

MINUTES OF THE MEETING OF  
THE BOARD OF COMMISSIONERS  
PUBLIC HOSPITAL DISTRICT NO. 1  
OF KING COUNTY, WASHINGTON

Held on December 15, 2008

Attendance:

Commissioner G. Sue Bowman, Commissioner, Commissioner-at-large  
Commissioner Anthony R. Hemstad, Commissioner, District No. 3  
Commissioner Donald O. Jacobson, President, Commissioner, District No. 1  
Commissioner Carolyn V. Parnell, Secretary, Commissioner, District No. 2  
Richard D. Roodman, Administrator/CEO – Superintendent  
Paul S. Hayes, R.N., Executive Vice President  
Kathryn D. Beattie, M.D., Senior Vice President - Chief Medical Officer  
Scott Alleman, R.N., Senior Vice President – Patient Care Services  
L. Michael Glenn, Senior Vice-President – Business Development  
Paul Larson, Senior Vice President – Clinic Network  
Barbara Mitchell, Senior Vice President – HR and Marketing  
Robert L. Thompson, M.D., Vice President – Physician Relations  
David E. Smith – General Counsel  
Jeannine Grinnell, Vice President – Finance  
Pamela Fowler, Director – Marketing and Community Affairs  
Kris Tiernan, Assistant to CEO and Board of Commissioners

Those present for a portion of the meeting:

Brad Boswell, D. Michener & Co.  
Stuart Elway, Elway Research, Inc.

This meeting of the Board of Commissioners of Public Hospital District No. 1 of King County was opened by President Jacobson at 3:35 p.m. in the Board Room of Valley Medical Center. It was moved and seconded to approve the minutes of December 1, 2008. Motion carried unanimously.

Community Affairs Ms. Fowler reported on various community outreach activities of the Public Relations and Marketing Department as follows:

Valley was an event sponsor for the 24<sup>th</sup> Annual Jingle Bell Run for the Arthritis Foundation yesterday, December 14<sup>th</sup> at the Westlake Center. The race drew over 10,000 participants, even with the cold, snowy weather.

Last Friday, December 12<sup>th</sup>, the Annual Children's Therapy Holiday Party attended for over 400 children and their families. The Starlight Foundation provided toys and gifts for the children.

On December 17<sup>th</sup>, the Quarterly Employee-of-the-Month celebration will be held along with the Annual Employee Holiday Tea. There will be a special commemoration with unveiling of a plaque in tribute to Board leadership during the 2005-07 surgery and lobby remodeling project. Commissioners and all employees are welcome.

King 5-TV plans to run a story on MRI use in the detection of breast cancer that features VMC's Breast Center and Valley Radiologists (Dr. Steve Scallon) on December 19<sup>th</sup>.

The December 2008, Business Report newsmagazine includes a front-page article with photo of the Emergency South Tower construction. A photo of the topping off ceremony is also included.

Dr. David Lundin will be noted in 425 Magazine's Best Doc issue in April. Additionally, Dr. Lundin will be featured in a video vignette as part of the 2009 City of Renton/Ahead of the Curve campaign.

Kent Magazine has requested VMC to edit an "Ask the Doctor" monthly column. Physicians from Kent Primary Care Clinic will rotate as authors. A similar opportunity with Renton Magazine is being investigated.

Capital Expenditures/  
Clinical Equipment/  
Programs

#### State Budget Update

Brad Boswell discussed the new state budget which Governor Gregoire will announce Thursday, December 18<sup>th</sup>. The expected shortfall is \$5.3 to 8 billion. It is anticipated that many programs will be cut and that healthcare will be hard hit, including reductions to the Basic Health Plan, the Disproportionate Share Program, graduate resident education, etc. Mr. Boswell stated that all programs and expenditures are "on the table" at this time. There was a discussion of Valley's family medicine residency program which is expected to lose \$1.5 million this year. Mr. Roodman said the program is a good physician recruitment tool and provides access to care for the under-insured and underserved in our community. Nevertheless, the program will be reassessed in view of probable funding cuts.

