SPECIAL MEETING
OF THE BEXAR COUNTY HOSPITAL DISTRICT
BOARD OF MANAGERS

Tuesday, April 17, 2012
2:00 p.m.
Corporate Square, 10th Floor, Conference Room A
4801 NW Loop 410
San Antonio, Texas 78229-5347

MINUTES

BOARD MEMBERS PRESENT:

Jim Adams, Chair
Robert L. Jimenez, M.D., Immediate Past Chair
Linda Rivas, Vice Chair
Rebecca Q. Cedillo, Secretary
Ira Smith
Robert Engberg
Alex Briseño

OTHERS PRESENT:

George B. Hernández, Jr., President/Chief Executive Officer, University Health System
Francine Crockett, Vice President, Materials Management, University Health System
Peggy Deming, Executive Vice President/Chief Financial Officer, University Health System
Roe Garrett, Controller/Vice President, Fiscal Services, University Health System
Dale Flowers, Chief Administrative Officer, UT Medicine
Gabe Hernandez, Assistant Dean, School of Medicine, UTHSCSA
Sherry Johnson, Vice President/Integrity Officer, University Health System
Leni Kirkman, Vice President, Strategic Communications and Patient Relations, University Health System
Serina Rivela, Staff Attorney, Legal Services, University Health System
Richard Rodriguez, Vice President, Facilities & Support Services, University Health System
Christann Vasquez, Executive Vice President/Chief Operating Officer, University Health System
Mark Webb, Vice President, Facilities Development & Project Management, University Health System
And other attendees.

MEDIA:

Don Finley, San Antonio Express News
CALL TO ORDER AND RECORD OF ATTENDANCE:  JAMES R. ADAMS, CHAIR, BOARD OF MANAGERS

Mr. Adams called the meeting to order at 2:00 p.m.

INVOCATION AND PLEDGE OF ALLEGIANCE:

Volunteer Chaplain Loretta Welsh said the invocation and Mr. Adams led the pledge of allegiance.

CITIZENS’ PARTICIPATION: None.

APPROVAL OF MINUTES OF PREVIOUS MEETING:

FEBRUARY 28, 2012 – REGULAR BOARD MEETING:

SUMMARY: The minutes of the regular Board meeting of Tuesday, February 28, 2012, were submitted for approval by the Board of Managers.

RECOMMENDATION: Mr. Adams recommended approval of the minutes as submitted.

ACTION: A MOTION for approval of the minutes was made by Mr. Briseno, SECONDED by Mr. Smith, and PASSED UNANIMOUSLY.

EVALUATION: None.

FOLLOW-UP: None.

ACTION ITEMS:

DISCUSSION AND APPROPRIATE ACTION REGARDING THE CONVERSION OF THE HOSPITAL LAUNDRY COOPERATIVE ASSOCIATION – RICHARD RODRIGUEZ

SUMMARY: The Hospital Laundry Cooperative Association (HLCA) was incorporated in 1991 for the purpose of acquiring, owning and operating a laundry system on a cooperative basis primarily to achieve lower operating costs for the benefit of institutions that are members of the Association. The original members of HLCA were Methodist Healthcare, Christus Santa Rosa Healthcare, Baptist Healthcare and Daughters of Charity Health Services of Austin, Texas.

In 1995 when Methodist Healthcare partnered with Hospital Corporation of America they were no longer eligible to be part of HLCA. Their departure allowed the University Health System to become a member of the Laundry Coop that same year. In 2002, the Baptist Healthcare System was sold to Vanguard Health System, and the equity position in HLCA was maintained by the not-for-profit Baptist Health Foundation. Today the members of HLCA are: 1) Baptist Health Foundation, 2) Daughters of Charity Health Services, 3) Christus Santa Rosa Health Care and 4) the University Health System.

The laundry facility is located at 4255 Profit Street and is a free standing, one story, 50,000 square foot building specifically designed to handle the linen processing needs of its partners and customers. The facility
produces more than 19 million clean pounds of linen services per year providing services to over 50 healthcare facilities in San Antonio, Austin and surrounding communities. HLCA is currently managed under contract by Sodexo Linen Services and this arrangement has been in place since 2003. Approximately 155 workers are employees of Sodexo.

Last fiscal year ending June 30, 2011, HLCA processed 2,845,435 pounds of linen for the Health System at a cost of $1,241,885 or $0.436 per pound. The current market rate for laundry services is approximately $0.54 per pound, a difference of $0.104 per pound. Based upon the same amount of pounds, the Health System would have paid an additional $296,000 for linen processing and replacement during the past fiscal year. During the fiscal year ended June 30, 2011, HLCA Board of Directors declared a dividend of $250,000 of which the Health System received $40,800. As member of the Association, during the past fiscal year, the Health System realized a savings to the taxpayers of Bexar County of approximately $337,000.

