

**MINUTES OF THE MAY 25, 2011 REGULAR MEETING OF THE
PETALUMA HEALTH CARE DISTRICT BOARD OF DIRECTORS**

CALL TO ORDER:

Director Ostroff called the meeting to order at 6:20 p.m. at 1425 N. McDowell Blvd.

PRESENT:

Robert Ostroff, MD, Vice President
Kathryn Powell, MS, Member-At-Large
Stephen Steady, MD, secretary
Josephine S. Thornton, MA, Treasurer

ABSENT:

Fran Adams, RN, BSN, President

ALSO PRESENT:

Suzanne Cochrane, Board Liaison
Ramona Faith, CEO
Bob Lipman, Real Estate Consultant
Richard Nadale, Controller
Jane Read, VP of Operations, PVH
Marilyn Segal, ED, Petaluma Community Foundation

CONSENT CALENDAR:

Director Ostroff noted the Agenda will be revised to accommodate community members in attendance and have presentations as noted on the Agenda.

A motion was made by Director Powell to approve the minutes with changes noted (page 6, paragraph 5, insert the words “will be *included* in the roll up of both hospitals and the *Annadel* Medical Foundation element), seconded by Director Thornton and approved by all present.

PUBLIC COMMENTS / QUESTIONS:

There were no public comments.

BOARD COMMENTS / QUESTIONS:

There were no board comments.

CONFLICT OF INTEREST:

Don Bouey, District Counsel, is attending the Board meeting to respond to questions raised by PHCD Board of Directors members relative to Conflict of Interest issues in their roles as Directors.

Ms. Faith provided an overview on the process explaining that questions raised by Directors were submitted to Mr. Bouey and responses circulated to Directors for further review prior to this meeting. The overall goal from tonight's discussion is to have a clear understanding on any conflict of interest items that involve members of the Board of Directors.

Ms. Faith has asked Mr. Bouey to be present at this meeting to answer any additional questions raised by the Board of Directors and to have a clear understanding of the materiality standards that are set forth in Title 2 of the California Code of Regulations.

Mr. Bouey reviewed the written summary memo relative to the SRM Alliance Lease and Transfer Agreement and conflict of interest provisions of the California Political Reform Act that was distributed prior to the meeting.

Mr. Bouey further explained since providing the information in the written summary memo, he had communicated with Greg Moser and a staff attorney from the Fair Political Practices Commission obtaining additional information that would be shared at the meeting.

In reviewing the first item regarding disposition of tangible personal property on expiration of the Lease, the Lease and Transfer Agreement between the District and SRM Alliance requires SRM Alliance to surrender the premises in the same condition as it was originally delivered, subject to reasonable wear and tear. SRM Alliance is required to surrender to the District all "Trade Fixtures" upon expiration or termination of the Lease. Trade Fixtures include "Tenant's inventory, furniture, signs, and medical and business equipment located at the Premises." To further clarify, equipment and other items do not have to be attached to the wall. Pieces of equipment that are used in and necessary to operate a hospital are required to remain at the end of the Lease.

During the term of the Lease as the leased personal property becomes unusable or obsolete, the Lease permits SRM Alliance to dispose of the property, provided that, if an item had an original cost of \$10,000 or more, SRM Alliance must first notify the District and offer to assign the item of personal property to the District without cost or expenses to the District.

Discussion ensued regarding the change in laboratory services being relocated to a location outside of the hospital and raised the question if the Lease states this service as part of the core services to be provided at PVH. After lengthy discussion, it was noted that although the Lease lists Laboratory Services as a core service, this service is available to PVH patients but is outsourced for processing in an effort to reduce costs. It was noted that this topic should be revisited at the end of the Lease.

