

## COUNCIL PROCEEDINGS

### CITY OF VIRGINIA, MINNESOTA, MARCH 12, 2010

Special Emergency Meeting of the City Council of the City of Virginia, Minnesota, was called to order by Mayor Peterson at 12:05 P.M. in the Council Chambers, City Hall.

Roll Call:

Present: Councillors Cuffe, Littlewolf, Ralston, Baribeau, Russo, Mayor Peterson – 6

Absent: Councillor Sipola - 1

Mayor Peterson stated the purpose of the Special Emergency City Council Meeting was to discuss the appointment of the Interim Chief Executive Officer for the Virginia Regional Medical Center. According to the City Charter, Section 3.02, commission action shall be subject to an override by the City Council within ten days after the minutes are filed. Also, Minnesota Statutes 13D.04, state the definition of an emergency meeting is a special meeting called because of circumstances that, in the judgment of the public body, require immediate consideration of the public body. Mayor Peterson asked the Council to support his request to continue with the emergency meeting and make a decision regarding the issue.

Moved by Russo and supported by Ralston to continue with the meeting to discuss the appointment of the Interim CEO for the Virginia Regional Medical Center.

Ayes: Councillors Cuffe, Littlewolf, Ralston, Russo, Mayor Peterson – 5

Nays: Councillor Baribeau – 1

Motion carried.

Mayor Peterson stated the appointment of Kyle Hopstad as the Interim CEO for the Virginia Regional Medical Center takes effect Monday, March 15, 2010, and the City Council has the ultimate responsibility for the City-owned hospital and to act after the interim takes effect, could cost additional funds for a financially strapped City-owned hospital.

Mayor Peterson stated his reasons for not supporting this candidate are not tied to the financial side, even though he feels the position is overcompensated. According to the report prepared by Leigh Hantho, the hiring of an Interim CEO should focus on a turnaround specialist from an organization that places three to five candidates per year. This criteria was not used by the Hospital Commission and Mr. Hopstad is not a turnaround specialist. The applicant was a former employee of Quorum and either resigned or was removed from his former position at the hospital. Also, the City did not renew the contract with Quorum. Mayor Peterson questioned what Mr. Hopstad has done since his prior employment at the VRMC and stated the Commission did not do a background or reference check.

Mayor Peterson stated a salary of \$25,000 per month for a City-owned hospital, which is hemorrhaging red ink and has over \$14 million in bond obligations backed by the good faith of City of Virginia and citizens, is outrageous. Mayor Peterson questioned the message that is being sent to the hospital employees when they are being asked to reduce their pay and hours and with some employees being laid off.

Councillor Baribeau stated the Hospital Commission met nine times, including the interview process, with very few councillors attending the meetings or reviewing the procedure. As a member of the City Council, Councillor Baribeau stated the Council should not interfere with decisions made by the Hospital Commission, unless there is a dire need.

Councillor Cuffe reviewed previous minutes of emergency meetings and stated the issue does not have to be a catastrophic matter and felt the contract with the Interim CEO falls within the parameters of an emergency meeting, as the contract was signed on Tuesday, March 9<sup>th</sup> and the Interim is scheduled to begin work on Monday, March 15<sup>th</sup>.

Councillor Cuffe agreed that the council should not normally override commission action, however, stated there are times that the Council needs to look at some of the decisions that commissions make and utilize their veto power.

Councillor Cuffe stated he had concerns about the process: How were the candidates selected? Were they submitted by individual employees or the City Council? Why wasn't a request for proposals prepared to obtain a broader input of candidates? How was the CFO position selected? Were a number of candidates selected? Was the position advertised or was the CFO recommended by one person? Why wasn't a background investigation done? Where references checks done with previous employers and neighbors?

Councillor Cuffe stated he received several emails and telephone calls expressing concern about the process and the CEO that was hired and feels an additional background investigation was warranted, when the same information was received from both the labor and management workforce.

Councillor Cuffe stated he had the utmost respect for the Hospital Commission. Councillor Cuffe stated he received a copy of the contract with Kyle Hopstad earlier in the day. He further stated his concern is not with the individual that was selected, but with the process and time constraints in arriving at the contract. Councillor Cuffe stated he has been following the issue and feels he is educated on the commission meetings.

Councillor Cuffe asked if there were other CEO candidates with experience that did not have an opportunity to apply and stated the hospital should get the best possible candidates for any position. Councillor Cuffe felt more time was needed, instead of rushing to a judgment.

Mayor Peterson noted that Councillor Sipola chose not to attend the emergency meeting, as he based his decision on this being an illegal meeting.

