MINUTES OF THE PUBLIC SESSION OF THE NUHEALTH BOARD OF DIRECTORS' MEETING HELD ON FEBRUARY 7, 2012

Directors Present
*Craig Vincent Rizzo, Esq., Chair
Stephen A. Antaki, CPA
*Richard A. Bianculli
Joseph Capobianco, Esq.
*Steven Cohn, Esq.
*Lawrence E. Elovich, Esq.
*Greg-Patric Martello, Esq.
*John T. McCann, PhD
*George W. Miner, MD, MBA
Asif M. Rehman, MD
*David J. Sussman, MD

Not Present
Stephen H. Ashinoff, OD
*Neal S. Kaplan, Esq.
Jemma Marie-Hanson, RN
Aubrey O. Lewis, MD, FACC
*Frank J. Saracino, EdD

*Executive Committee Members

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

Hospital Administration
John Ciotti, EVP General Counsel
John Maher, EVP CFO
Steven Walerstein, MD, EVP Medical Affairs
Larry I. Siatky, EVP Operations
Robert Heatley, EVP Ambulatory Care
Joan A.Soffel, Assistant to the Board/CEO

1. Craig Vincent Rizzo, Chair, Board of Directors of the Nassau Health Care Corporation, noted the presence of a quorum. The meeting was opened at 9:35 a.m.

2. **Adoption of Minutes**. Upon a motion made and duly seconded, the January 18, 2012 minutes of the Board of Directors meeting were unanimously approved.

3. **Report of the Chairman**. Due to time constraints, Mr. Rizzo asked Mr. Gianelli to present items that require a Board vote.

4. **Report of the President/CEO**. Mr. Gianelli presented the 2012 Budget and 2012 Capital plans. In addition he will present the response to the Request for Application (RFA) issued by the State of New York and Certificate of Public Advantage (COPA).

   2012 Operating Budget. Although 2011 was a difficult year, there was a lot of good news. NUMC had the largest increase in hospital discharges in Nassau County and in history, 24,108 patient discharges. For the past three months, after opening the ED, NUMC exceeded 2,100 discharges representing the best three performing months in history. Adult and pediatric LOS was 4.12 days, the lowest historically for these services. Ambulatory surgery volume grew by 11.7%, the largest increase in Nassau County and bad debt expense went from $41.6 million in 2010 to $35.9 million in 2011, due to an excellent job in collecting payment and enrolling individuals coming through the ED that were undocumented and enrolling others who were previously not enrolled in health insurance.

   What went wrong, there were three adverse trends affecting NuHealth in 2011. Medicaid inpatient rates were reduced by $24 million annually since the financial crisis. Pension contributions grew from 7.9% of salaries in 2009 to 16.3% in 2011. Disproportionate Share (DSH) and IGT numbers have normalized. Not withstanding volume increase, the type of admissions and discharges did not generate a benefit to the bottom line and did not match those contemplated in the revenue initiatives that were built in the budget resulting in less net patient service revenue per discharge than anticipated. The full amount of prison health expenses were not eliminated with the County's termination of NuHealth's prison health

contract in July of 2011. The loss for 2011 was $24 million. In 2012 the pension is 18.9% of payroll up from 7.9% in 2009. Other Post Employment Benefits went up from $36.2 million in 2009 to $51.3 million in 2012. The fringe factor grew from 30-36% before OPEB to 45-51%; normal business fringe factors are between 25-30%. NuHealth cannot sustain 45-51%. The Federal Government had passed a DSH audit rule that excludes certain costs for DSH caps, reducing DSH payment by $10 million annually. How do we close the gap? 2012 began with $58-59 million gap with pension costs, health insurance, step increases, a decrease in DSH, IGT and County billing. There is a modest amount of State aid. We had significant budget reduction from the personnel lay off and incentives (330 FTEs valued at $28 million), but there have been massive increases in pension costs since 2009. Unemployment costs OTPS (other than personal services) is $4.8 million. Administration has capped overtime and is in negotiations with the doctors to get back $2 million from the Faculty Practice Plan. $6.2 million will come from the Federal Government as reimbursement for meaningful use.

