

Minutes of the Open Session of the Finance Committee
Monday, August 1, 2016
El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040
Conference Rooms E&F

Members Present

Dennis Chiu, Chair
 Richard Juelis
 John Zoglin

Members Absent

William Hobbs

| Agenda Item | Comments/Discussion | Approvals/Action |
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| 1. CALL TO ORDER/ ROLL CALL | The open session meeting of the Finance Committee of El Camino Hospital (the "Committee") was called to order at 5:33 pm by Chair Chiu. A silent roll call was taken. A quorum was present. Committee member William Hobbs was absent. | |
| 2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES | Chair Chiu asked if any Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were noted. | |
| 3. PUBLIC COMMUNICATION | There were no comments from the public. | |
| 4. CONSENT CALENDAR | <p>Chair Chiu asked if any member of the Committee or the public wished to remove an item from the consent calendar. No items were removed.</p> <p>Motion: To approve the consent calendar: Meeting Minutes of the Open Sessions of the Finance Committee (March 28, 2016; May 31, 2016); Minutes of the Open Session of the Joint Meeting of the Board and Finance Committee (May 31, 2016); FY16 Period 11 Financials.</p> <p>Movant: Juelis Second: Zoglin Ayes: Chiu, Juelis, Zoglin Noes: None Abstentions: None Absent: Hobbs Recused: None</p> | <i>Consent Calendar approved</i> |
| 5. REPORT ON BOARD ACTIONS | Chair Chiu reported actions taken by the Board in May and June, including recognition of over \$520,000 raised for the Cancer Center at the Foundation's Sapphire Soirée, approvals of over \$3 million in Community Benefit grants and final funding of the North Garage Expansion. | |
| 6. SECOND ROUND OF BOND FINANCING EVALUATION | Katherine Meyers from Citigroup Global Markets, Inc. provided an overview of historically low interest rates, volatility in global markets, and the attractive environment for ECH to secure financing for new projects and to refinance 2006 General Obligation bonds. She highlighted that Municipal Market Data (MMD) has decreased since the 2015 transaction and YTD. Ms. Meyers also reported that the estimated pricing yield for a 30 year bond will be 2.61% | |

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| | <p>compared with 3.67% in 2015.</p> <p>She outlined the two components of the finance plan, including how the bonds will be structured:</p> <ol style="list-style-type: none"> 1. Series 2016 New Money Bonds (Revenue Bonds): <ol style="list-style-type: none"> a. Locking in historically low rates to finance \$270 million in new money projects over the next 3 years (North Parking Garage Expansion, BHS, IMOB, etc.) b. Structuring to wrap around existing debt service c. Preserving liquidity – days of cash on hand and cushion ratio are above rating medians, and 135% cash to debt d. Regarding leverage, communicating to rating agencies that projects are essential to the future of the organization, showing rebound in metrics over time. 2. Series 2006 General Obligation Bonds: refinancing the callable portion, will produce savings of \$1.74/year per \$100,000 of assessed value for District residents or \$22.80 per \$100,000 of assessed value over the life of the bonds. <p>She described a proposed timeline for going to market, including next steps and required approvals. The Committee discussed the constraints of the CHFFA and audit process, noting this is the earliest possible timeline. Ms. Meyers also described a “flight to quality,” how those in the market are gravitating toward safe investments, where ECH is well-positioned.</p> <p>In response to Mr. Juelis’ question, Ms. Meyers explained that the GO bonds have a redemption date in February, but can actually be called three months in advance. Mr. Juelis requested a debt comparison chart (total balance summary) and plan over the last few years.</p> <p>In response to Mr. Zoglin’s question, Ms. Meyers clarified that the proforma includes premiums, and that the charts use third quarter performance and tack on additional debt, including interest expense, which draws down the margin.</p> <p>Mr. Hussain reported that for ECH’s \$50 million in variable bonds, a Swap locks in the interest rates at a fixed rate of approximately 3.2%; whenever interest rates go down, ECH has a loss on the Swap. The Committee discussed whether the Swaps were worth maintaining. Mr. Zoglin asked for the possible scenarios on maintaining or opting out of Swaps, as part of ECH’s portfolio.</p> <p>Mr. Juelis encouraged doing post-reviews to look at last year’s transactions to re-evaluate whether or not ECH is best positioned given the trajectory of interest rates.</p> | <p><i>Citigroup to provide a total balance summary, a review of the last few years</i></p> <p><i>Review of Swap to be provided</i></p> |
| 7. INTEGRATED PERFORMANCE IMPROVEMENT | <p>Helen Tam, Director of Decision Support & Business Analytics, described the new Integrated Performance Improvement process, illustrating continuing efforts to contain costs and improve quality. The review began in May</p> | |

