

COUNCIL PROCEEDINGS

CITY OF VIRGINIA, MINNESOTA, JANUARY 20, 2010

Special Meeting of the City Council of the City of Virginia, Minnesota, was called to order by Mayor Peterson at 5:30 P.M. in the Council Chambers, City Hall.

Roll Call:

Present: Councillors Cuffe, Littlewolf, Ralston, Baribeau, Sipola, Russo, Mayor Peterson – 7

Absent: None

Mayor Peterson stated the purpose of meeting was to discuss and gather information with regards to the report from Leigh Hantho of Align Healthcare that was presented to the Hospital Commission and City Council. In early 2009, the Hospital Commission hired Mr. Hantho as a consultant to evaluate, analyze and bring recommendations forward to improve the operations of the Virginia Regional Medical Center. The City Council must be kept fully aware of the hospital operations, as the City of Virginia must stand behind all the financial obligations if they cannot be met by the Virginia Regional Medical Center. Mayor Peterson stated he will be asking the City Council to appoint a sub-committee, consisting of members of the City Council and Hospital Commission, to review the recommendations provided by the consultant and consider all options to keep the hospital a viable entity.

Leigh Hantho reviewed his background and stated the majority of his career has been in health care operations, mainly as a Chief Finance Officer in rural hospitals. Mr. Hantho has worked with Align Healthcare as a consultant for two years, focusing on strategic planning, merger/acquisition and in the facilities area (planning, working with hospital boards and management and managing building projects).

Mr. Hantho stated interviews were obtained from more than forty people, including the City Council, Hospital Commission, medical staff, staff and community members. Many positive comments were received on the strengths of the organization, including the long term care unit, inpatient rehab program, imaging, surgery and patient care by nursing staff. The VRMC is a critical resource for the community, as well as a huge employer and an economic engine for retail services and trades. It was determined that there is a need for more primary care physicians and the need to be competitive in order to retain the doctors.

Mr. Hantho stated the VRMC's financial struggles are partially cost based and partially revenue based and provided the following statistics:

- In 2005, the VRMC maintained over 51% market share for inpatient services in the primary service area. By 2008, that market share dropped to 49%, with that market share being picked up by Duluth and Hibbing.
- From the period 2006 to 2009, there was 39% reduction in admissions in Virginia.
- In 2006, there were 102 days of cash. In 2008, the days of cash was reduced to 58 days, partially due to billing issues.
- There is a misperception by many people that the VRMC receives financial support from the City through tax resources, when the hospital does not receive any funding through taxes.
- In 2006, the VRMC had a debt service coverage ratio of 1.6, which dropped to .5 in 2008, which is well below any standard that a bond holder would want to see.

- In 2006, the VRMC invested \$4.7 million in capital investments. The capital investment dropped to \$1 million in 2009, which was a 75% reduction over a four year period, which was due to capital resources. Several million dollars must be invested in information technology, as this is an important area, or a service provider must be identified.
- Average age of the VRMC is 15 years. Average age of plant for a Minnesota hospital is 9.3 years. The VRMC is a well maintained facility for its age, but needs updating and replacement.
- 18% of admissions come from medical staff, age 60 and over. There is a need to start replenishing the medical staff with younger physicians.
- The VRMC and City considered converting to a 501C(3) four years ago and decided not to proceed.
- Virginia's primary service area requires 22-23 primary care physicians (family medical, internal care, pediatrics). The current supply of primary care physicians is 12-13, which means that 50% of primary care visits are leaving the area, which has an overall impact on the VRMC.

Mr. Hantho provided eleven recommendations to make the VRMC successful:

- A. Bring in outside resources to review day-to-day operations, due to the resignation from Administrator Keith Harvey. This may be accomplished by an interim CEO/CFO. There is a need to maintain the quality of services at an affordable cost, review the capital investments and make every department operate cost effectively.
- B. City Council should debate if the hospital and long term care facility is best served by remaining City owned and determine if there are partners that would be interested in collaborating with the VRMC, with the focus on the following key areas:
 - 1) Quality of care.
 - 2) Level of local participation in governance of hospital.
 - 3) Physician development and growth of medical staff.
 - 4) Service line growth. Maintain staff for appropriate size and mix for this area.
 - 5) Understand financial structure.
 - 6) Management depth. Need resources to work through issues or provide on an interim basis.
 City must discuss if they are willing to take on financial liabilities associated with health care, determine if there is a need to raise the tax base and consider, once again, to convert to a 501c(3).
- C. VRMC should complete a comprehensive medical staff development plan, in collaboration with all medical staff, and establish a budget for physician recruitment.
- D. Establish a multi year budget for information technology by the middle of the year. Determine the long term plan on governance and ownership of the hospital and lay out a strategic plan.
- E. Review market and define strategic growth goals. The cost to implement the plan must be affordable.
- F. With the Health Reform Act, there is a provision on expanding the Medicare demonstration project, which would reimburse hospitals 101% for Medicare patients. The VRMC is currently working with an accounting firm on this project. This project could generate \$1 million for inpatient Medicare clients.
- G. City Council, Hospital Commission and the community must assess if the City should continue to be in the hospital business.
- H. Encourage the Hospital Commission to keep Med Assets in place to assist the business office until long term issues are decided.

- I. Continue long term care operations and obtain a detailed analysis for the Virginia Convalescent Center to determine impact if the center was closed.
- J. Establish structured communication plan for employees and public. If council adopts the joint task force, a plan should be established to communicate information from the task force to the public.
- K. Update 2010 VRMC budget at the end of the first quarter, if necessary. Begin 2011 budget process in late August or early September.