Mr. Gianelli said that $18 million comes in as net patient service revenue and has very little to do with volume and reviewed a breakdown of those funds. The nursing home at first looked horrible, but turned out to get a slight surplus $100,000.00. Rebasing benefited us by $2.1 million and state wide pricing phased in over five years is worth $771 thousand and there was a slight increase in patient volume, but still less that 2010. The only real initiative is LIFQHC and expansion of the dental program. Administration is working with HRHC to do billing to improve collections.

In summary expenses are being held in check, some of that is related to the closure of the prison unit. There is a shortfall on the revenue side. Going forward, the budget does not include a lot of non volume revenue initiatives. NuHealth is undertaking work to improve managed care contracting, clinical documentation and coding, front end registration, denial management, will acquire South Ocean Care, extend LIFQHC mental health services, hire physicians through the NMA, in the health home with NS/LIJ, work on specific departments such as cardiology and orthopedics and the Transformation Partnership. The two largest drivers of NuHealth's current financial challenges are fringe benefit (pension) payments that are too high and commercial managed care rates that are too low.

2012 Capital Plan. Mr. Gianelli reviewed funding sources for the 2012 Capital Plan that includes AUC, American Recovery Act, HEAL 19, IHE Funding, Real Estate Developers and operations. The projects include Labor and Delivery (HEAL 19), ICU renovations (HEAL 19), Cath Labs, oncology, academic affairs office, angio and 14th floor plan of corrections. Some of the new projects include an employee cafeteria (kitchen), and lab renovations. Expenditures will include IT equipment and hardware and some other items for a total of about $16 million from operations.

Dr. Sussman noted that NuHealth is being squeezed very hard and he wanted to compliment administration for all that they do, they are trying hard not to lay people off. The managed care contracts, in some cases are ten years old. If this were your oil company and you told them you would pay them at prices from ten years ago, that would not happen. Patients are coming here for services and the hospital is not being paid for those services. Is there a way that administration can speak to our friends in Albany to get these private companies to pay for these services and possibly even going back a few years for payment? Mr. Gianelli said Medicaid and Medicare are actually paying better than commercial insurers. Commercial rates are no where near those rates. At most other hospitals you have the opposite. We are told that we do not do that much commercial business but it is still 17%. NUMC was ranked last of all hospital data going to the National Association of Public Hospitals, we are behind Cook County (that does not have a billing system). If we got Bellevue rates, that would be $30 million. What is impeding us is that in history, those contracts were never paid attention to. Mr. Gianelli brought someone on board to look at

those contracts. NuHealth does not belong to LI Health Network or North Shore, we are on our own and the commercial insurers will not move. We need to secure the appropriate managed care rates; the rates are insulting to the staff that provides the services. Some time ago there were loose discussions in Albany, but if they did for one safety net, they would have to do it for all safety nets. We have to play by those rules; we have been given an option to apply for the RFA. Every one of the managed care contracts has been terminated and each and every one, payer by payer is being negotiated with and we will continue to do that. Mr. Capobianco noted that the fringe factor is out of control and asked what can be done about getting that under control. Mr. Gianelli said health insurance is negotiated locally and with collective bargaining, we need to take an approach that makes sense to the Union and us. If we were to self-fund, there are ways we could take advantage of that. Pensions are another matter. Mr. Capobianco asked why they are so out of whack and the answer was because the employees are in the NYS Retirement Fund. Mr. Capobianco noted that the $18 million in increased revenue is somewhat ambitious, what if we don't reach $18 million. Mr. Gianelli said it would be challenging with non volume revenue issues that are not reflected in the budget. After the next layoff, administration does not believe there can be any more layoffs.

