelli said that NUMC is providing a better product, but the reality is that NUMC has the same number as a larger tertiary hospital, and those are getting out of the business due to a lower contribution margin than other health care areas. Mr. Gerstman noted that NUMC doubled the size of its psychiatry unit. Mr. Payson said that NUMC does not want to be a Bellevue or a psychiatric hospital. It is at the level it should be and if NUMC does it well, it will be indispensable. Mr. Gianelli noted that there is a little room for growth on the inpatient side for child psychiatry (CPEP) and observation beds affiliated with the ER. Medicare insured geriatrics are underserved at the CHCs and clinics. Ms. Hanson noted that there needs to be work in adult and pediatrics and asked what is the strategy to get more patients. Mr. Gianelli said NUMC needs to grow the adult number by working with department chairs and using the business strategies outlined in the Manatt report by providing the resources to execute targeted goals, making sure the OR process is working and encouraging doctors to do more. Ophthalmology has grown significantly and is doing more procedures here. There is an outreach strategy for the Medicare population and a geriatric practice at the centers. Demographics show that less than 3% of patients over the age of 60 are going to the health centers. NHCC is putting emphasis on health care disparities, the hypertension/diabetes/vascular center and better relationships with community physicians. This is the challenge, there being no history of growth at NUMC, and this is uncharted territory.

Gary Bie said that ironically the more Medicaid volume that you have, the less DSH money you receive. Increased Medicare volume, however, has no negative impact on DSH payments.

AHPECF did not have good month, there was a $283 thousand loss on $4.6 million in revenue. This was directly due to a drop in vent patients (10 vs. 16). Year-to-date, AHPECF reported a $1.4 million loss on $52 million in revenue. AHPECF was successful in bringing the case mix index up from 1.01 to 1.07. They are doing a very good job of controlling expenses. Mr. Gianelli said that there is approval for the CON dialysis extension at AHPECF, but we still need subsequent approval from DOH for the dialysis ventilator residents on site which should allow us to increase the ventilator census at AHPECF.

Community Health Center volume is very consistent. Year-to-date, the centers lost $1.2 million on $14 million in revenue due to a drop in bad debt and charity reimbursement of $1.4 million in 2007 budget cuts. The centers are losing $25 thousand a month in bad debt and charity revenue.

<u>Faculty Practice Plan</u>. The third quarter recommended distribution from the faculty practice plan totals $2.051 million which is very consistent with prior quarters. There are no unusual items and it is an RVU driven formula. Dr. Miner asked if there was any correlation of the practice plan and the Corporation's financial status. Mr. Bie said that as volume goes up, so should the practice plan. Mr. Gianelli said that he is discussing the possibility of altering the practice plan as volumes improve and the baseline formula. The fact that the number is consistent, shows that we may have reached our peak on how much the current system motivates. **Upon a motion was made, duly seconded and unanimously adopted, the Board of Directors approved the Faculty Practice Plan Distribution at September 30, 2007. <u>Resolution No. 123-2007</u>.**

Mr. Payson asked if there is a legal reason why the Board has to approve this distribution. Ms. Popper will investigate and make a determination.

<u>Successor Agreement</u>. Mr. Gianelli reported that the terms of the Successor Agreement were reviewed with the Board last month. There are some key areas of concern. The Legislative Minority are concerned that the County is utilizing Tobacco resources to cover its budgetary $4 million deficit in 2008, and it does not stabilize the hospital on a permanent basis. Also, the comptroller is making the argument that NHCC should not have complete flexibility to retire debt from the proceeds from property sale. Starting in 2009, NHCC's debt service goes up approximately $4 million a year. The County is taking the position that it does not want to be in position where it is making ongoing, compounding operating payments to this corporation because the County has its own financial issues. In exchange, the County is being very generous with Tobacco revenues for capital. NHCC needs to modernize. It is a seven year agreement. There are risks over time, that operating support will not be sufficient for what we have to do. If the final Successor Agreement is not resolved in the manner that Mr. Gianelli would prefer, it will be brought back to the Board. **Upon a motion made, duly seconded and unanimously approved the Board of Directors adopted the resolution entitled Resolution Authorizing Execution of Successor Agreement and Ancillary Agreements between the Nassau Health Care Corporation and the County of Nassau in the form and content as attached to these minutes. <u>Resolution No. 124-2007</u>.**

Mr. Payson noted that no one has enough money to get everything done, and even though NHCC has a significant amount of capital, it still has a problem reaching operating break even. It is our job to change the general perception.

