

CITY COUNCIL CONFERENCE MINUTES

September 25, 2012

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a study session at 5:30 p.m. in the Municipal Building Conference Room on the 25th day of September, 2012, 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 24 hours prior to the beginning of the meeting.

PRESENT:

Councilmembers Castleberry, Gallagher, Griffith, Jungman, Lockett, Spaulding, Williams, Mayor Rosenthal

ABSENT:

Councilmember Kovach

Item 1, being:

PRESENTATION FROM REPRESENTATIVES OF NORMAN REGIONAL HEALTH SYSTEM REGARDING THE ORGANIZATIONAL RELATIONSHIP BETWEEN THE CITY OF NORMAN AND NORMAN REGIONAL HOSPITAL AUTHORITY.

Mr. David Whitaker, Chief Executive Officer of Norman Regional Health Systems (NRHS), introduced Ms. Karen Rieger, Crowe and Dunlevy, attorney for NRHS and an expert on public trusts; Mr. Ken Hopkins, Vice-President and Chief Finance Officer of NRHS; and Mr. Jeff Raley and Mr. Glenn Floyd, Floyd Law Firm, NRHS Bond Counsel.

Mr. Whitaker highlighted the legal structure of the Public Trust; duties and authority of the City of Norman; duties and authority of the hospital board; long-term debt of the Norman Regional Hospital Authority (NRHA); and future challenges based on an uncertain future of health care and how that may impact the City of Norman as beneficiary of the trust. Mr. Whitaker said a goal for the coming year is to create an orientation process for new Councilmembers and NRHS Trustees so they will know more about how the public trust is operated. He said he will work with the Mayor, Council, and City Staff on an orientation plan for new Councilmembers.

Mr. Whitaker said the original Norman Municipal Hospital was opened in 1946 with 61 beds and 30 employees owned by the City of Norman and operated by the Board of Hospital Management. In 1969, the Norman Municipal Hospital Authority (NMHA) was formed as an Oklahoma Public Trust Authority, an entity separate and distinct from the City of Norman. The City of Norman is beneficiary of the Trust. He said the original hospital facility on Porter Avenue is owned in part by the City and in part by NRHS. On April 1, 1970, the City leased 11.55 acres to NRHS for a period of 50 years and that lease has since been extended. Since 1970, NRHA has purchased 17.95 acres adjacent to and now a part of the original hospital campus. Since 1979, the NRHA has financed all other improvements to the original hospital campus, acquired Moore Medical Center, built the Healthplex, and added multiple outpatient treatment facilities/office practices without using City funds. City Council, however, did approve the indebtedness of the NRHA as required by State Statute. The existing long-term debt was issued by NRHA and payable solely out of NRHA revenues. Mr. Whitaker said the City of Norman has not guaranteed the repayment of the debt and has no legal obligation or financial exposure in connection with such debt or any other aspect of NRHA's operations.

Mr. Whitaker said pursuant to the current Trust Indenture, the Mayor, with the approval of Council, appoints the Trustees of the NRHA. Trustees are appointed to three year, staggering terms. As the beneficiary of the Trust, the City has no legal claim or right to the Trust Estate or its income, no authority to transact business for or on behalf of the Trustees, and no right to control or direct the action of the Trustees pertaining to the Trust Estate. The duties and required actions of the Trustees are delineated in the Bylaws of the Board of Trustees of the NRHA. Amendments to the Trust Indenture require agreement by a super-majority of the Trustees and City Council.

Item 1, continued:

Mr. Whitaker said as currently structured, the provisions of Article IX of the Norman City Charter are largely inapplicable to the operation of the original and other Authority facilities. He said the Trust cannot be terminated if there is indebtedness or fixed term obligations of the Trust unless all owners/holders of such debt have consented in writing to the proposed termination. Upon termination the beneficiary, the City of Norman, is entitled to the residue of all monies and remaining properties of the Trust Estate. Councilmember Castleberry said, as beneficiary of the trust, the City's would only benefit upon dissolution of the Trust and Mr. Whitaker said that is correct.

Councilmember Gallagher said since the City still owns 11.55 acres does that make the City a partner of the hospital operations and Mr. Whitaker said it makes the City the lessor of the 11.55 acres. Councilmember Gallagher said a portion of hospital facilities are built on that 11.55 acres and asked what that legally entails for the City of Norman. Ms. Rieger said that land is leased to NRHA so the City of Norman is essentially a landlord. Councilmember Castleberry asked if the City has the same liability as any other landlord and Ms. Rieger said yes, liability would be similar to any other type of leased property.