Councillor Littlewolf stated she did not feel the City Council was usurping the authority of the Hospital Commission, but utilizing the Council's veto authority. Councillor Littlewolf expressed concern regarding the \$25,000 per month salary and understands that the individual is planning to work sixty hours per week, which equates to \$91 per hour, and questioned if it is the best use of money for the hospital. Councillor Littlewolf expressed concern regarding being regressive by rehiring a person that did not work out in the past. The Hantho Report stated the Hospital Commission should look for an interim firm that specializes in turnaround. Regarding the directives approved by the Hospital Commission, Councillor Littlewolf stated she wants the faith and assurance that the CEO and CFO are equipped to meet the specific directives and outcomes. Councillor Littlewolf stated it is the Council's responsibility to take a closer look at both positions and discuss any questions and concerns with the Hospital Commission.

Councillor Russo stated, according to the Hantho Report, the monthly salary should be between \$15,000 and \$19,000, rather than \$25,000 and feels the contract could have been more incentive based. Councillor Russo also stated Mr. Hopstad is not a turnaround expert, which was recommended by the Hantho Report. Councillor Russo questioned the 30 day out clause in the contract and stated a review will be done at the end of each quarter. Councillor Russo stated he has known Mr. Hopstad for several years and he was criticized during his prior administration for having a hard time staying on track.

Councillor Ralston expressed disappointment that one elected official chose not to attend the meeting. Councillor Ralston stated the Hospital Commission paid for Leigh Hantho to provide a report on the future of the hospital and does not believe the report was taken into consideration when selecting the Interim CEO, as the report was precise in the criteria for a transitional expert with financial and administrative expertise. Councillor Ralston does not believe that Mr. Hopstad fits the criteria or that the contract and opt out options were properly reviewed. Councillor Ralston feels a review should be done every two weeks, instead of quarterly, with an opt out clause if the milestones are not met.

Councillor Baribeau stated he does not think the Council has done due diligence on the interview process or applications and recommended that the Council hear what the Hospital Commission has done on the issue.

Joe Leoni, Hospital Commissioner, stated the hospital was in good financial shape until 2008, when there was a reduction in doctors, who were not replaced, as well as a downturn in the economy. There was a loss of the patient market, as people went to Duluth or the cities because of the lack of doctors that were provided by St. Mary's/Duluth Clinic. At the same time, the accounts receivable system went downhill. Since that time, Commissioner Leoni spoke of the improvements that have been made at the Virginia Regional Medical Center. Six doctors were recruited and they provided \$800,000 of income for the hospital in 2009. The hospital also has a good IT program in place and will be eligible for certain grants by 2011. With Med Assets, the accounts receivables are managed even better than the national average. Med Assets is on an exit strategy plan and should be done within two months. The Convalescent Center was remodeled with the current administration, which was a huge success. The space formerly occupied by St. Luke's in the Medical Arts Building will be utilized by the independent doctors, which will open space on the upper levels for new doctors. Additional surgery space is being considered. Full time equivalent positions were reduced by fifty during the past year.

Commissioner Leoni stated Keith Harvey resigned by the end of January and will be done as of today. Mr. Harvey was wearing two hats, as CEO and CFO, and that was a mistake. A request for proposals would have taken 2-3 months and Commissioner Leoni said the Hospital Commission did a good job, even though the Hantho Report was not specifically followed. Four interviews were held for the Interim CEO position. The Hospital Commission developed directives for the Interim CEO position and spent two days interviewing applicants and the commissioners felt Mr. Hopstad was the most qualified candidate. The Commission felt Mr. Hopstad had a plan and objectives, as well as having the ability to recruit physicians to work at the VRMC. Commissioner Leoni stated Mr. Hopstad is familiar with the hospital and physician recruitment and knows how to organize a non profit company. He also has the confidence of the medical staff and many employees and is familiar with community, even though he is not a professional turnaround CEO. Commissioner Leoni stated that it has been proven that an individual can bring in outside resources, as necessary, and does not need to belong to a large company.

Commissioner Leoni stated the contract with Mr. Hopstad will expire in four months, at which time the Hospital Commission must revote to take further action. There is also a 30 day escape clause in the contract.

Regarding the \$25,000 monthly fee, Commissioner Leoni stated Mr. Hopstad will be working 60 hours per week, which equates to \$91 per hour. Mr. Hopstad will not be submitting additional expenses for a residence, vehicle or travel, unless related to hospital business. Commissioner Leoni contacted the Minnesota Hospital Association and stated the average salary for a hospital the size of the VRMC is \$309,000, including benefits. Mr. Harvey was paid \$173,000, including benefits. For an Interim CEO, 30 percent is added to the salary, making an average salary of \$45,000 per month, plus expenses for residence/travel, for a total average monthly expense of \$60,000. Commissioner Leoni stated the monthly salary of \$25,000 is reasonable and must be paid to obtain a qualified CEO and requested the City Council to approve the contract with Mr. Hopstad.

Councillor Baribeau stated Kyle Hopstad knows how to recruit physicians and was essential in recruiting Dr. Weiss, Dr. Smith and Dr. Kreigler and is currently working on recruitment efforts with a consortium of doctors in Duluth. Mr. Hopstad was instrumental in the building of the Laurentian Clinic, moving the East Range Clinic to the hospital campus, relocation of the Iron Range Rehabilitation and development of the Inpatient Rehab Program. Councillor Baribeau stated he had permission from Dr. Kreigler to say he would seek employment from another employer if the Council overrides the contract with Mr. Hopstad. Councillor Baribeau stated the Hospital Commission did an outstanding job on the process and stated the hiring of an interim CEO could not be done in one month if they would have done a request for proposals.