Transformation Partnership. Mr. Gianelli said there has been a lot of discussion, good and bad, about our finances, a lot of first times, two years of profitability (before OPEB), four good years for the nursing home and $80 million in HEAL-NY grants. There have been huge rate cuts, huge pension increases and we have the worse commercial care rates in the Country. On the quality side there is good and bad. We have done a lot to improve quality, received awards for the bariatric center of excellence, PM&R in the top 100 in the US and A. Holly Patterson received five out five stars for a nursing home. Yet, public health data still see significant problems in ambulatory sensitive admissions, 30 day readmissions, 30 day mortality, unnecessary ED visits, one day stays and patients without a primary care physician. All of the payers are starting to reduce payments. Ambulatory sensitive admissions in Nassau County, in areas we are servicing, are much higher than areas around us and higher than the State average. People in our communities are coming to the ED and getting admitted for things others don't admit for. The top readmit diagnoses at NHCC (5 out of 7) are opiate or alcohol abuse. The inpatient intervention we are providing is insufficient, you are seeing readmissions, and it is not solving the problem. It is an unsustainable paradigm. If we don't figure out how to reconstruct, we will continue to see corrosion. We need to change the paradigm to Triple Aim. Triple Aim provides better care for the individual for access, better health care for the population we serve and lower cost to the system and to Medicaid. In mid-November, New York State asked Steven Berger to analyze hospitals in Brooklyn and a number of not for profit safety net hospitals that are failing. NYS will allocate capital to deliver better care and achieve better health outcomes. NYS wants hospitals to change the model of providing less costly care. The State's view of the problem is over reliance on inpatient services, excessive length of stays, unnecessary admissions and high costs. NuHealth's response to this is a Transformation Partnership between NuHealth and North Shore/LIJ. A limited liability company jointly owned and governed by NuHealth and North Shore/LIJ. We need to strengthen our affiliation agreement and the company will oversee and report back the progress made on clinical and strategic integration. There will be two parent boards that appoint to the boards. The COPA is for State Action Anti Trust protection so that North Shore/LIJ can assist NuHealth. The Transformation Partnership will restructure the care delivery model at NuHealth, eliminating 50 staffed inpatients beds, 30 medical/surgical beds and 10 detox beds and 10 residential rehabilitation beds. In return, the partnership could obtain $30 million in HEAL NY funding to integrate and extend our primary care, and mental health and care transition service located adjacent to the NUMC ER and an in hospital 340B Pharmacy program. It will also include an observation unit, detox holding area and LIFQHC to support primary care and the residency program. We will integrate our service lines and quality with North Shore/LIJ, consolidate shared services, and employee sponsored health plans—moving out of NYSHIP in 2013. We will connect

NuHealth and AHP to North Shore/LIJ palliative care and hospice programs and connect North Shore/LIJ to the LIFQHC and reduce ER admissions. This will help to stabilize finances at NuHealth. We would ask the State to hold NuHealth harmless during the transition for outpatient programs, expansion, reduced ER visits and less admit volume and cover unreimbursed legacy costs—to support the ramp up over the next three years. Mr. Capobianco asked who will hold us harmless. Mr. Gianelli said the RFA, we will request to be held harmless in the transition for the reduction of revenue and freedom to make the move and not worry about making money on those services. Mr. Rizzo said the LLC (limited liability company) will not have executive power and the Board will retain its autonomy. Mr. Gianelli said it will not rise to the level of a joint governing structure. It will jointly administer oversight, their board has no executive authority, and it will oversee the restructure integration and report back to the parent boards. They have no voting power. Mr. Capobianco asked if there would be a board of managers at the LLC. Mr. Gianelli said the Boards appoint equally with North Shore and NuHealth. The LLC board would track progress for the respective boards and report back. If the NuHealth Board is not satisfied or has an objection to something, they can take action. Mr. Martello said there would be representatives from both North Shore and NuHealth on the LLC board. Mr. Rizzo noted that this is merely an application; the Board is only approving the filing of the application. Dr. Sussman asked if they are going to ask the State to look at 2005 Medicaid payments, they don't reflect what it really costs us to do business and to serve our mission. Meanwhile we have private companies back to 1999 starving us out of $25 million a year. Mr. Gianelli said COPA will give us that added leverage until we are paid appropriately.