The Association operates as a cooperative whereby savings or margins earned will be distributed to members, as cooperative distributions. Federal income taxes are not required to be paid if the Association pays at least 20 percent of taxable income to the partners in the form of a cash dividend and the remainder in the form of written notices of allocation. The laundry operations have paid out almost $1.7 million in dividends to its owners over the last seven years along with favorable prices for linen service. During this time period, the Health System has received approximately $275,000 in dividends from the Association and realized operational savings of approximately $1.7 million.

Also, during the fiscal year ended June 30, 2011, HLCA generated operating revenue of $9.3 million with net income of $932,000. During the same time period the laundry processed 19.7 million pounds of linen, an increase of 4.5% over FY 2010. The Association has positioned itself well with on going capital investments which have allowed the operations to improve labor and utility costs. With its favorable customer satisfaction ratings, profitable operations and ownership advantage, HLCA has the ability to control its destiny. HLCA has maintained a balance sheet that is strong with all ratios reflecting a sound financial position.

HLCA has unused capacity of approximately 10 million pounds, and in order to maintain the savings benefit to the partners, the Association will need to expand its customer base. HLCA is experiencing organic growth with current customers; however, the Directors of the Association concur that additional growth will enable the laundry services to maintain a pricing advantage to the owners and provide a return on investment. The HLCA Board has targeted growth of 50 percent. The laundry plant now produces close to 20 million pounds per year with the ability to increase to 30 million pounds. Some of this growth would result from the current partners and the remaining from new healthcare business.
The Board of Directors of HLCA has met to discuss the strategic direction of HLCA, and the two options before the organization are: 1) continue with the status quo with a shrinking market base or 2) convert HLCA from a Cooperative to a Limited Liability Corporation (LLC). The first option will undoubtedly lead to shrinking financial margins and possible future capital infusions from the partners to sustain the organization. The second option allows the new organization to expand its customer base by contracting with all health care businesses in San Antonio and surrounding areas. The Board of Directors of HLCA is requesting that the owners of the Association convert to an LLC in order to market to all potential healthcare customers in the San Antonio/Austin region.

If this occurs, then the University Health System is faced with three possible options: 1) become a customer of the new LLC and pay market rates, 2) negotiate with other laundry vendors in the San Antonio area, or 3) become a partner of the new LLC.

The other three partners of HLCA are anxious to move forward and convert the Laundry Coop to an LLC. As an LLC, the Association is not taxed; however, the profits flow to the members. As not-for-profits, the current owners would treat the income as related to their business in the same manner that they treat the current dividend payout. As an LLC, the new entity would be subject to various taxes: personal, real property, franchise and recapture on the restructuring. These additional expenses have been taken into account in the development of a pro forma operating statement. In projecting growth to 25 million pounds, the bottom line would increase from 4.19 to 6.13 percent, cash flow would improve and the cost to the owners would stabilize to remain significantly below market.

If the partners’ respective Boards approve the conversion, all ownership interests, assets and liabilities of the Coop automatically flow to the LLC. If allowed to participate, the Health System would maintain its approximate 16 percent equity position in the new LLC.

**RECOMMENDATION:** Staff recommends that the Board of Managers grant approval to explore the feasibility of the Health System becoming a member of the new Hospital Laundry Limited Liability Corporation.

**ACTION:** A **MOTION** to approve staff’s recommendation was made by Ms. Rivas, **SECONDED** by Ms. Cedillo, and **PASSED UNANIMOUSLY**.

**EVALUATION:** Discussion ensued regarding staff’s recommendation. The rate of 43.6 cents per pound is the member rate. The market rate charged to customers who are not members/owners is 50 to 53.3 cents per pound. The 10 cent difference is $296,000 per year.

University Health System’s 16 percent equity position translates to approximately $759,000. The HCLA owns the building where it is located.
Mr. Engberg asked about the quality of the services provided by the HCLCA. The co-op provides high quality services and has been approached about membership by other hospitals and health systems that are not currently customers. The co-op has enlisted the services of infection control consultants, and Sodexo has previously won safety awards in their work as it relates to the co-op. The feedback received from UHS nurses has been positive.

A detailed discussion ensued regarding possible scenarios and alternatives. Board members requested additional information as indicated below.

FOLLOW UP: Mr. Rodriguez was asked to provide a follow up report which includes the following information:

- the Health System’s precise equity in the HLCA;
- alternative financial scenarios, including the cost of membership vs. non membership;
- a pro forma from the Health System’s perspective in terms of volume and cost for the next five years; and
- additional options, such as the possibility of local, independent vendors coming together to provide this type of service.