With respect to the conflicts of interest questions, Mr. Bouey reviewed the regulations of the Fair Political Practices Commission (FPPC) that set forth different materiality standards for non-profit and for profit organizations. Relevant regulations established for for profit organizations establish standards based on the entity's net income. For non-profits the standards are tied to gross annual revenue rather than net income tax. Once the tier is determined, then materiality standards determined by changes in the amount of annual expenses, or in net asset value, or in the gross annual receipts determine whether a director has a indirect conflict of interest. Mr. Bouey noted that the for profit standards appear to be more flexible than those imposed n non-profit organizations.

Despite the apparent discrepancy favoring for profit organizations, Mr. Bouey clarified that there was no legal basis for the District to be able to conclude that it was subject to the more liberal for profit standards or that it could rely on the revenue, net asset value or expenses of either Santa Rose Memorial or St. Joseph's of Orange, rather than SRM Alliance, in applying the conflict of interest tests. The Lease and Transfer Agreement were entered into between the District and SRM Alliance and the applicable materiality standards would be based on Petaluma Valley Hospital's financial condition and operations.

With respect to how one applies the materiality standards, Mr. Bouey explained that the form of a transaction may affect whether a materiality standard is met. For example, the purchase and transfer of a piece of equipment for \$500,000 exceed a materiality standard where a lease of the same equipment at a fair market annual rent of less than \$50,000 may not. Discussions would need to occur on a case by case basis.

Question was raised if dollar amounts were not attached to the discussion pertaining to joint venturing with SJHS could all Directors participate in the discussion and once a dollar amount is determined, the Directors in Conflict would be removed from any further discussions.

Mr. Bouey explained that if there is a joint venture in which the District might enter into a contract with SRM Alliance, the response would be the Directors with an economic interest could not participate as it would make it a direct transaction. If it involves the

Lease or SRM Alliance directly, Directors with an economic interest can not participate as with direct transactions there are no materiality thresholds. If the District enters into a contract that benefits the Community but not SRM Alliance directly, such as a breast center in the area, it is an indirect service that can affect revenue or expenses by \$50,000 or annual receipts go up or down by \$200,000, then Directors with an economic interest could not participate.

Directors should ask themselves when entering into any discussions if it is reasonably foreseeable that this discussion could change the materiality threshold, and then Directors with an economic interest can not participate.

Question was raised if Directors could participate in Strategic Planning Sessions where suggestions will be presented but not finalized but could eventually increase the revenue of the District?

Mr. Bouey stated that all Board members should be able to participate in the development of a Strategic Plan that did not involve specific ventures or otherwise lead to a conclusion that it was reasonably foreseeable that the governmental decisions would meet the applicable materiality standards for a Director's economic interest(s). High level discussions concerning strategic direction were likely to be too speculative to cause a conflict of interest requiring a Director not to participate.

Director Thornton explained her purpose for establishing a motion was not designed to place large amounts of money into an outside facility, but would direct Ms. Faith to begin discussions with PVH Administration and bring back to the District Board possible projects that would enhance PVH.

Discussion ensued noting that if a dollar amount is approved by the District Board for specific projects, those Directors with economic interests will not be able to participate in any discussions.

Mr. Bouey explained that a dollar amount included in a motion for proposed projects that develop volume at PVH would appear to be reasonably foreseeable and could exceed applicable materiality standards creating a conflict of interest for Directors Adams and Steady.

Ms. Faith noted that as the Board begins the Strategic Planning process, a possible goal would be to engage in dialogue with SJHS to have a better understanding of what services and future programs are being considered as well as to share possible ideas from the District. Ms. Faith noted the importance of developing a Strategic Plan that outlines discussions with the Petaluma Health Center and SJHS. It is also important to set up a process that allows the full board to participate in high level strategic planning sessions if

at all possible. Once strategic goals are narrowed down, Directors with economic interests will not be able to participate.

Mr. Bouey stated that the full Board's participation in Strategic Planning, direction of Ms. Faith to engage in discussions with PVH Administration and obtain an understanding on the opportunities being considered, and establishing a set amount, for example, \$500,000 in the Budget for investing in Strategic opportunities, should not involve a conflict of interest for either Director Adams or Director Steady.