Councilmember Gallagher asked why NRHA has not purchased the land and released the City from the relationship. Mr. Raley said prior Councils felt like owning a portion of the property gave the City some degree of control to have some say over what would happen if the hospital were to sell to outside interests. He said in 1969, Norman Municipal Hospital was not the regional hospital it is now. Councilmember Spaulding asked if documents of the Trust state the City has no right to control or direct the actions of the Trust Estate, why did prior Council's feel they had a say in the operations of the hospital. Mr. Raley said the Trust has nothing to do with the operations of the hospital. He said it was just a general sentiment that Council did not want anything to happen to that land without the City of Norman executing a deed. Councilmember Griffith said if the City sold the property to NRHA then NRHA could sell the hospital to anyone without the City having any say in the matter so by having ownership the City has a voice. Mayor Rosenthal said appointing Trustees is also an important form of oversight for the City.

Councilmember Williams said, typically, the lessor owns improvements to property and asked if that is true in this case and Mr. Whitaker said he did not know the specifics of the lease and would need to research that. He said he would be happy to forward a copy of the lease to Council and Staff.

Mr. Whitaker highlighted future challenges to healthcare. He said there are currently no answers to 99% of questions regarding the future of healthcare because there is an upcoming November election that will have a major impact on the existing laws of healthcare. He said there is also a Lame Duck Session that could cause a lot of damage or have a lot of benefit, but if things do not go well in the Lame Duck Session and the nation does not have a new budget or revised debt limit then mandatory cuts that kick in on January 1, 2013, are going to devastate the Medicare inpatient reimbursement system. Mr. Whitaker said the current system of reimbursement and financing mechanism for healthcare is not sustainable based on three desires of consumers known as the "three legged stool", which are 1) the best care possible, 2) best care provided on consumer's schedule, and 3) cheapest possible care. Consequently, there currently is no consensus on short or long term solutions for future healthcare.

Mr. Whitaker highlighted operating statistics and financial revenues for NRHS since June 30, 2000. He said outpatient and emergency room visits have practically doubled. He said operating revenue in 2000 was \$125 million and 2012 was \$325 million. He said assets and liabilities have tripled and the net worth of the health system has increased from \$89 million to \$185 million with long term debt of \$219 million.

Mayor Rosenthal said the hospital provides many important services to the community such as EMSSTAT and asked Mr. Whitaker to highlight those community services. Mr. Whitaker said the hospital donates approximately \$2.5 million to a multitude of community organizations that include Central Area Cleveland Area Rapid Transit (CART), Meals on Wheels, and Health for Friends. He said the hospital, in partnership with Norman Public Schools, provides the School Nurse Program and provides athletic trainers for all school athletic programs. He said a complete list is included in their annual report and he would forward a copy to Council. He said the hospital also encourages their Staff to become involved with the organizations.

Item 1, continued:

Councilmember Spaulding said in the event of a Lamé Duck Session, what is the hospital's expectation of the possibility of profits and asked Mr. Whitaker to give a brief example of how the hospital is diversifying income risks. Mr. Whitaker said if things progress with what is currently expected the hospital will see a total transformation in the reimbursement system being led by Medicare and Medicaid. He said there is a fee associated with every hospital service, procedure, and test and that is what reimbursements are based upon. He said under new regulations, the fees will be based on the outcome of those services, procedures, and tests and the hospital expects to see organizations forming clinical networks that will take on the responsibility for delivering care for a defined population of people. He said NRHS is in a position of strength because they are the "gateway from the south" for getting into the medical community within the Oklahoma City (OKC) area. He said 50% of NRHS patients come from the City of Norman, the other 50% come from a six or seven county service area and newly formed clinical networks will want NRHS's involvement.