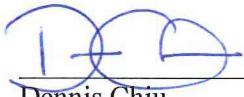
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| | <p>2016 to nurture a culture of accountability, supporting managers and directors to achieve defined targets (including KPIs based on organizational strategic goals). Ms. Tam reviewed the action planning process with the 10 largest cost centers and provided examples of cost-saving efforts so far.</p> <p>In response to Mr. Zoglin's question on growth, Rich Katzman, CSO, described his review process of the service lines, meetings with leaders, development of appropriate, targeted metrics, strategic plans, and progress against goals.</p> | |
| <p>8. FY16 YEAR-END FINANCIAL REPORT</p> | <p>Iftikhar Hussain, CFO, described the new dashboard format, with five year trends, YTD, and color coding to show targeted areas. He reported that productivity has steadily improved since Epic Go-Live, and that June was the best month to date. He also described the decline in volume due to lower surgeries and deliveries, and rehab cases due to construction. Mr. Zoglin asked for clarification on outpatient volumes and the tradeoffs for each of the highlighted categories.</p> <p>He reported that operating margin for June was \$2.6 million favorable compared to budget due to better charge capture, high collection rate, and \$1.2 million PRIME IGT accrual. Mr. Hussain highlighted the PRIME incentive, a program that serves the under-served Medi-Cal population, with a payout of \$4 million/year over 5 years.</p> <p>In response to Mr. Juelis' question, Mr. Katzman explained that there are new measures to track SMART Growth in FY17. He noted that much of the growth in volume in the last year was from surgeons bringing procedures.</p> <p>Motion: To approve the FY16 Period 12 Financials.</p> <p>Movant: Zoglin Second: Juelis Ayes: None Noes: None Abstentions: None Absent: Hobbs Recused: None</p> | <p><i>FY16 Period 12 Financials approved</i></p> |
| <p>9. CAPITAL FUNDING REQUESTS</p> | <p>Ken King, CASO, described the building phases, permit acquisitions, and timelines for the Behavioral Health Building, the Integrated Medical Office Building, and the Central Utility Plan (CUP) Upgrades. He explained that he is in the final phases of negotiating the construction Guaranteed Maximum Price (GMP) agreements, and bids received to date are significantly higher because the construction market is overbooked and under-manned, escalating prices. He also noted that if the bidding process does not produce better prices, the plan is to sit down and negotiate significantly lower prices with contractors by addressing contractor concerns (like OSHPD oversight and review).</p> <p>Mr. King outlined the request and subtotals for each of the three main construction projects making up the funding requests before the Committee. He provided examples of bids for various components of the projects and backlogs to</p> | <p><i>Capital Funding Requests forwarded to the Board without recommendation; Mr. King to provide additional supplemental information</i></p> |