It was a consensus of the Board to move forward with Mr. Bouey's recommendation that involves Strategic Planning, discussions with PVH Administration, and to set aside \$500,000 in the Budget for future strategic opportunities.

Mr. Bouey will update the written summary pertaining to Conflict of Interest as presented at this Board meeting and send it to Ms. Faith within the next month.

Mr. Bouey reviewed the topic of requesting for Advice or an Opinion from the FPPC concerning the applicability of the conflict of interest rules. In discussions with Mr. Moser, a request for an interpreter letter could be prepared and then the next step would involve a rule change as the staff and the commission does not have the authority on their own to do an exemption, waiver, or change.

Suggestion was made to enter into discussions with ACHD about increasing physician participation on the Boards by asking for the support of ACHD to assist Districts in facilitating rule changes that would allow physicians to participate in various discussions.

Ms. Faith will raise the question to ACHD relative to physician participation on District Boards.

Board of Directors thanked Mr. Bouey for his responses to concerns and questions raised around materiality standards and conflict of issues that involve current Board of Directors with economic interests.

PHCD 2011-2012 BUDGET DRAFT #1:

Richard Nadale, Controller, presented a revision to the proposed budget distributed in the Board packet reducing the operating loss to \$138,553. Mr. Nadale clarified that the proposed budget does include the loss of rent for the sale of 1301 Southpoint and the depreciation of the building.

Mr. Nadale explained the Cash Flow Budget line items as displayed in the proposed 2011-2012 Budget. The estimated (decrease) in cash is (\$368,240).

Discussions ensued regarding proposed budgets for the RAP process, CHIPA, Strategic Planning, and web design noting these areas could be further analyzed for possible reduction. A list of sponsorships supported in 2010-2011 was proposed to be continued for 2011-2012 and were included in the Draft #1 documents.

Ms. Faith has been meeting individually with program directors whose programs are funded by the District and will be setting up a more formal fund application process. The process will include program outcomes and require annual submission and approval by the District.

Mr. Nadale also explained that Maria Larsen is working to secure an additional 176 subscribers and once completed would increase revenue for Lifeline. In addition, the Petaluma Women's Health is listed as a breakeven amount in the proposed budget.

Discussion ensued relative to the amount loaned to the Petaluma Women's Health and the need to establish a system in which the District would be paid back.

Per requests from the Board of Directors for clarification on the reporting format for the Petaluma Women's Health, Mr. Nadale distributed a Cash Collections and Expense relative to the Petaluma Women's Health for the period of July 2010 to April 2011. In addition, a summary of total expenses including start up costs from 11/2/09 to current was also distributed.

Ms. Faith and Mr. Nadale has established ongoing meetings with the physicians at Petaluma Women's Health to further evaluate the next steps in working towards partnering with another physician group or become independent. Developing a pay back system to the District is also being evaluated. Ms. Faith stressed that the District is very committed to the success of the practice and to be able to see patients in the Petaluma Community but noted concern about the continued increase in funds being supported by the District.

Ms. Faith has scheduled meetings next week with Sonoma-Marin IPA and Annadel Medical Foundation to discuss partnering with Petaluma Women's Health.

Mr. Nadale asked for Directors to review the Draft #1 Proposed Budget and submit any questions or recommendations to Rick prior to the June 21, 2011 Asset Management Committee meeting. A final budget will be presented to the Board at the June 22, 2011 Board meeting.

Director Ostroff requested Mr. Nadale and Ms. Faith to review the proposed Budget and bring forth recommendations to decrease the overall budget by a goal of \$100,000. This was in support by all Directors present. Items reduced will be reviewed by the Asset Management Committee prior to being presented to the full Board.

Petaluma Community Foundation:

Marilyn Segal, Executive Director of Petaluma Community Foundation (PCF) provided an overview on the accomplishments over the past year.