REPORTS AND EDUCATION:

REPORT ON THE DISPROPORTIONATE SHARE HOSPITAL PROGRAM (“DSH PROGRAM”) — GEORGE B. HERNÁNDEZ, JR./PEGGY DEMING

SUMMARY: Disproportionate Share Hospital (DSH) adjustment payments are provided to help hospitals that serve a significantly disproportionate number of low-income patients. Hospital specific limits are calculated based on uncompensated care costs. Eligible hospitals are referred to as DSH hospitals. DSH is a Federal/State matching program from which States receive an annual allotment from the Federal Government. In Texas, the State share, excluding State operated and Institutes of Mental Health (IMDs), is funded by 8 public hospitals through Intergovernmental transfers (IGTs). Ms. Deming informed the Board that in Texas, there are a total of 168 non-state hospitals, and 20 state-funded hospitals (State and IMD). She reviewed and discussed DSH 1115 waiver implications and provided a FY 2011 DSH funding summary, and she explained that DSH significantly declines for IGT hospitals. In addition, current reimbursement methodology for Texas Medicaid changed the hospital reimbursement rates. DSH audit rules
that clarified costs were included in hospital specific limits. Ms. Deming reviewed transferring hospital policy issues and review dates: Rules proposed to correct inequity caused by IGT’s will appear in the April 20 Texas Register; will be reviewed by the Hospital Payment Advisory Committee on May 3; and by the Medical Care Advisory Committee on May 10. The Texas Coalition of Transferring Hospital is working with other hospital associations on a solution. DSH funding amounts from 2006 to present were briefly discussed.

**RECOMMENDATION:**
This information was provided for informational purposes only.

**ACTION:** None.

**EVALUATION:** None.

**FOLLOW UP:** None.

**UPDATE ON THE 1115 WAIVER PROGRAM — GEORGE B. HERNÁNDEZ, JR.**

**SUMMARY:** Mr. Hernandez briefed the Board on 1115 Waiver activities since his last update on March 20, 2012. A detailed, written report was provided. UHS hosted a Regional Health Partnership stakeholder meeting for Region 6 at which Stanley Stewart from the Health and Human Services Commission presented. UHS has been tentatively identified as the Anchor organization for the proposed Region 6. A listing of the counties proposed to be members of Region 6 was provided to the Board. The various internal work groups and points of contacts were also reviewed (RHP Partnership Plan, DSRIP Work Group, and Uncompensated Care Work Group). Mr. Hernandez reviewed outreach strategies and deadlines:

- **Mar. 15** Mailed introductory letters and invite to HHSC stakeholder meeting
- **April 1** Revised RHP map was released
- **April 9** Outreach calls to hospitals county judges
- **April 23** RHP Confirmation form due to HHSC
- **May–June** Collect RHP plan data from participating counties
- **Sept. 1** RHP plans due to HHSC

Ms. Deming reminded the Board that the Uncompensated Care Pool helps offset the costs of uncompensated care; while the DSRIP pool will be used as incentive payments to hospitals that develop program or strategies to support efforts to achieve healthcare transformation through:

I. Infrastructure development;
II. Program innovation and re-design;
III. Quality improvements
IV. Population-focused improvement

UHS DSRIP projects include membership and work by Dr. Bryan Alsip with the HHSC Clinical Champions Workgroup. A DSRIP menu, which includes projects and metrics, is posted for public comment, and staff is currently cross-waling UHS projects to the current DSRIP menu. Anticipated UHS DSRIP projects (Categories I and II) were reviewed with the Board:
Infrastructure Development:

- Expand Primary Care Access, Behavioral Health Care Access, and Access to Specialty Care
- Enhance Health Information Exchange and Health Information Technology
- Develop Comprehensive Children’s Network
- Improve Urgent and Emergent Care and Patient Flow in the ED

Program Innovation and Redesign:

- Expand Medical Homes
- Expand Chronic Care Management Models
- Preventable Admission/Re-Admission – Implement/Expand Care Transitions Programs
- Develop Palliative Care Programs and End of Life Care
- Redesign for Cost/Containment
- Innovate in Patient Care Models that Promote Seamless Care (Chronic care Women’s Health)
- Develop Innovation for Provider Training and Capacity

RECOMMENDATION: This report was provided for informational purposes only.
ACTION: None.
EVALUATION: None.
FOLLOW UP: none.

CLOSED MEETING:

Mr. Adams announced this meeting closed to the public at 3:45 p.m. pursuant to TEX. GOV’T CODE, Section 551.085 (Vernon 2004) to receive information and/or deliberate regarding pricing, market data and/or financial and planning related to the arrangement or provision of proposed new services and/or product lines. All of the Board members were present. Also present were George B. Hernandez, Jr., Peggy Deming, and Christann Vasquez. After discussion, no action was taken in closed session. Mr. Adams announced that the closed meeting ended at 4:10 p.m.

ADJOURNMENT:

There being no further business, Mr. Adams adjourned the public meeting at 4:12 p.m.

James R. Adams                Rebecca Q. Cedillo
Chair, Bexar County Hospital District  Secretary, Board of Manager

Sandra D. Garcia, Recording Secretary