



BOARD OF DIRECTORS SPECIAL MEETING

January 21, 2008
Minutes

Mr. Haberland called the meeting to order at 4:10 p.m.

1. Public Comment

- There was no public comment.

2. Six (6) Month Budget Update

Mr. Upton summarized the Health Center's current financial situation for the 6-month period ending December 31 2007.

For the month of December, the actual deficiency was \$4.1 million as compared to a budgeted excess of revenues over expenses of \$91,000, for an unfavorable variance of \$4.2 million. The actual deficiency for the Fiscal Year to Date was \$10.3 million as compared to a budgeted deficiency of \$631,000, for an unfavorable variance of \$9.7 million.

The key drivers of the deficit were John Dempsey Hospital (\$2.9 million off plan), UMG (\$0.8 million) and research (\$0.9 million). JDH ambulatory and in-patient and volumes were down in December, most likely due to weather and holiday/vacation schedules. Decreases in UMG volume could have also impact both of these since UMG is the primary referral source of patients. Drug expenses were higher than anticipated and although there was a reduction in agency nurses, personnel costs (salary and fringe benefits) exceeded plan. The 2nd quarter also experienced an increase in Medicaid and decrease in Medicare cases.

Management has engaged the consulting firm of PriceWaterhouseCoopers (PWC) to assist in developing a turnaround plan for review by the Board. These efforts will have as an immediate focus the hospital, but will encompass all areas of Health Center operations.

The ensuing Board discussion focused on the following:

- While research awards are in alignment with plan, research expenditures are below plan. Since the indirect costs for research are not released until actual expenditures are booked, this creates an unfavorable situation. The current trend with lower percentages of grant approvals and less than adequate cost of living increases for on-going grants, investigators appear to be trying to stretch their grants out over a longer period of time by spending less each year. This results in less IDC funds for the research infrastructure. Faculty need to be encouraged to spend their direct funds more rapidly.
- The impact on PWC's recommendations will be predominantly felt in FY 09 and FY 10. While there are some immediate actions that will have impact in FY 08, and many have already begun (such as reducing overtime and compensation days, doing better with charge capture, and improving the terms of managed care contracts), there isn't enough time left in FY 08 to reap more significant benefits.
- While the updated analysis isn't complete, the year end forecast for the FY 08 deficit is at the high end of the \$15 – 20 million deficit estimate reported to the Board earlier in the fall. A more precise estimate will be provided at the January 28 meeting of the Finance subcommittee.
- The long term environment for clinical reimbursement might be even bleaker than today's because: a) The State has moved away from a managed care model for Medicaid patients which means more such patients will most likely need admission to hospitals, b) There is increased use of managed care models for Medicare (which should decrease such hospitalizations), and c) St. Francis Hospital is heavily marketing its orthopedics institute as well as continuing to recruit orthopedic physicians from neighboring hospitals including from JDH.
- Recognition that while PWC should produce recommendations that will result in additional savings to the Health Center, the savings would not be enough to reverse the continuing deficiency we are experiencing. The board understands that the Health Center is managing the things they can control in budget forecast, but there are numerous factors, structural factors, that are not under Health Center control. Among these are fringe benefit rates, payer mix, and the small number of hospital beds, especially those dedicated to surgical and medical cases.
- It was noted that the State is anticipating declining revenues as a result of the changes in the stock market and other factors affect the economy. The Office of Policy and Management and the Health Center will need to continue to work closely on budgets and further projections as we complete FY08 and move into the future.

There being no further business, the meeting was adjourned at 4:43 p.m.

Respectfully submitted,

Peter J. Deckers, M.D.

Attendees: M. Bertolini, G. Burrow (joined the meeting at 4:40 pm), M. Cicchetti, S. Cloud, J. Droney, D. Friend, J. Goldberg, J. Haberland, B. Hehir, M. Hogan, R. Samuels, A. Slaughter. All Board members participated by phone except M Cicchetti and J. Haberland who were present in person.