REGULAR BI-MONTHLY MEETING
OF THE BEXAR COUNTY HOSPITAL DISTRICT
BOARD OF MANAGERS

Tuesday, May 22, 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:

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

OTHERS PRESENT:

George B. Hernández, Jr. President/Chief Executive Officer, University Health System
Tim Brierty, Chief Executive Officer, University Hospital
Peggy Deming, Executive Vice President/Chief Financial Officer, University Health System
Michael Hernandez, Vice President/Chief Legal Officer, University Health System
Sherry Johnson, Vice President/Integrity and Regulatory Services, University Health System
Leni Kirkman, Vice President, Strategic Communications and Patient Relations, University Health System
Richard Rodriguez, Vice President, Facilities, University Health System
Christann Vasquez, Executive Vice President/Chief Operating Officer, University Health System
Mark Webb, Sr. Vice President, Facilities Development and Project Management, University Health System
Justin Williams, M.D., Interim Medical Director, Emergency Services, University Hospital; and Clinical Assistant Professor, Department of Surgery, UTHSCSA
And other attendees.

MEMBERS OF THE PRESS: None.

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 ALLEGIENCE:

Chaplain Tomas Hernandez introduced Ms. Mary Lieck for the invocation. Mr. Adams led the pledge of allegiance.

CITIZEN PARTICIPATION: None.

APPROVAL OF MINUTES OF PREVIOUS MEETING(S): None.

ACTION ITEMS:

CONSIDERATION AND APPROPRIATE ACTION REGARDING CONVERSION OF THE HOSPITAL LAUNDRY COOPERATIVE ASSOCIATION—RICHARD RODRIGUEZ

SUMMARY: Last month, the Board of Managers granted approval for staff to explore the feasibility of the Health System becoming a member of the new Hospital Laundry Limited Liability Corporation (LLC). At that time, the Board members asked for a follow up report on specific issues regarding this conversion:

Financial Scenarios; Membership versus Non-Membership - As a partner in the Laundry Cooperative, the Health System pays favorable laundry rates for both processing and linen replacement. If allowed to join the LLC, the Health System will remain an owner and continue to pay the preferred owner rate. Based upon the current laundry volume, the Health System would have paid an additional $398,000 for linen processing and replacement during the past fiscal year had it not been an owner of the HLCA and paid market rates. Additionally, 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 such, because of the Health System’s ownership interest in the HLCA, which includes a preferred rate structure; the Health System realized annual savings to the taxpayers of Bexar County of approximately $439,000.

For the Health System to join the LLC Laundry, it must first create a 501(c)(3), not-for-profit entity, which in turn would join the new corporation. The initial cost of creating the not-for-profit entity, would be approximately $10,000. This cost would be for the preparation of the appropriate legal documents to include the Articles of Incorporation, Bylaws and the associated filing fees with the proper state agencies. The ongoing annual cost for the new not-for-profit entity would be approximately $5,000 for the annual audit and filing of the IRS form 990.

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 29 million pounds, the bottom line would increase from 4.19% to 6.13%, cash flow would improve and the cost to the owners would stabilize to remain significantly below market.

**Five Year Projection** - The five year financial projections indicate that the partners will experience growth in prices for wages, linen, fuel and utilities. The pro forma schedule also notes that the pounds processed will increase from 19.5 million to 29.5 million, a 10 million pound increase or an additional 51% increase in pounds processed. The increase in pounds would come from the new customer base in the San Antonio/Austin market area. The LLC will target health care providers for the new customer base.

**Safety** - Each year the HLCA undergoes a Health and Safety Audit, which is conducted by NSF International. NSF International is a not-for-profit based public health and environmental organization that provides standards development, product certification, auditing, education, and risk management services. The HLCA is graded on the following items: 1) Management Commitment and Employee Rights, 2) Communicating Safety and Health, 3) Hazard Identification and Control, 4) Annual Safety Education, 5) Vehicle Safety and 6) Claim Investigation and Reporting. The total possible points for this annual health and safety audit are 100. HLCA has earned a score of 98 during each of the last three year audits, 2009 thru 2011. In addition to the external review, the current HLCA contract operator (Sodexo Laundry Services) conducts its own internal monitoring which promotes quality, safety and improved plant operations and efficiency. As part their comprehensive safety program, HLCA has an established Safety Committee that meets monthly.