The Mardi Gras event was very successful bringing in over \$80,000 and clearing \$50,000. The Daymon Doss fund collected \$11,700 (included in the \$50,000) and was granted to PEP Housing

PCF has recently re-branded their new name with new materials, website and logo. The 2011 Community grant recipients were acknowledged at the recent Community Celebration held at the Petaluma Country Club. At this event PCF's new name was announced and the video of the event is being aired on Channel 6.

There has been various press coverage of the event and a recent letter to the editor regarding our grant giving process was in the June 2nd Argus Courier.

The Board of Trustees' continue to increase their Board bringing excellent experience to PCF that will advance the development of the foundation with marketing and development skills. The goal to increase the Board with five new members over the next several months has also been established.

Ms. Segal presented the proposed 2011-2012 PCF Budget providing a comparison with the current year and current status of the budget. With the increase in portfolio earnings, PCF was able to exceed our fundraising goals. The proposed budget focuses on building a donor base focusing on major gifts with an overall goal of \$130,000 to be raised in donations. At this time, no fund raising event has been scheduled but individual dinners will be held with Trustees inviting community members to attend a dinner with a presentation on PCF provided.

Ms. Segal announced a 10-year pledge of \$10,000 per year has been secured and each Trustee has agreed to raise \$10,000. There is also 100% giving by PCF Trustees.

Ms. Faith noted that the Fiscal Year 2012 budget stated revenue at \$212,000 and actual revenue is for Fiscal Year 2011 at \$303,000 due to the portfolio. Trustees are cautious of expenses and this year actual results budget is running better than budgeted. Whenever possible, Ms. Segal works to establish appropriate goals and if possible to exceed original goals, then goals are raised appropriately.

Director Powell asked for clarification when monies are raised and it goes beyond a break even point, would the additional funds go back to replenish the District's budget?

Ms. Segal explained that when she was first hired, discussions with Mr. Doss occurred regarding the Foundation having the capacity to build a new fund. The operating expenses are being used not just for the allocations but for general expenses. Ms. Segal suggested this topic be discussed once the Foundation has reached the point above a break even status.

Director Powell noted that while the District is supporting loses of the Foundation, it would be her desire for monies that are received be replaced into a separate account.

Director Ostroff noted no policy or process has been developed between the District and the Foundation relative to new funds being placed back into the District funds or into a separate Foundation fund. The Board recommended a written agreement outlining the partnership between the District and the Foundation be developed.

Ms. Segal noted that the proposed 2011-2012 Budget reflects \$60,000 from the separate fund created by the Foundation.

Ms. Faith has had discussions with Ms. Segal regarding the need to clarify distribution of funds as well as reviewing the Articles of Incorporation. Ms. Faith noted the District is in support of the Foundation and acknowledged Ms. Segal on the excellent job she has done on developing the Foundation Board.

Director Ostroff requested Ms. Segal and Ms. Faith begin dialogue to develop a written policy between the Petaluma Health Care District and the Petaluma Community Foundation outlining the relationship as well as funding partners for review by full Board.

A motion was made by Director Powell to approve the proposed 2011-2012 Petaluma Community Foundation Budget, seconded by Director Steady and approved by all present.

Ms. Faith will also be bringing a 10 minute video of the Community Celebration for the Board of Directors to view.

BOARD COMMITTEE REPORTS:

Asset Management Committee:

Bob Lipman, Real Estate Consultant brought forth an extension to the close of escrow to June 30, 2011 or sooner for 1301 Southpoint due to the delay in financing by the buyer. Mr. Lipman reported the buyer has received pre-approval for the loan but is awaiting an appraisal to be completed on the property.

Director Thornton made a motion to extend the close of escrow for 1301 Southpoint from May 31, 2011 to June 30, 2011 or sooner, seconded by Director Powell and approved by all present.

Discussion ensued on working with the buyers on offering a full loan for the sale of 1301 Southpoint to the buyers. Directors supported Rick contacting Mr. Lipman regarding offering a full loan to the buyers.