#### Community Opinion Survey 2008

Mr. Stuart Elway, President of Elway Research, Inc., presented the results of the 2008 Community Opinion Survey, which was conducted by telephone December 9-11, 2008, and included 400 adult residents of the District. The survey has a margin of error of plus or minus 5%. Mr. Elway reviewed the questions asked of respondents. Key findings indicate that VMC continues to dominate *Top of Mind* awareness in the community – almost eight in ten volunteered "VMC" when asked to name hospitals in the South King County area.

VMC's reputation continued to tower over the other area hospitals. The clear majority of respondents declared Valley Medical Center had the:

- Best Reputation
- Most Community Education and Outreach
- Most Advanced Medical Equipment
- Best Doctors
- Most Caring and Friendly Staff

Residents who had been actual patients or visitors to VMC were notably impressed; respondents who had been VMC patients rated VMC higher on every measure of reputation and quality included in this survey than did those who had not been a patient. Likewise, those who had been a visitor rated VMC higher than those who had not visited on every measure of reputation and quality.

In response to the key indicator that the Board requires, annual monitoring, Mr. Elway reported that 78% of respondents giving a rating gave VMC the rating of "good" or "very good" for "overall reputation." This far exceeded the Board's realistic goal of 70% positive opinion.

Mr. Elway stated that this is an extremely positive report, noteworthy in particular for the consistency of exceptional ratings over the last eight years of surveying.

Medical Affairs

Credentials

MOTION

Recommendations dated December 9, 2008, from the Medical Executive Committee outlining appointments, reappointments, changes of staff status, change in privileges and resignations were individually reviewed by Dr. Beattie. It was moved, seconded and unanimously carried to approve credentialing/privileges recommendations as presented. Copies are attached to and made part of these minutes.

Quality Management Update

Dr. Beattie also reviewed the December 2<sup>nd</sup> meeting of the Quality Improvement Council, which received an update from Dr. Nemanich on the cardiac quality program.

Reports

Financial Affairs

Healthcare and Recession: A Cautious Prognosis

Ms. Grinnell presented an informational update to the 2009 Budget and 2008 Five-Year Forecast. She reviewed the five-year forecast presented and updated most recently in November. She also reviewed the Operational and Capital Expenditure Budget approved by the Board last month. Both the forecast and budget were conservative based upon the economy and 2008 operational trends. Refinement of the operational budget continues through December at the administrative level.

Since the last updated forecast was presented and both the operational and capital expenditure budgets were approved last month, the national economy has been declared in a recession beginning back in December, 2007. There is a nearly unanimous consensus that the economy is in a "severe" downturn and is unlikely to recover until at least 3Q 2009 or, more likely, 2010. She reviewed national statistics pointing to a long-term recession. The group of 56 economists surveyed by the Wall Street Journal summarized the current economic conditions with the following thought, "The current recession may turn out to be the longest and most painful downturn since the Great Depression."

The Governor of Washington State has announced that the state is facing a \$5-6 billion shortfall and unprecedented budgetary cuts – including likely cuts to the state Medicaid program. Through November 2008, VMC had Medicaid charges in excess of \$106 million and payments of \$20.5 million (approximately 20% of charges). Unemployment has a direct impact on Medicaid, SCHIP and the number of uninsured. Medicaid expenditures and enrollment have continued to increase as state tax revenue streams have declined. VMC gross in-patient revenue through November is 32% Medicare, 16% Medicaid, 47% private and 5% self-pay.