Mr. Gianelli said the COPA would allow us to apply for State action anti trust protection to create collaborations, including permitting NSLIJ to provide assistance to NuHealth in its negotiations with commercial managed care organizations. This is not a merger or acquisition—it is a collaboration of integration. NuHealth must demonstrate how the benefits outweigh the disadvantages. It would preserve health care services in geographic areas, improve and distribute health care in areas and enhance the quality of care provided by the parties while lowering the cost and improving efficiency of delivery. NuHealth will request a level of oversight that is reasonable, some basic reporting. It is possible that the State will say that is not sufficient and that they require a larger burden of oversight. No commitments have been made one way or the other. The level of oversight requested will be relatively minimal, reporting, retrospectively to the State on a regular basis, but the State may ask for more.

Mr. Gianelli reviewed the Project Budget/Viability. The project would lose revenue from the reduction in inpatient services. To offset that, outpatient revenue would increase from new services and less staffing expenses. But there is still a negative delta. The transition rate enhancement would hold us harmless during the transition. Additional expenses offset by rate enhancement include IME, volume adjustment for inpatient and legacy expenses (pension) that would protect us for three years. NuHealth would also have significant savings for the State Medicaid program by reducing admissions and readmissions, the benefit to the State could be over $21 million over five years. There would be staffing reductions in inpatient and additions to outpatient staffing. There could be an additional 70 FTEs to the operation.

Mr. Rizzo summarized and said we will submit the RFA, submit the COPA—two separate applications. Moving forward, there would be a transformation partnership and an LLC to oversee the clinical integration. The LLC will not have authority over NuHealth, no executive rights, no voting rights, and it will be comprised of four board members from NUMC and four board members from North Shore. Mr. Gianelli said that was correct. Dr. Sussman said this is a best practice scenario, the population at risk will get the kind of care it really needs. Mr. Gianelli said it will reduce the overall cost of Medicaid by improving the kind of care we provide. Mr. Rizzo asked how the beds and employees would be restructured. Mr. Gianelli

said with the reduction in inpatient and adding personnel to managed care (70 FTEs) it would be a wash. It has to have a dramatic impact with personnel scattered throughout Nassau County, in people's homes managing a difficult patient population. None of this was included in the 2012 budget.

5. **Report of the Medical Professional Affairs Committee and Medical Director**. John McCann, PhD, Chair of the Committee, reported that the Committee will meet on February 13th.

Dr. Walerstein noted that there was a transition in leadership. Dr. Miner has served as Chair of the committee for many years. Dr. McCann has come in with enthusiasm and will take over the reigns going forward. The committee has already met informally.

Dr. Walerstein noted that the RFA/COPA is a clinical program that will address the challenges in our community health care regarding disparities, and access to primary care physicians. Primary care will be provided in this building on the first floor with extended hours. An observation unit will be created to identify patients with chest pain, fainting, etc. who do not require admissions to the medical floor. The patients will receive rapid access to treatment, diagnoses and ambulatory follow up care. Diane Cohen will be in charge of a community wide care management program. Dr. Walerstein just came off a week of rounding in the hospital and there is a lack of time to discharge, inform patients to take their medicine and understand instructions, follow up with the physician office, and follow up with cardiology, things that would mean better care so that the patient can get back to his or her family quicker. Substance and drug abuse is an epidemic in this County and it is our mission to play a leading role in addressing it. The current model is not working. We need to come up with a better system and model to address the problem. Under the leadership of the Department of Psychiatry, Dr. Rao who is the chairman, and Dr. Ioannou are looking at models to come up with a way to enhance our care delivery. Psychiatry would like to create an ambulatory model and incorporate the families to provide holistic care community-wide. Although some inpatient beds will close, NUMC will still have the capacity it needs for detox and withdrawal. Psychiatry will develop a matrix to measure and report what we want to achieve.

Dr. Ioannou reported that they are looking at enhancing the program allowing them to provide greater services and improve the overall access for individual treatment plans as opposed to a one size fits all. Statistics show that 80% of patients do not keep appointments, 40% drop out of the program before completed and 35-40% are readmitted within 45 days. With opiate addiction, 65% will be returned to treatment. We would have a triage center open seven days a week for anyone requesting service. Evaluation, stabilization, and a case management program would be established to appropriately track patients who are in no physical danger of complicated withdrawal. Young persons and family will receive therapy. We will still have inpatient detox and residential treatment. The increase of demand will go from 6-25 daily. We have been trying to go it alone but need to be involved with agencies in the community, patient organizations and reaching out to the State and County for regulatory aid.