Lynch Creek Property:

Rick Nadale has had discussions with Browman Development Company who has revised the drawings for the Lynch Creek property proposed building as recommended by the City of Petaluma and will be presenting these revisions to Walgreens on June 6th.

Petaluma Valley Hospital:

Board of Directors received the April PVH Financials and the SRM Alliance Board minutes.

Jane Read, VP of Operations at Petaluma Valley Hospital reported on a recent review by JCAHO and noted the organization did well with an outcome of six direct and seven indirect standards for areas receiving recommendations for improvement. The review team felt it was very apparent that the staff taking care of patients took an interest, showed concern and had knowledge about each of their patients they were taking care of. In addition, the audit reviewers were very appreciative of the time staff took to answer their questions displaying an interest in any suggestions presented. Recognition to the staff event on a job well done will be scheduled in the near future.

The 2011-2012 PVH Budget was presented to the SRM Alliance Board on May 24, 2011 noting that \$1.2 million will need to be reduced from the budget presented. The proposed budget is based on an average daily census of 21. The budget includes the next phase for implementing the Medical Records documentation portion and is looking at combining the two areas that will be incorporated into the system from two sessions into one session. The areas involved are the nurses for clinical documentation and CPOE.

The April financials indicated a higher volume than usual but due to the current payor mix reimbursements were not as high as anticipated and are looking to recap about \$100,000. Any discretionary spending is being reduced. The manager in Med/Surg has been on a leave and has decided not to return to her position at PVH providing an opportunity to review the need in replacing this position and if any reorganization can occur. Other facilities have implemented a clinical nurse leader role that brings clinical expertise and models to the staff what needs to be done clinically in managing patients

along with the interactive piece and will be reviewing this as a possibility to implement at PVH. At this time, Nancy Corda is managing ICCU and Med/Surg.

The new Orthopedic Surgeon has recently completed his first surgery at PVH with several others scheduled for the near future.

The Benedetti Leadership dinner held on May 6th was very successful raising funds from this event to purchase 12 gurneys for the Emergency Department. Overall, profits made for this event exceeded \$100,000.

The 2011 Values in Action Awards were granted to the following employees:

Dignity: Kathy Story, MFT, Counseling Services Supervisor, Memorial Hospice
Service: Dale Walsh, Lead Environmental Services Representative, SRMH
Excellence: Nancy Corda, RN, Director of Inpatient Nursing Services, PVH
Justice, Shiva O'Malley, Business Coordinator II, Performance Improvement

Ms. Read reported the RAC audit process has begun with an outcome of \$176,000 unfavorable. Audits continue with charts dating back to 2007. There will be an increase in about 130 new billing codes and requiring additional training to existing coders making it difficult to fill coding positions. Physician involvement as an advisory team is also being developed.

Meaningful Use is another area being researched which involves three stages in the implementation process. Those stages include: Data Capture and Sharing, Advanced Clinical Process, and Improved Outcomes.

A contract for Hospitalist services with Team Health is near completion with an anticipated date of mid June for finalizing this contract. Coverage will consist of a four physician model with in-house coverage from 7:00 a.m. to 7:00 p.m. and overlapping coverage from 12:00 noon to 9:00 p.m.

CNA negotiations will reopen in June relative to wages and call pay.

PVH Volume Building Project Support:

This topic was discussed under Conflict of Interest.

Hospital Stewardship Committee:

No meeting has been scheduled.

Joint Venture Committee:

The next RAP meeting date will be confirmed by Suzanne Cochrane and communicated to Board of Directors.

Physician Relations Committee:

No topics were discussed.

South County Mental Health Collaborative:

Director Thornton reported on the recent May 19, 2011 South County Mental Health Collaborative meeting with presentations from Petaluma Health Center, Hope Counseling, and Petaluma People Services. Results from a survey completed by participants on line were discussed noting the level of interest to continue with the Committee was supported. Meetings will be held on a quarterly basis beginning in September with a topic on Health Care Reform and Mental Health at PVH to be presented.