Mr. Whitaker said NRHS formed the Norman Physician Hospital Organization (NPHO) that has direct contracts with many employers who sub-fund their own healthcare plans. He said there is a huge incentive for electronic medical records because if someone forms a clinical network then that network will be responsible for thousands of Blue Cross customers and will receive one payment to be distributed among the various healthcare providers. He said the physician that looks at a patient must have access to the patient's other physician and hospital records in order to make smart clinical decisions based on accurate treatment information. He said five years ago, NPHO became the statewide distributor for E-Clinical Works, an electronic health record system, which is integrated with NRHS information. He said NRHS currently shares access to emergency room records with four of the five major hospitals in the Tulsa area. Councilmember Gallagher asked if a lot of physicians may not accept Medicare or Medicaid because of new regulations and Mr. Whitaker said many physicians have already stated they will no longer do hospital practice. Councilmember Gallagher asked if the electronic system was set up at Moore Medical Center and South Heart Health Center. Mr. Whitaker said the system is set up and electronically integrated across all NRHS campuses, physician offices, and outpatient treatment centers.

Councilmember Gallagher asked if NRHS was planning on closing any of their facilities or continuing to maintain all current facilities and Mr. Whitaker said NRHS will continue to operate the Porter Campus, the Healthplex, and Moore Medical Center and no closures or new construction is foreseen. Councilmember Gallagher asked what services are provided at the Porter Campus and Mr. Whitaker said the Porter Campus is the central surgical, trauma, rehabilitation, and intensive care unit provider while the Healthplex is the orthopedic, obstetric, and cardiac service provider.

Councilmember Gallagher asked what type of downturn NRHS is expecting in profits and expenses due to the National Healthcare Act and Mr. Whitaker said NRHS continues to see an erosion of in-patient services, but drastic growth in outpatient services and so far, that growth has offset the decline in in-patient services. Councilmember Gallagher said it seems that Heart South and Moore Medical Center are competing against NRHS and Mr. Whitaker said Heart South does not compete against NRHS. He said there are some types of cardio vascular surgeries NRHS will not do so Heart South Health Center is a good referral replacement plus NRHS is part owner of Heart South and that partnership keeps South Heart from locating in Norman.

Councilmember Gallagher said he was reading an article in the Wall Street Journal regarding bonds and the article talked about the "Double Barrel Concept" where bond defaults can cause financial problems for a City, which happened in Stockton, California. Mr. Hopkins said two of the bond issuances are insured, one is partially insured, and one is not insured. Councilmember Gallagher was concerned that what happened in Stockton could happen in Norman and the City would be partly responsible because there is a relationship with the hospital. Mr. Raley said Stockton's situation was due to California State law problems, which is entirely different than Oklahoma law. He said in California, revenue bonds were backed by the full faith and credit of the City, but that does not occur in Oklahoma. Councilmember Gallagher asked if the Trust Indenture holds the City harmless and Mr. Raley said he was sure it does.

Item 1, continued:

Councilmember Gallagher said as far as he can tell, to go outside the geographic boundary of a municipality with a trust like this is against the law so how can NRHA reconcile Moore Medical Center and Heart Health being outside the boundaries? Mr. Whitaker said NRHA is legally directed by the City's Trust Indenture, which specifically states NRHA can provide healthcare anywhere in the State of Oklahoma. Councilmember Gallagher asked if that language supersedes the State Constitution. Ms. Rieger said there was a recent Attorney General's opinion that a public trust can act to benefit its beneficiary and it is a benefit to Norman to have health facilities in close proximity Norman that provide services and having a primary care pool, particularly in the Moore Medical Center situation, to allow NRHS to recruit specialists benefits the Norman community. She said she would provide a copy of the Attorney General's opinion to Council.

Mayor Rosenthal thanked everyone and said if Councilmembers have additional questions she is sure Mr. Whitaker would schedule time to meet with them and answer any questions they may have.

Items submitted for the record

1. City of Norman/Norman Regional Study Session Agenda with Legal Structure of Public Trust; City of Norman Authority; Hospital Board Authority; Long-Term Hospital Authority Debt; and Future Challenges to Hospital Authority/City of Norman
2. Amended and Restated Trust Indenture of the Authority
3. Bylaws – Board of Trustees –Norman Regional Hospital Authority d/b/a Norman Regional Health System
4. Site plan for Norman Regional Hospital Main Campus
5. Norman Regional Health System Comparative Operating Statistics

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Item 2, being:

DISCUSSION REGARDING THE DRAFT ORDINANCE AND RESOLUTION OUTLINING COUNCIL MEETING PROCEDURES.

Due to time constraints, Item 2 will be discussed at a Study session in October.

The meeting adjourned at 6:26 p.m.

ATTEST:

City Clerk

Mayor