6. **Report of the Finance Committee**. Mr. Elovich reported that the committee held a meeting on February 1, 2012 to review contracts. If there are any questions regarding specific contracts, they will be discussed in Executive Session. **Upon a motion made, duly seconded and unanimously approved, the Board of Directors adopted the Resolution Approving Finance Committee Recommendations, dated February 1, 2012 as set forth in the attached.** Master Resolutions M-031-2012.

Mr. Elovich noted that Mr. Gianelli gave a break down of the 2012 Operating Budget and 2012 Capital Budget and asked for approval by the Board.

Upon a motion made, duly seconded and unanimously approved, the Board of Directors approved the 2012 Operating Budget (as attached). Resolution No. 027 – 2012.

Upon a motion made, duly seconded and unanimously approved, the Board of Directors approved the 2012 Capital Plan (as attached). Resolution No. 028– 2012

7. **Report of the Ambulatory Care, Managed Care and Community Physician Committee**. Dr. Sussman, Chair of the committee, reported that the committee will meet in February to review all of these initiatives regarding the ambulatory care model and he will have a report in March.

8. **Report of the Compensation Committee**. Mr. Elovich will report in Executive Session.

9. **Report of the Extended Care and Assisted Living Facility Committee**. Mr. Saracino, Chair of the committee, was not in attendance.

10. **Report of the Facilities and Real Estate Development Committee**. Mr. Bianculli, Chair of the committee, reported that the committee met on February 1, 2012. On April 15, 2010 NuHealth sent out a request for proposal to lease a portion of the 40 acres to build 388 rental senior living housing on the 64 acre Uniondale campus. On May 15, 2010 NUMC received five responses from representatives from Health Care Reit (master planning consultant) and CBRE (real estate broker). The VP for planning and Counsel to the President reviewed the proposals and conducted interviews and chose Engel Burman.

Upon a motion made, seconded and approved with one abstention (Steven Cohn), the Board approved a contract with Engle Burman for the development of approximately 388 units of independent living housing at NuHealth's Uniondale campus (see attached explanation and term sheet) pending appraisal of the project. Resolution No. 030 – 2012.

11. **Report of the Legal, Audit and Governance Committee**. Mr. Antaki, Chair of the committee, had no report at this time.

12. **Other Business**. Mr. Gianelli said management staff, financial staff and clinical staff did a significant amount of work on developing the RFA and he wanted to thank them and recognize them for all the work that they do. Mr. Rizzo also thanked staff, who have been working over the last six weeks, mornings, nights and weekends to get this done.

13. **Public session**. Mr. Rizzo opened the meeting for public comment.

Jerry Laricchiuta, President of the CSEA, thanked the Board for allowing him to speak. He requested that the unionized workforce be informed of what we are talking about today. He felt that if a test were given in this room, no more than three people would pass it. The presentation given by Mr. Gianelli was very professional and extremely complicated. There is a large amount of information and he wondered how anyone could digest and understand it to make an intelligent decision. He is not saying that he disagrees, but he questioned the Chairman and the CEO for an answer. He said the RFA as he understands it applies to integration with North Shore and to eventually raise our commercial insurance rates. He wanted to know where and how 300 non union workers are connected to the RFA. Where is the plan for the non union limited liability? It may not be part of the RFA but where does it fit in the whole scheme of things. Mr. Gianelli said they are utilizing the RFA response to obtain a deeply integrated and collaborative relationship with North Shore primarily in terms of clinical integration with ancillary benefit. Hopefully North Shore will have the ability to

assist us in negotiating commercial managed care companies protected by COPA and NYS. The RFA and our response is completely independent of the separate not for profit. The LLC is a limited liability company jointly owned by North Shore and NuHealth as an oversight function. The potential creation of a not for profit corporation is under discussion with the Board and there is no plan set at this time. It has nothing to do with what we just spent the last two hours on.