State budgetary reductions will most likely include the Disproportionate Share Program (DSH). In 2008, VMC will receive approximately \$7.7million in DSH-related funds. Reductions in Graduate Medical Education (GME) are also expected, and the impact to VMC could be over \$1.4 million between GME and Indirect Medical Education (IME). Other areas of concern include Apple Health for Kids and the Basic Health Plan (BHP). VMC receives over \$1 million in BHP payments. VMC receives approximately \$100,000 per year to offset costs related to interpreter services and interpreter services are another area of concern for reductions. VMC would still be required to provide this service, which likely

costs in excess of \$400,000 per year (estimated), even if reimbursement was reduced or eliminated.

Ms. Grinnell reviewed regional data concerning layoffs and business closures. She commented on the downgrading of the entire healthcare sector by Moody's, S&P and Fitch bond-rating agencies and reviewed factors driving the downgrades. Declining patient volumes at VMC during 2008 are thought to be due to patients' deferring medical care due to high co-pays, high deductibles and "discretionary" medical issues compared to mortgage payments, gasoline and food. Many hospitals are beginning to see the effects of the downturn in lower patient demand, according to an AHA national survey. Data illustrating VMC's experience from 3Q 2007 to 3Q 2008 was illustrated. Ms. Grinnell noted that the one bright spot involves successful renegotiation of several payor contracts which has had positive impact on our contractual balances and net patient revenue.

Uncompensated care is rising due to the weaker economy and rising unemployment. Compared to other hospitals in the Seattle area, Valley is second only to Harborview in providing uncompensated care, according to Department of Health data. VMC provides millions of dollars more in uncompensated care than the other two public hospital districts within King and Snohomish Counties.

VMC comparative liquidity was reviewed. The remaining 2008 LTGO debt proceeds will have been spent down by the end of 2009. Capital then will be required to be funded from operations. The Bond covenants require at least 65 days cash on hand. The forecast recognizes the significance of liquidity ratios and contemplates keeping days cash on hand above 100 days. S&P "A-" and Moody's "3" rated hospitals have a median of approximately 170 days cash on hand.

Administration is thoroughly reviewing and re-evaluating operational budget assumptions due to continued lower-than-expected volumes in the 4<sup>th</sup> quarter. An updated forecast will be available shortly. Revenue projections may be updated if State budgetary proposals impact VMC Medicaid revenue streams.

Mr. Roodman stated that in view of all that Ms. Grinnell has reported, all programs and services at VMC are being reviewed at this time and there may be some unpopular decisions in the near future. VMC's bottom line year-to-date is \$1.9 negative without taxes. Next year could be worse.

Recess President Jacobson called for a brief recess at 5:17 p.m.

Reconvened The meeting reconvened at 5:30 p.m.

Bills/Vouchers

MOTION The Board, by motion, approved payments of the following bills and vouchers:

Lydig Construction, Inc. (Emergency Tower – Application No. 13)	\$ 4,502,913.23
Regency NW Construction, Inc. (Radiation Oncology Interior Upgrade – Application No. 1)	10,244.00

	WARRANT NUMBERS		DATED	AMOUNT
	FROM	TO		
ACCOUNTS PAYABLE	26635	26752	12/5/2008	71,555.88
ACCOUNTS PAYABLE	2112590	2112937	11/25/2008	2,416,078.61
ACCOUNTS PAYABLE	2112938	2112943	12/1/2008	1,005,315.00
ACCOUNTS PAYABLE	2112944	2113091	12/2/2008	2,300,553.36
ACCOUNTS PAYABLE	2113092	2113092	12/3/2008	131,494.75
ACCOUNTS PAYABLE	2113093	2113337	12/4/2008	1,587,268.03
ACCOUNTS PAYABLE	2113338	2113517	12/9/2008	1,173,462.54
TOTAL AP				<u>8,685,728.17</u>
WIRES OR EFT				1,369,641.70
OCTOBER PAYROLL				7,926,898.19
GRAND TOTAL AP EFT/WIRES & PAYROLL				<u><u>\$22,495,425.29</u></u>

Write-off of Accounts Receivable

MOTION It was moved and seconded to approve write-off of hospital and clinic accounts receivable in the amount of \$1,046,669.73, of which \$1,018,592.89 has been referred to Collection. The balance of \$28,076.84 represents bankrupt accounts and cancellations.