**Quality** - In order to maintain the highest quality of its linen product, the HLCA has established linen processing quality and finish standards. These standards review such linen products as: 1) sheets – flat, draw, pillow cases, 2) blankets – thermal, dual, spread, bath 3) towels – bath, wash and hand, 4) gowns – patient, telemetry, mother, adult, pediatrics, and 4) operating room products such as surgeon barrier gowns, surgical drapes, towels and wrappers. The HLCA tests the effectiveness of their quality standards by conducting surveys of their clients, key users, associates and employees. The survey evaluates such areas as: 1) shipping accuracy, 2) quality of linen, 3) timeliness of delivery and 4) responsiveness of calls. The survey results are then shared at the quarterly HLCA Operations committee meeting. The committee is comprised of representation from each of the owner’s respective hospitals.

As part of HLCA’s value adds related to linen utilization, software such as “Linen Master” and “Linen Helper” is provided to users which assist in monitoring respective inventory levels by identifying realistic goals and benchmarking against best practices. The Health System has used this tool to monitor its monthly laundry pounds per adjusted patient day.
**Additional options** – Issuance of a Request for Proposal for laundry services. In the San Antonio/Austin area there are currently two companies that could handle the Health System’s annual volume of approximately 2.9 million pounds. The current market rates for laundry processing only range from $0.44 to $0.58 per pound. At a minimum, compared to what the Health System currently pays for laundry processing, this represents a price increase of approximately 45% or $0.14 per pound.

**Health System’s Equity in HLCA** - If allowed to participate, the Health System will maintain its approximate 16% ($759,000) equity position in the new LLC. If the partners respective Boards approve the conversion, all ownership interests, assets and liabilities of the Co-op automatically flow to an LLC.

**RECOMMENDATION:** Staff recommends that the Board of Managers grant approval for the Health System to create a new 501(c)(3) not for profit entity, which would then be allowed to join the newly formed Laundry Limited Liability Corporation.

**ACTION:** A **MOTION** to approve staff’s recommendation was made by Mr. Engberg and **SECONDED** by Ms. Cedillo. Mr. Briseno **ABSTAINED**.

**EVALUATION:** Discussion ensued regarding the HLCA management services company, Sodexo. It is a for profit company and is not required to pay federal income taxes if the HLCA 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. Sodexo has a 5-year management services contract in place that expires in 2015. The 155 employees at HLCA work for Sodexo. Sodexo answers to the HLCA Board and has full responsibility for management, marketing, and operations of the HLCA. Sodexo would be the party to negotiate or sell additional capacity on behalf of HLCA.

Mr. Briseno expressed concern that if the Health System pulls out of the proposed partnership with the LLC, jobs for semi-skilled and unskilled workers in San Antonio will be affected due to the volume of business the Health System provides. Ms. Rivas was pleased to learn that the employees are local residents and agreed that, unfortunately, the diverse population in San Antonio needs these jobs. Dr. Jimenez would like to know what type of wages Sodexo provides, i.e., living wage, entry wages? He asked Mr. Rodriguez to review employee wages and benefits and report back to him.

The options presented by Mr. Rodriguez were also extensively discussed. Dr. Jimenez would like to give the local minority hospital laundry services company the opportunity to bid for the Health System’s business. Ms. Cedillo noted that there will be a future opportunity to re-negotiate the terms with the management services contract once the Health System has more information available about a children’s
hospital. At that time, the Health System will be better prepared to re-assess its needs for a lower rate considering the increase that would occur in the volume of business. Board members agreed with Ms. Cedillo’s proposition and asked Mr. Rodriguez to return with a follow up report in 2013 to re-assess the Health System’s needs and the terms of the existing contract.

**FOLLOW-UP:** Follow up report to the Board of Managers in 2013.

**REPORTS AND EDUCATION:**

**REPORT ON THE CAPITAL IMPROVEMENT PROGRAM FINANCIALS FOR THE ROBERT B. GREEN AND UNIVERSITY HOSPITAL CAMPUS – MARK WEBB**

**SUMMARY:** The Capital Improvement Program (CIP) as outlined in the adopted Master Facilities Plan includes a new hospital tower, parking facilities, central utility plant, and renovation of existing building at the University Hospital campus (UH). At the Robert B. Green (RBG) campus, the CIP involves construction of a new clinical building, parking facilities and demolition of existing buildings on campus.