Mr. Laricchiuta said to some extent he understands why we need to integrate with North Shore; it could be beneficial to the Corporation. He is concerned about how much integration and who makes decisions here and will this board remain autonomous to any other board. The final decision comes from this board. The issue with North Shore and this board and the County, is North Shore is a tremendous healthcare organization with a huge amount of health care on Long Island and Nassau County. You have been speaking to doctors about negotiating compensation and the practice plan and asked how Mr. Gianelli could do that without the Union involved. Mr. Laricchiuta said that the CEO claims the Union has not helped and that is not true. This Union has been part of the solution; we have offered you benefit reductions and future hiring practices to enhance your ability to save money. You say the reason we can not sustain the hospital is that the Medicaid rates are going down and the pension is taking you out of business and he disagreed with that. The PBC is a public institution in a New York State pension plan and neither you nor the Union has control over that. The Union can work with you on the benefit side. He noted that Mr. Gianelli is trying to hire non union help and that cannot happen. Mr. Laricchiuta spoke to Senator Hannon, the County Executive, NIFA and Senator Skelos and he said Fran Turner has been trying to contact Mr. Gianelli regarding how this PBC was formed and what the intent was and you cannot replace public workers and we are not going to let North Shore perform our jobs in every level of service here. We report to this board and not another board. Mr. Laricchiuta said he spoke with legal counsel and others and got three different answers, no one is clear on this except Mr. Gianelli. I don't think the Board members are quite in the know as they need to be. Mr. Laricchiuta said the Union was responsible for the Board not allowing the hospital to close all of the detox beds. He said as you move forward you are not going to be able to move forward unchecked and try to take the public part out of this hospital. This is not the Free Masons meeting in dark caves; you need to explain in layman terms both to the public and union members so they understand. You are outsourcing and there has not been a raise in three years. We are following the integration plan closely. The Union is looking to partner with you and building this hospital not hurt it. Pensions are pensions benefits we have spoken about it in good faith, the Union can be a good ally.

Mr. Gianelli said he appreciated the comments but had some observations. The pension and fringe benefits are in excess of 50% and are not sustainable. That has to be dealt with, the pension and health insurance just like managed care rates. The board has had the benefit of seeing the draft application and summary and has had access to staff for questions since the end of November to submit the RFA. The RFA is complicated because it is complicated, because health care is complicated. Health care used to be "put as many heads in beds as you can", but that is out the window. There is a new paradigm, a fundamentally different approach to manage revenue and expenses and we either change with the times or get left behind. We have to be on the cutting edge of what should be done. Mr. Gianelli said he understood Mr. Laricchuita's position on the not for profit and said he had a different position, but the Board will ultimately make a decision and you can do what you want to do or not do. The Board has to understand that 330 FTEs were removed from the organization, if we do not grow revenue and are not successful in reducing the cost structure; there is no future for the organization. No one is subsidizing us. Mr. Laricchiuta said some things are changeable and some things are not and we spoke at length about that for three years and how we could collaborate and lower the benefit side and felt they had a good plan not only reducing the hospital's cost but bringing in revenue. We have been to

the table with you and when you say something has to change on the pension side I can't change it and you can't change it, you have to deal with State law.

13. **Adjournment**

Upon a motion, duly made and unanimously approved, the meeting was adjourned at 11:15 a.m. to Executive Session to discuss governance, performance improvement, collective bargaining, personnel matters, contract negotiations and litigation.

14. **Report from Executive Session.** Upon return to Public Session, the Board reported that the following actions were taken:

Upon a motion made, duly seconded and unanimously approved, the Board of Directors approved the Compensation for Non-Bargaining Unit Personnel Policy (as attached). Resolution No. 026 – 2012.

Upon a motion made, duly seconded and unanimously approved, the Board of Directors approved the submission of the application in response to the RFA proposing the creation of a Transformation Partnership, LLC and an application for the issuance of a COPA. Resolution Nol. 032-2012.

15. **Close of Regular Meeting.** Craig Vincent Rizzo, Chair, closed the meeting at 11:40 a.m.

16. The next meeting will be held on March 27, 2012.

Approved:

Craig Vincent Rizzo, Chair
Board of Directors
NuHealth