Resolution No. 896 – Surplus Property

MOTION It was moved and seconded to approve Resolution No. 896 declaring certain equipment in the District’s hospital as surplus to the needs of the District and directing the Superintendent of the District’s hospital or his designee to effect proper disposal of such surplus property, as provided by statute. The motion was unanimously approved.

Resolution No. 895 – District Goals for 2009

Ms. Grinnell explained that PHD No. 1 of King County (Valley Medical Center) has had in place for many years an incentive program for certain management employees in key, high-demand areas. The program is designed to be not only a retention tool, but also to align incentives for all management to strive for high quality care for all the patients we serve, and to further the mission of providing exemplary care to District residents in a cost-effective manner. Goals include quality of care, financial stability, access to care in neighborhoods throughout the District through the clinic network system, community outreach and focused growth of services for the patients we serve. The goals are measured every year by Moss Adams, VMC’s external auditors. There are specific performance criteria for each goal in the program and the goals are designed to reward excellence for work done throughout the year to meet and exceed our mission.

MOTION It was moved and seconded to adopt Resolution No. 895, District Goals for 2009. There was a brief discussion and Commissioner Hemstad asked if salary surveys performed for management included performance awards. Ms. Mitchell confirmed that salary surveys include total cash compensation and are performed by outside employee benefit and actuarial firms. Motion carried unanimously.

Resolution No. 897 – Amending and Restating the VMC Employee's Pension Plan

Ms. Grinnell also requested Board approval of Resolution No. 897, restating the Employee Pension Plan. The Pension Plan was established in January, 1968, by the Board for the benefit of eligible employees. The plan is a governmental plan and, as such, is exempt from Title 1 of ERISA and certain provisions of the Internal Revenue Code. The plan is a money purchase plan and was last restated in 2004, to reflect certain plan design and administrative changes, and changes to comply with federal laws and regulations. The plan is being amended and restated again, effective as of January 1, 2008, and will be submitted to the IRS for determination of qualification. There are no substantial changes to the plan.

MOTION

Following brief discussion, it was moved, seconded and unanimously carried to approve Resolution No. 897.

Operations Update

Mr. Hayes reported that with reduced volumes, overhead departments will be closed, as appropriate, over the Christmas and New Years Holidays.

Patient Care Services

It was reported by Mr. Alleman that bad weather over the weekend was a challenge, but did not result in any staffing issues.

HR & Marketing

Ms. Mitchell noted that she had a personnel issue for executive session.

Clinic Network

It was reported by Mr. Larson that plans are underway to try to expand the Boeing Intensive Outpatient Care Program.

Business Development

Mr. Glenn reviewed plans to explore the possibility of acquiring a Da Vinci robotic operating system, which is mostly used for prostate cancer. More information will be available in the coming months.

Recruitment Update

Dr. Thompson referenced the addendum to the 2009 Goals Resolution listing organized community outreach programs. He noted that Valley Orthopedic physicians have agreed to begin voluntarily staffing an orthopedic clinic in early 2009 for uninsured and Medicaid patients as part of Project Access. The clinic will be located next to our Emergency Department.

Recess

President Jacobson acknowledged a request for a recess at 5:47 p.m. following which the Board convened in Executive Session for approximately 20 minutes for the purpose of discussing specific personnel issues permitted by RCW 42.30.110(g) and real estate issues permitted by RCW.42.30.110(b) and (c).

12/15/08(7)

Public Comment

Public Comment

At 6:00 p.m., President Jacobson returned to open session and called for public comment. There was none. Executive Session then continued.

Reconvened

The meeting reconvened at 6:17 p.m.

MOTION

Commissioner Excused

It was moved, seconded and carried to excuse Commissioner Miller from this meeting.

Adjournment

There being no further business, motion was made to adjourn this meeting at 6:20 p.m.