6. **Report of the Medical Professional Affairs Committee and Medical Director**. Dr. Miner reported that the Committee met on December 14, 2007 and reviewed credentialing. The Committee approved appointments and reappointments (attached). The Committee also recommended that the Board approve amendments to the Medical Staff Bylaws involving membership, categories and allied health professionals. **Upon a motion duly made, seconded and unanimously approved, the Board of Directors approved the recommendations of the Medical and Professional Affairs Committee to amend the Medical Staff Bylaws in form and content as attached to these minutes). Resolution No. 125-2007.**

   The Committee also discussed Dr. Chaur-Dong Hsu who accepted the position of Chair of OB/GYN. Dr. Hsu was interviewed by Dr. Miner and Mr. Payson several months ago. Dr. Hsu was also interviewed by the Department Chairs and members of the Executive Committee of the Medical Staff. Dr. Walerstein noted that a search for the OB/GYN Chair went on for over one year. Everyone involved in the search are very pleased with Dr. Hsu's credentials and experience. Mr. Payson asked when the next Resident Review Committee survey for OB/GYN would take place. Dr. Walerstein reported that the residency program was scheduled to be reviewed in March or April, but that he would request a delay of that review until the new chair has time to work with the department. **Upon a motion duly made, seconded and unanimously approved, the Board of Directors approved the appointment of Chaur-Dong Hsu, MD, MPh, FACOG as chair of the Department of Obstetrics and Gynecology. Resolution No. 126-2007**.

   Dr. Walerstein reported that the medical center labs and dialysis were inspected this month and both had positive reviews.

7. **Report of the Legal and Audit Committee**. Mr. Brickman, chair, noted that the Committee met in October and reported at the November Board meeting. The next meeting of the Committee is scheduled in January.

8. Finance Committee. Ms. Popper reported that the Finance Committee met on December 5th on the Hofstra Campus to discuss administration's authority to obtain $30 million in accounts receivable financing. Mr. Bie said that the Corporation is seeking an open line of credit and discussed the terms of the HFG contract. Mr. Capobianco asked if Mr. Bie explored other types of financing. Mr. Gianelli said that the Corporation sent out a request for proposal and were able to negotiate the fees down but did not get much interest from other companies. The maintenance rate, if we have to tap it, is 12.5 basis points/approximately $35 thousand/year on $30 million. Originally the Corporation was seeking a $60 million line of credit, but the County would not give NHCC the authority to go for $60 million. The fees are fixed. Mr. Capobianco was concerned about the fees and if they were negotiated. Mr. Gianelli said they did an RFP no one else submitted on this financing other than HFG and NHCC negotiated all the fees down. Going forward the rate of borrowing is consistent with prime plus 2 percent. **Upon a motion duly made, seconded and unanimously approved, the Board of Directors approved and ratified the recommendation (Resolution No. 122-2007) of the Finance Committee as set forth in the minutes of the Finance Committee dated December 5, 2007 to enable NHCC to proceed with the HFG line of credit to be secured by certain accounts receivable. Resolution No. 127-2007**.

9. **Report of the Community Health Committee.** Dr. Guercia, chair, reported that that the committee met and had considerable discussion regarding the new Freeport clinic location, its progress and the Institute for Healthcare Disparities and possibly an imaging center. The committee also discussed the closing of the Inwood center, meeting with community representatives and alternative care plans. Dr. Guercia also met with Children and Family

Services, representatives from Belmont Racetrack, the Mexican Consulate and Salvadorian Consulate. The next meeting is scheduled for January 16, 2008.

Mr. Gianelli noted that regarding the certificate of need, he had a very productive meeting with representatives from the Town of Hempstead. Mr. Gianelli is awaiting the final stages relative to property. The decisions are fluid and are connected to other decisions. In addition, there has been dialogue with the Village of Hempstead regarding a potential buyer of the old Hempstead General Hospital site where the owner proposes to locate DTCs as well as an assisted living facility. The roll out for the Institute for Healthcare Disparities was excellent in terms of wide-spread attendance by area leaders and approval of its proposed agenda.

10. **Report of the Extended Care Committee**. Mr. Saracino reported that the committee was scheduled to meet during the first week of December, but he had emergency eye surgery. A meeting will be scheduled within the next three weeks.

11. **Report of the Facilities Committee**. Mr. Gerstman, chair, reported that the Committee will meet before the January Board meeting.

12. **Other.** None

13. **Close of Regular Meeting.** Martin D. Payson, Chair, closed the meeting and opened the floor for public comment. There were no comments.

14. **Adjournment**

Upon a motion, duly made and unanimously approved, the meeting was adjourned at 10:00 a.m. to Executive Session to discuss governance, performance improvement, collective bargaining, personnel matters, contract negotiations and litigation.

15. **Report from Executive Session.** No actions were taken during the Executive Session.

The next regularly scheduled meeting is January 28, 2008 in the Auditorium.

Approved:

Martin D. Payson, Chair
Board of Directors
Nassau Health Care Corporation