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| | <p>illustrate the difficulty in the current market for construction.</p> <p>He also reported that the Committee and the Board will receive reports and status updates on all projects as they proceed.</p> <p>In response to Mr. Zoglin's question, Mr. King explained that the construction market is the primary, significant driver of the price increases; additional factors include changes in scope (like transportation programs and requirements from the City of Mountain View) and contingencies (to manage and mitigate risk).</p> <p>In response to Chair Chiu's question, Mr. King commented that the funding requests follow the order of the construction projects needed to move physicians into appropriate, available spaces.</p> <p>The Committee discussed concerns over the significant increases, whether any delay or scaling back scenario would make sense, and evaluations of the construction market, especially labor.</p> <p>Mr. Hussain explained that staff are looking at additional sources of funds, including philanthropy, and District capital allocation.</p> <p>Mr. King will provide more information to the Board regarding why estimates have increased, and options, alternatives, and implications.</p> | |
| 10. MEDICARE EDUCATION | This topic was deferred to the September 26, 2016 meeting. | <i>Topic deferred</i> |
| 11. 2009 VARIABLE BOND RATING | Iftikhar Hussain, CFO, reported that there has been an industry rating practice change regarding ratings on guaranteed debt. He clarified that this methodology applies to all financial obligations where two or more supporting parties are contractually committed to irrevocably provide full and timely payments on the obligation. | |
| 12. ADJOURN TO CLOSED SESSION | <p>Motion: To adjourn to closed session at 7:13 pm pursuant to <i>Gov't Code Section 54957.2</i> for approval of Meeting Minutes of the Closed Sessions of the Finance Committee (March 28, 2016; May 31, 2016) and Minutes of the Closed Session of the Joint Meeting of the Board and Finance Committee (May 31, 2016); pursuant to <i>Health and Safety Code 32106(b)</i> for a report involving health care facility trade secrets: El Camino Ambulatory Surgery Center (ECASC); pursuant to <i>Gov't Code Sections 54957 and 54957.6</i> for discussion and report on personnel matters: Committee Candidate Interviews; pursuant to <i>Health and Safety Code Section 32106(b)</i> for a report involving health care facility trade secrets: Review of Physician Contracts; pursuant to <i>Health and Safety Code Section 32106(b)</i> for a report involving health care facility trade secrets: Post-Implementation Reports; pursuant to <i>Health and Safety Code Section 32106(b)</i> for a report involving health care facility trade secrets: Semi-Annual Review of Service Lines.</p> <p>Movant: Zoglin</p> | |

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| | Second: Juelis Ayes: Chiu, Juelis, Zoglin Noes: None Abstentions: None Absent: Hobbs Recused: None | |
| 13. AGENDA ITEM 20: RECONVENE OPEN SESSION/ REPORT OUT | Open session was reconvened at 8:31 pm. During the closed session, the Committee approved the Closed Session Minutes of the Finance Committee Meetings of March 28 th and May 31, 2016 and the Closed Session Minutes of the Joint Meeting of the Board and the Finance Committee of May 31, 2016 by a vote of all members present (Chiu, Juelis, Zoglin). Mr. Hobbs was absent. | |
| 14. AGENDA ITEM 22: COMMITTEE CHARTER REVISIONS | Motion: To approve the Finance Committee charter as revised. Movant: Juelis Second: Zoglin Ayes: Chiu, Juelis, Zoglin Noes: None Abstentions: None Absent: Hobbs Recused: None | |
| 15. AGENDA ITEM 21: COMMITTEE RECRUITMENT | Motion: To recommend that the Board appoint both candidates, Joseph Chow and Boyd Faust, to the Finance Committee. Movant: Zoglin Second: Juelis Ayes: Chiu, Juelis, Zoglin Noes: None Abstentions: None Absent: Hobbs Recused: None | |
| 16. AGENDA ITEM 23: APPROVAL OF PHYSICIAN CONTRACTS | Motion: To recommend that the Board approve the negotiation and executive of a physician recruitment agreement with an income guarantee for a Pulmonary Sleep Medicine Physician for the Los Gatos service area. Movant: Juelis Second: Zoglin Ayes: Chiu, Juelis, Zoglin Noes: None Abstentions: None Absent: Hobbs Recused: None | |
| 17. AGENDA ITEM 24: APPROVAL OF ECASC TRANSACTION | This item was deferred. | |
| 18. AGENDA ITEM 25: FY17 FINANCE COMMITTEE PACING PLAN | Motion: To amend the pacing plan to look in-depth at service lines (one per meeting), to move the Medicare Education item to the September 26 th meeting, and to include a discussion item on meeting frequency at the September 26 th meeting. The Committee additionally asked for staff recommendations on pacing and frequency of meetings. | |

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| | Movant: Juelis Second: Zoglin Ayes: Chiu, Juelis, Zoglin Noes: None Abstentions: None Absent: Hobbs Recused: None | |
| 19. AGENDA ITEM 26: ADJOURNMENT | Motion: To adjourn at 8:41 pm. Movant: Zoglin Second: Juelis Ayes: Chiu, Juelis, Zoglin Noes: None Abstentions: None Absent: Hobbs Recused: None | <i>Meeting adjourned at 8:41 pm.</i> |

Attest as to the approval of the foregoing minutes by the Finance Committee of El Camino Hospital:



Dennis Chiu
Chair, Finance Committee