Mayor Peterson stated he does not govern through fear or intimidation and wants to do what is best for our community. Mayor Peterson stated he researched information on CEO salaries and for an operation with \$100 million in revenue per year, the average salary is \$120,000. For an operation with \$200 million in revenue per year, the average salary is \$180,000. Mayor Peterson questioned if the physician recruiter is aware that there are independent doctors that are willing to come to the VRMC, since they have indicated their interest to Mr. Hopstad.

Mayor Peterson stated Mr. Hopstad has the support of the medical staff and employees, and he has received many calls from hospital employees, with half of them supporting Mr. Hopstad and an equal amount against the hiring, who fear retribution if they speak up.

Commissioner Leoni stated no CEO will get the full recommendation from staff and it is the medical staff that generates the income for the hospital.

Mayor Peterson questioned the \$91/hour salary, calculated on a 60 hour work week. Mayor Peterson stated he will provide Commissioner Leoni with the information he obtained on CEO salaries.

Councillor Ralston asked if a permanent CEO would be place in four months, as part of the mileposts.

Commissioner Leoni stated the Human Resources Department has started to send out materials for a permanent CEO and expects to have a candidate within four months. If not, then the Commission would review an extension to Mr. Hopstad's contract at that time.

Councillor Ralston asked if there is a limit placed on the budget for the interim CFO. Commissioner Leoni stated that expenditures over \$10,000 must be approved by the Hospital Commission.

Councillor Ralston stated he does not like feeling pressured with threats that doctors will leave if the Council vetoes the contract.

Commissioner Leoni stated the Hospital Commission will meet monthly as a Committee-of-the-Whole to review the progress with Kyle Hopstad, but the Commissioners have agreed to review the progress every two weeks.

Councillor Littlewolf stated she respects the work that has been done by the Hospital Commission, but still has unanswered questions. Councillor Littlewolf expressed concern regarding Dr. Kreigler's statement about leaving if Mr. Hopstad is not hired. Councillor Littlewolf also stated she was interested in receiving Mr. Hopstad's plans and objectives, which was not included in the contract or directives.

Commissioner Leoni stated Mr. Hopstad made a commitment to contact other doctors that may be interested in working at the VRMC, but there are no guarantees. The Hospital Commission felt he was the best candidate and they will review the contract again in four months. If the Commission has to begin interviewing again, the hospital will be without a CFO and CEO. Also, the Commission recently received the resignation from the Assistant CFO. Commissioner Leoni stated a lot of time and patience will be lost if they need to reinterview candidates for the Interim CEO position.

Councillor Littlewolf stated the money should be spent with an individual with turnaround experience.

Mayor Peterson stated he had asked Jeff Brown, Nursing Home Administrator, to consider the position of Acting CEO for a limited time and Mr. Brown stated he would take it under consideration.

Gayle Dibley, VRMC Administrative Assistant, stated the hospital has an administrative policy in place that identifies individuals that would cover if the CEO is not available. Ms. Dibley will provide the policy to the Mayor.

Councillor Littlewolf questioned the minutes from the March 9<sup>th</sup> Finance Committee of the Whole meeting, wherein a motion was made to hire Steve Feltman as the CFO, and asking the Attorney and Mr. Harvey to negotiate a contract for \$110/hour, plus expenses. Councillor Littlewolf questioned why Mr. Feltman was no longer employed and if the commission interviewed him.

Commissioner Leoni stated the Hospital Commission did not interview or review a resume for Mr. Feltman. Mr. Hopstad, with the intent to be hired, asked the Commission for their support in contracting with Mr. Feltman on a per hour contractual basis.

Ms. Dibley stated a Nursing Home Administrator is required to be licensed, but there is not licensure requirement for a Hospital Administrator.

Councillor Cuffe stated he felt a background investigation should have been done on Steve Feltman for the CFO position to verify his credentials.

Commissioner Leoni stated Mr. Feltman worked for twelve years at the Grand Rapids hospital as the Chief Financial Officer and the Hospital Commission made a decision to hire him on a contract basis.

Councillor Baribeau stated a total background check will be done on the candidates for the full time CEO and CFO positions.

Moved by Ralston and supported by Littlewolf to veto the contract with Kyle Hopstad, as written, as the Interim Chief Executive Officer for the Virginia Regional Medical Center.

Ayes: Councillors Littlewolf, Ralston, Russo, Mayor Peterson – 4

Nays: Councillors Cuffe, Baribeau – 2

Motion failed, as a veto requires five votes to pass.

Meeting adjourned at 2:25 P.M.

(CORPORATE SEAL)

STEVE PETERSON  
Mayor

LOIS ROSKOSKI  
City Clerk