Mr. Hantho stated several detailed steps have been laid out in the plan as a blueprint for the Hospital Commission, City Council and management team for potential implementation.

Councillor Baribeau stated the process to obtain an interim CEO should start immediately, with the resignation from Keith Harvey.

Mr. Hantho stated a merger would take at least nine months and would require a referendum vote by the citizens and noted that a clear deal would be required prior to placing it on a ballot.

Councillor Russo questioned if the ambulance service was reviewed as part of the report. Mr. Hantho replied that the report did not include the ambulance service and stated any decision on the service should be driven by getting the most reimbursement. Mr. Hantho stated he would find out if the ambulance reimbursement would be part of the Medicare demonstration program.

Councillor Ralston asked Mr. Hantho if he was recommending that the VRMC hire their own doctors or work with established clinics and get those systems to utilize the hospital. Mr. Hantho replied that the physician plan needs to be a neutral plan and stated it would be more successful to give the doctors an option. The majority of doctors look at employed situations, rather than independent situations. The VRMC must be sure the physicians are collaborating closely with the hospital.

Councillor Cuffe asked Mr. Hantho what the primary focus should be. Mr. Hantho stated the primary focus should be on obtaining primary care physicians, as they keep the patients in town. A physician development plan is the baseline to allow the Hospital Commission to support physician growth and it is important to have the Hospital Commission adopt the plan, as it shows where the needs are.

Councillor Cuffe asked if the hospital should be developed into a certified emergency/trauma center. Mr. Hantho stated the State of Minnesota has enacted requirements regarding a certified trauma center and an analysis could be done, similar to the ambulance service analysis.

Councillor Littlewolf asked where the capital investment of \$3 to \$4 million would come from. Mr. Hantho stated that the VRMC had historically maintained the capital investment. Based upon VRMC's current status, the capital would come from earnings, fund depreciation, philanthropy or future partnership with another provider that is willing to provide the capital.

Guy Holmes stated there is a need to employ surgeons and general practitioners that would refer patients locally, rather than out of town, and asked what percentage of people are referred out of town. Mr. Hantho stated there is data available to determine what patients are leaving town and also stated he did not find any evidence that people are being referred out of town. It is in the best interest of the organizations to keep the smaller cases local, rather than tying up beds in larger facilities. The VRMC has the potential to take care of 60-65% of patients from the service area with the right mix of doctors and the VRMC is well below that percentage.

Mr. Hantho reported that the VRMC has a 4-1 ratio of outpatient surgeries to inpatient surgeries.

Dr. Wendell Smith, Surgeon and Hospital Commissioner, stated he has worked in facilities in both Virginia and Duluth and also stated that what is done in Virginia is done well. As a Hospital Commissioner, Dr. Smith feels the Hospital Commission and City Council must get together to make a decision on the recommendations provided by Mr. Hantho.

Councillor Sipola stated the national economic situation has affected health care and asked what portion of the decrease has been affected by the economy. Mr. Hantho replied that there has been a 3-5% decrease and no one has increased their inpatient numbers for the past year to 18 months. The higher deductible health care insurance also affects the decision of the patient, as well as the loss of insurance benefits, cobra benefits and people choosing to put off health care.

Rocci Lucarelli asked the City Council to consider appointing three members from the Hospital or community to serve on the working committee. Mayor Peterson replied that sub-committees could be formed to include Hospital employees or community members.

Moved by Baribeau and supported by Cuffe to form a working committee, consisting of three City Councillors and three Hospital Commissioners, to review the recommendations provided by Leigh Hantho for the Virginia Regional Medical Center. Motion carried.

Councillor Baribeau stated the City Council would make their committee selection at the January 26th City Council meeting, with the Hospital Commission making their committee selection at the January 27th Hospital Commission meeting.

Councillor Russo recommended that the committee be given some authority to make decisions within certain parameters.

It was noted that the committee meetings will be posted and open to the public at a location to accommodate the public, with personnel from the City or Hospital provided to take notes. The minutes will be provided to the public through the City of Virginia's website.

Barb Politano, Hospital Commissioner, stated the VRMC had a \$2 million loss in 2008 and a \$1.5 million loss in 2009 and stated the Hospital has taken steps to improve the financial situation. Mr. Hantho stated the VRMC has done a good job in catching up on the financial billings.

Kurt Davis, VRMC Employee, stated Virginia is taking a good step by forming a sub-committee and it is time to take action on a plan.

Joe Leoni, Hospital Commissioner, asked Mr. Hantho for his recommendation regarding the hiring of a CEO/CFO, management company or working with another system. Mr. Hantho suggested moving forward with interim CEO/CFO for at least 180 days, while the sub-committee is working, with criteria to include someone who is experienced in operations and finance.

Rick Flatley stated he has worked in Virginia for eleven years and his family has had six different family practice doctors, with five of them leaving the area, and recommended that focus be placed on physician retention, as well as physician recruitment.

Mayor Peterson stated the City Council and Hospital Commission will keep moving forward on making the Virginia Regional Medical Center a viable operation in the City of Virginia.

Moved by Russo and supported to adopt Resolution 10030, authorizing submission of a grant application to the Virginia Community Foundation for Miners Memorial Renovation Project, Phase II. Resolution adopted unanimously.

See 2010 Resolution Book for Resolution No. 10030.

Moved by Russo and supported to adjourn the meeting at 7:22 P.M. Motion carried.

(CORPORATE SEAL)

STEVE PETERSON
Mayor

LOIS ROSKOSKI
City Clerk