PVH FUTURE PLANNING COMMITTEE:

Representatives from Pointe West Specific Alliance, Inc, attended the May 17, 2011 PVH Future Planning Committee meeting providing an overview on the types of projects their organization has completed. Pointe West works with several entities as an advisory in the planning, development, and construction projects developed through a strategic process.

Committee members provided an overview on the status of the current lease between SRM Alliance and PHCD and that the District is interested in exploring options of various services and projects that would increase the District's revenue and support Petaluma Valley Hospital.

Pointe West Specific Alliance will be submitting a proposal to work with the Board of Directors on establishing a strategic plan to assist the District in the development of business plans that will utilize the District's assets and develop a course of revenue for the District.

Community Health Initiative for Petaluma Area:

Director Thornton reported on a recent meeting of CHIPA with a decision for the first step to talk to key people in the community on a one on one basis and obtain an understanding of their needs and bring back information to the Committee.

WORK ITEMS: REPORTS

Finance Report:

Richard Nadale, Controller, reporting on the PHCD financials ending April 30, 2011. The Statement of Net Assets reflected assets of \$15,890,695 and liabilities and deferred revenue of \$2,945,054 leaving the net fund balance at \$12,945,641.

The year to date Statement of Revenue and Expense shows a loss of \$208,695 which is \$29,239 less than budgeted.

Mr. Nadale reviewed the variances from budget to actual for April. The PHCD operational loss from Petaluma Women's Health (PWH) in the month of April 2011 was \$776. The total advanced to PWH through April 2011 is \$586,560.

The District's rate of return on investments decreased .38% to 4.06% for April 2011. The primary reason for the decrease is that the District is accumulating a larger liquid cash position in its Portfolio in anticipation of lending the Petaluma Health Center \$1.38 million for completion of Phase IIA in their new clinic building.

Mr. Nadale will be revising the format for reporting of PWH financials providing a more detailed reporting analysis.

Director Thornton requested PHCD financials be presented to the Asset Management Committee on a quarterly basis. Included in this report would be a summary on the number of patients seen at PWH along with the number of births.

Director Ostroff requested ongoing reports on client based status from Lifeline should also be presented on a quarterly or monthly basis.

President's Report:

There were no topics discussed.

CEO Report:

Ramona Faith provided an update on the current items listed on the Ongoing-Task List. Those items included:

- Moving forward with obtaining a facilitator for Strategic Planning Sessions
- Conflict of Interest clarification from Don Bouey
- Ongoing Meetings with Petaluma Women's Health regarding restructuring
- Development of Policy and Procedures for PHCD Employees

Ms. Faith recently attended the ACHD Annual Meeting and found it to be a very informative meeting with several other CEO's from other Districts. Rick Nadale also attended the Annual meeting with both attending various conferences.

Ms. Faith noted that at one conference discussions pertaining to District collaborating with FQHCs was discussed and noted that the presenter stated FQHC's can own a hospital and Districts and hospitals can own a FQHC provided specific criteria, rules and governance structure are adhered to. FQHC districts and hospitals can form various strategic collaborative and formal partnerships.

Ms. Faith has been in discussion with Director Powell regarding this information who has indicated a difficulty in developing partnerships with Districts and FQHCs due to the requirements established to maintain an appropriate structure. Director Powell noted that other states allow for Districts to own FQHCs but California's structure is much more difficult to develop.

Recommendation was made to include education and discussions regarding partnering with the Petaluma Health Center during the Strategic Planning process.

ADJOURN TO CLOSED SESSION:

There were no items discussed in closed session.

DISCUSSION OF PUBLIC COMMENTS:

There were no items discussed.

NEXT STEPS:

There were no items discussed.

ADJOURN:

Director Ostroff adjourned the meeting 9:50 p.m.

Respectfully submitted,

Stephen Steady, MD, Board Secretary

RECORDED BY:

Suzanne Cochrane, Board Liaison