

CITY COUNCIL CONFERENCE MINUTES

September 9, 2014

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:38 p.m. in the Municipal Building Conference Room on the 9th day of September, 2014, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT:

Councilmembers Robert Castleberry, Greg Heiple, Stephen Holman, Jerry Lang, Lynne Miller, Chad Williams, Clint Williams, and Mayor Rosenthal

ABSENT:

Councilmembers Greg Jungman

Item 1, being:

PRESENTATION FROM REPRESENTATIVES OF NORMAN REGIONAL HEALTH SYSTEM (NRHS) REGARDING ACTIVITIES OF THE NORMAN REGIONAL HEALTH SYSTEM.

Mr. David Whitaker, Chief Executive Officer (CEO), Norman Regional Health System (NRHS), introduced Mr. Ken Hopkins, Chief Financial Officer (CFO), NRHS, Ms. Robin Wiens, Norman Regional Hospital Authority (NRHA) Board Chair, and Ms. Karen Rieger, General Legal Counsel for NRHS.

Moore Medical Center Facility

Mr. Whitaker said the tornado of May 20, 2013, destroyed the Moore Medical Center (Moore Medical). He said insurance claims for the building and equipment have been settled. Claims for additional expenses such as debris removal, making the site safe for rebuilding, and business interruption claims are being processed. He said a new facility will be constructed from insurance proceeds so there will be no new additional debt for the replacement of that facility. He said the final facility plans have been approved and construction should be completed by June, 2016. He said the new facility will have no in-patient beds as the facility will focus on emergency care; urgent care; ancillary service; lab; radiology; and physical, occupational, and speech therapy (a/k/a physical medicine). He said NRHS has retained about 65% of all the business going through Moore Medical based on the May 20th date.

Mr. Whitaker said Staff did not make the decision to build a non-inpatient bed facility lightly. He said a facilitator led five focus groups consisting of business leaders, education leaders, community leaders, former employees, and current medical staff to decide what services were needed the most. Each focus group was asked to prioritize what services they thought should be replaced at Moore Medical and the top priorities were emergency services and physical medicine.

Porter Campus Renovation Project

Mr. Whitaker said NRHS is completing a major overhaul of the Porter Campus Rehab Facility. He said the hospital foundation raised \$1.5 million and constructed an outside barrier course for rehab patients with a walking transition from grass to gravel and gravel to concrete for the rehabilitation of stroke victims. The physical medicine area was expanded at Moore Medical and the Physical Performance Center on 24th Avenue N.W. in Norman. He said NRHS employs 2,600 employees with 300 doctors. He said because there will be no in-patient services at Moore Medical, NRHS plans to capture those services at the Norman Healthplex, which is adding a fifth floor for the overflow. He said NRHS is planning a relocation of two breast care centers in order to consolidate them into one center. He said Cardiology services have been relocated to the Heart Plaza Building on Medical Park West.

Credit Ratings

Mr. Whitaker said in the last eighteen months, NRHS has gone through three agency reviews. NRHS's credit rating has been upgraded and the overall outlook has increased to stable or positive. He said the NPHO, which is the joint hospital/physician organization that oversees managed care contracting, issued a clear opinion letter designating NRHS as clinically integrated. That means the hospital, health system, and physicians can jointly put together a network under a single signature authority and enter into networks with insurance companies. He said this allows NRHS to take care of a defined population that is not based on revenues or charges, but will be based on outcomes. He said the transition is not going to be what you do *to* the patient, but what did you do *for* the patient. He said this is how reimbursements will be driven going forward.

Medicaid Program

Mr. Whitaker said not having Medicaid expansion is hurting every hospital in the state and causing hardships. He said there will be 17,000 newly eligible Medicaid patients in Cleveland County that NRHS is already basically taking care of. If they are not in the Variety Care Network they are being taken care of in the emergency room (ER), which is the most expensive place in the world to be treated. He said there are 180,000 new Medicaid eligible people in the State of Oklahoma. He said if the State accepted the Medicaid expansion it would mean \$6.5 to \$7 million in Medicaid payments would be coming back to NRHS for care that NRHS is already providing. He said Holcomb Hospital Association is taking a very active role with the Governor, House of Representatives, and Senate to expand the Medicaid Program to try to get the money the state is losing out on.

Financial Update

Mr. Ken Hopkins, CFO, said the hospitals fiscal year ends June 30th so the hospital is going through their yearly audit process and the final audit report will be presented to the NRHS Board this month. He highlighted the financial performance for FYE 2014 compared to FYE 2013. He said operating revenues in FYE 2014 were \$437 million and \$336.9 million in FYE 2013. He said operating expenses for FYE 2014 were \$331 million making the hospital's operating income \$5.9 million or 1.7% in operating profit compared to 1.6% in FYE 2013. Mr. Hopkins said investment returns for non-revenues in FYE 2014 were \$18.9 million compared to \$21 million in FYE 2013. He said those FYE 2013 numbers represent the Moore Medical assets that were written off. He said the hospital ended up with excess revenue over expenses in the amount of \$24.8 million for FYE 2014 compared to \$26.8 million in FYE 2013, but both years had unusual gains.

NRHS Board

Mr. Whitaker said the current NRHS Board is the most talented group of people with the most expertise he has seen in his fifteen years of service.