Currently at the UH Campus, the West Parking Garage is on schedule to be completed at the end of June 2012 and the central utility plant by January 2013. Although the weather has impacted construction of the new hospital tower, the construction manager has gained back much of the lost time maintaining a substantial completion date in January 2014. The new clinical services building at the RBG campus is still on schedule to be substantially complete in December of this year, with the first patients being seen in the February/March 2013 timeframe.

Mr. Webb provided a graphics financial presentation for each campus including: CIP and enhancements funding summary, current budget summary with current commitments and actual cost to date, estimated cost at completion, contingency review, and enhancements list review. Both projects are currently within budget with available project savings and contingency fund balances.

At the present time, approximately 81% of the UH project budget has been committed for project expenses with 31% of the budget paid to date. At the RBG campus, approximately 83% has been committed for project expenses with 47% of the budget paid to date. With both projects, the majority of the funds committed to date are related to construction and consultant related contracts. Over the next couple of months, medical equipment and furniture, fixtures, & equipment related contracts will be presented for Board consideration thereby increasing the project commitments.

Based on the current schedule and timing of the UH project, staff recommends that available savings and contingency funds be maintained at current levels. However, staff will present enhancement funding recommendations associated with the release of contingency, project
savings from the RBG project and available capital reserves at the June meeting.

RECOMMENDATION: None.
ACTION: None.
EVALUATION: Mr. Adams asked for staff assurance that Mr. Hernandez, Dr. Henrich and Dean Gonzalez will jointly review contracts for medical equipment to be used at University Hospital to avoid costly misunderstandings. Mr. Hernandez assured the Board that physician leaders are consulted on an on-going basis.
FOLLOW-UP: None.

REPORT ON ALLOCATION OF RESERVES – PEGGY DEMING

SUMMARY: Staff has reviewed the provisions related to reserve balances and transfers to reserves for capital expenditures provided for under the Reserve Policy (No. 7.0504) and the Funding of Financial Reserve for Capital Expenditures Policy (No. 7.0502). The provisions of these policies has been applied and based on audited results for calendar year 2011, staff will transfer $24.8 million in cash flow reserves to meet the provisions specified. Of the amount of the transfer, $4.0 million will be transferred to the Emergency Operating Account to meet the 90 days of cash expenditure level provided for in Sections III.G of the Reserve Policy. The remaining $20.8 million will be transferred to the Capital Account to address future capital needs as provided for in Policy No. 7.0502.

The total in the Capital Account after the transfer is $176.3 million. Of this amount, a net $172.8 million has been committed (including retained and receipt of meaningful use funding) leaving an unencumbered balance of $3.5 million. Staff will prepare a prioritized list of strategic projects representing the highest and best use of the unencumbered balance and this list will be presented at the June Board meeting for review and consideration.

RECOMMENDATION: None.
ACTION: This report was provided for informational purposes only. No action was required by the Board of Managers.
EVALUATION: None.
FOLLOW-UP: None.

AMBULATORY MATTERS:

THE STATE OF THE EMERGENCY CENTER; PART 1 OF A 4 PART SERIES OF DISCUSSIONS—TIM BRIERTY/JUSTIN WILLIAMS, MD, INTERIM CHIEF OF EMERGENCY MEDICINE

SUMMARY: Dr. Williams and Mr. Brierty were present to conduct an overview of the current state of the Emergency Center. However, in the interest of time and the arrival of Cain Brothers consultants for a closed meeting, Mr. Adams tabled this report until the next meeting of the Board of Managers on Tuesday, May 29, 2012.
RECOMMENDATION: None.
ACTION: None.
EVALUATION: None.
FOLLOW-UP: Dr. Williams and Mr. Brierty will provide this report at the May 29, 2012 meeting.

CLOSED MEETING:

Mr. Adams announced this meeting closed to the public at 3:25 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., Carsten Beith, Scott Glowinski, and Tim Schier. Michael Hernandez was asked to return to the meeting at 3:52 p.m. Carsten Beith, Scott Glowinski, and Tim Schier exited the meeting at 5:23 p.m. After discussion, no action was taken in closed session. Mr. Adams announced that the closed meeting ended at 5:40 p.m.

ADJOURNMENT:

There being no further business, Mr. Adams adjourned the public meeting at 5:41 p.m.

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James R. Adams         Rebecca Q. Cedillo
Chair, Board of Managers    Secretary, Board of Managers

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Sandra D. Garcia, Recording Secretary