Ms. Robin Wiens, NRHA Board Chair, said the NRHS Board is very committed and if they do not understand something they are not afraid to ask questions until they do understand. She said it is not just the lack of Medicaid expansion that is pressing to hospitals there are other things as well. She said other important services provided by NRHS include the Diabetes Center, School Nurse Program, and Central Area Rapid Transit (CART) Access that provides transportation services to the elderly and disabled.

Ms. Wiens said 1.7% is a small profit margin, but medical inflation is much larger than that so it is difficult to plan ahead and especially difficult when NRHS is confronted with issues of capital equipment due to new technologies or replacement of aged equipment. She said NRHS Staff works hard to be very efficient on capital expenses.

NRHS Board, continued

Ms. Wiens said not having in-patient beds at Moore Medical are indicative of the future of medicine. She said most people are released fairly quickly and that is not a decision hospital staff makes, it is the payers that make that decision whether it is Medicare, Medicaid, or private insurance companies. She said out-patient services are where patients are being treated instead of in hospitals. She said expenses are being reimbursed differently and hospitals are being scrutinized at every level.

Ms. Wiens said the NRHS Board is responsible for credentialing every doctor that practices and although the Board delegates that process to medical staff and Committees, the Board is ultimately responsible. She said the Board takes this duty very seriously. The Board is also responsible for the Centers for Medicare and Medicaid Services and is liable for potential things that may happen in the hospital. She said the Joint Commission on Accreditation of Hospitals (Commission) is the agency that accredits the Board to participate in the CMS Program in order to take care of Medicare and Medicaid patients. She said the Commission surveys the hospital every two years and the Norman Regional is in the survey window now.

Ms. Wiens said a couple of years ago NRHS started an options assessment to look at strategic options for the hospital over the next ten to fifteen years. She said the Board set a vision for level of services and examined different opportunities and ideas of what Norman Regional look like and how that can change over the years. She said the hospital system needs to be nimble enough to change as regulations change, offer the best possible care, and still get the reimbursements to ensure the facilities stay in operation. She said the Board examined several different options, which were very broad. Some of the things the Board looked at are ownership changes, contract provider changes, and collaboration with other hospitals based on geographic area. She said payers will basically be driving the bus on how people end up fashioning their health systems. Mr. Whitaker agreed and said being responsible for the outcomes of a defined population means being in charge from birth to the end. He said there are three different players in the new health care world, 1) the contract vendor where health care only participates in networks, 2) huge organizations (insurance companies, Mayo Clinic, Integris Health, St. Anthony's Hospital, etc.) where managers control the decision making of services for a defined population of patients, and 3) Community Hospitals.

Ms. Wiens said there is statistical data in making sure everything is reported correctly and there are a lot of people treating paper instead of treating the patient and that is where scale comes in. She said small town hospitals are having an extremely difficult time and it is tragic for the small communities to lose that. She said there are so many requirements that basically all come back to taking reimbursement away and there will be more hospital closings, consolidations, or collaborations to help those small hospitals.

Ms. Wiens said there are new models as far as collaborations among health systems, one of which is in Georgia called Stratus. She said hospitals throughout the state have formed an alliance that is contractually based to share data. She said the Board will be looking at that model soon. Mr. Whitaker said there are currently six organizations that want to form a central processing unit and that is what Stratus can do.

Ms. Wiens said there always rumors that Norman Regional is being sold or is for sale and that is not true at this time. NRHS is simply trying to find ways to navigate the waters to make sure Norman has the best hospital. Mr. Whitaker said there have been local, state, and national offers to purchase the hospital. He said hospitals do not have to give up ownership or community identity they just need to form a centralized business office. He said group purchasing gets tighter because hospitals can demand better volume dollar prices. He said a cooperative affiliation can work and is working in Georgia.

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Councilmember Greg Heiple asked for an explanation of the Trust Authority's (Trust) responsibilities and Council's responsibility towards the hospital. Ms. Karen Rieger, NRHS Legal Counsel, explained the hospital structure. She said the hospital is operated by a Trust Authority whose board members are appointed by the City of Norman. She said the City of Norman is the sole beneficiary of the Trust so if the Trust were to dissolve, the City would be the beneficiary of all assets. She said the City does not provide any financial support to the hospital, all that support is generated through operating revenues. She said the City is not responsible for any liabilities of the hospital, including bond indebtedness.

Ms. Rieger said Trust Authorities were created in the 1940's to be able to issue debt for multiple years without a vote of the people in order to be able to construct facilities. Ms. Wiens said another purpose of the Trust was because cities and counties did not want to run hospitals.

Ms. Rieger said Norman Regional was initially set up as a Municipal Hospital and was transitioned to a Public Trust in 1970. She said three or four years ago the City amended their Charter to clean up language to reflect the hospital is not being operated as a Municipal Hospital.

Ms. Rieger said the City owns eleven acres of land on which the original hospital was constructed, which dates back to 1970's. The improvements on that land were financed through the Trust Authority so the Trust Authority owns the improvements, but the City owns the land and leases that land to the Trust Authority. The language of the lease ensures the City has no liability associated with operations of the hospital.

Mr. Whitaker said the Orientation Manual for new NRHS Board Members is full of information that can answer a lot of questions new Councilmembers may have. He would be glad to forward that information to the City if desired. Mayor Rosenthal said having that information would be greatly appreciated.

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The meeting adjourned at 6:28 p.m.

ATTEST:

City Clerk

Mayor