

# MEETING MINUTES RECORD

Meeting: Board of Directors

Date: February 25, 2016 Location: Conference Center Start time: 6:30 p.m. Adjourn time: 10:05 p.m.

Members present: Virginia Kaczmarek, Charles Kyte, CC Linstroth, Charlie Mandile, Michelle Muench, Bob Murray, Steve O'Neill, James Schlichting

Members excused: Jonathan Reppe

Members absent:

Staff Present: Steve Underdahl, Jerry Ehn, Jeff Meland, MD, Scott Edin, Vicki Stevens, Kim DuPay, Tammy Hayes, Laura Peterson, Bobbi Jenkins (Recorder)

Others present: David Emery (LWV), Mayor Dan Graham, Chris Rustad (MCHS). Robert Miller, MD (MCHS), Tom Holt, MD (NH&C Medical Staff)

Issue/Problem	Discussion/Conclusions	Action	Follow-up/Resolution
1. Call to Order and Approval of the Agenda	The meeting was called to order by Charlie Kyte at 6:32 p.m.	A motion was made by Virginia Kaczmarek and seconded by CC Linstroth to accept the agenda as presented.	Closed.
2. Election of Officers	Board officers for 2016 were nominated at the January Board meeting as recommended by the Governance & Planning Committee: <ul style="list-style-type: none"> <li>➤ James Schlichting, Chairperson</li> <li>➤ Charlie Mandile, Vice Chairperson</li> </ul> There were no additional nominations at that time.	The Board voted with all in favor of the election of James Schlichting as Board Chair, and Charlie Mandile as Board Vice Chair for 2016.	Closed.
3. Good Things Happening	Steve Underdahl reported that the first annual banquet to honor four NH&C staff honorees for "Do the Next Right Thing" is scheduled on April 5 <sup>th</sup> at St. Olaf College. Honorees' families will be invited, as well as all administrators, the nominees' director and supervisor(s), and two Board members.	Information only.	Closed.
4. Spotlight Report-Coding	Scott Edin introduced Kim DuPay, NH&C Director of Health Information Management and Business Services. Kim reviewed the process of educating staff and physicians on the new ICD-10 codes that were effective October 1, 2015, including what was done to prepare, the transition, what staff are doing now, and what to expect in the future. The goals are to: <ul style="list-style-type: none"> <li>• Improve confidence, communication and interaction between providers and coders,</li> </ul>	Information only.	Closed.

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	<ul style="list-style-type: none"> <li>• Provide education that will enhance documentation,</li> <li>• Ensure accurate coding to the highest specificity which has potential for increased revenues, and</li> <li>• Quality improvement for our organization and the patients we serve.</li> </ul>		
5. Reports			
✓ Hospital Chief of Staff Report	No Report	N/A	Closed.
✓ FamilyHealth Clinic Medical Director Report- No Report	No Report	N/A	Closed.
✓ CMO Report	No Report	N/A	Closed.
✓ Allina Clinic Medical Director Report- No Report	No Report	N/A	Closed.
✓ Mayo Report- No Report	No Report	N/A	Closed.
✓ City Business Update- No Report	No Report	N/A	Closed.
✓ CFO Report	<p>Scott Edin presented a high level overview of the GASB 68, which requires governmental entities to record their proportionate share of any net pension liabilities. The GASB 68 was effective for fiscal years starting with June 15, 2014, which makes it first effective for NH&amp;C for fiscal year 2015. Last week, the actuaries from PERA, released their estimation of the entire "Net Pension Liability". CliftonLarsonAllen (CLA) took this information and calculated our impact, and determined that this entry will increase our liabilities by approximately \$30 million, and thus reduce our net assets by the same amount. CLA also determined that this entry will add an additional expense of \$504,000 to our 2015 audited financials, which takes us below the 3% margin target that we identified for bonuses.</p> <p>Scott reiterated that no money changed hands. The expense is recognized like depreciation or amortization, which changes the complexion of the financial statements for 2015. He also noted that in</p>	Information only.	Continue to keep the Board updated.

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	<p>the future we will most likely not know the exact dollar amount to be expensed until after we have closed year-end financial statements.</p> <p>There will be more information available next month when the auditors present on the 2015 audit. We are not sure how this may impact our Bond rating or the ability to borrow money in the future.</p> <p>Scott and Steve Underdahl are meeting with representatives from the Northfield School District regarding a similar experience.</p>		
<p>✓ January Financials</p>	<p>January gross patient revenues were \$225,000 under-budget, while deductions from revenue were \$492,000 under-budget. Operating expenses were \$333,000 over-budget. Operating income was (\$139,000) vs. a budget of (\$103,000) (year-to-date: -1.8% operating margin vs -1.4% budgeted).</p> <p>Key positive and negative volumes for January were reviewed, as well as day's cash on hand. Scott noted that we did not have the drop in revenues in January that we have seen the past few years. He reviewed the clinic RVUs, which are down from budget, and explained the reasons why, including a lag in billing in early January in order to get the physicians' credit for all the work done in 2015. RVUs will even out over the next several months.</p> <p>Scott noted that FTEs are over budget, which is mostly due to overtime in several departments that were very busy (i.e. OR, hospice and nutrition services). Salary and benefits % of net revenue is a new stat added to the monthly financial presentation. We are currently at 58.1% compared to budget of 58.8%. Ideally, he would like to see this get down to 50%.</p>	<p>Information only.</p>	<p>Closed.</p>

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<p>✓ CEO Report</p>	<p>Steve Underdahl thanked Charlie Kyte for his hard work, mentorship and dedication over the past two years he served as Board Chair. Steve reported on the following and noted that going forward he will identify items as “strategic” and “operational” in his reports to the Board:</p> <p><u>Strategic</u></p> <ul style="list-style-type: none"> <li>✓ Reviewed possible implications of the PERA accounting rule change that may impact our bond rating, capital projects and our strategic direction.</li> <li>✓ Planning is underway for the Board Planning / Marketing Retreat on April 1.</li> <li>✓ Discussions are ongoing with St. Olaf and Carleton colleges. More information will be presented at the Board Retreat.</li> <li>✓ A business plan for the ASC will be presented at the Board Retreat.</li> <li>✓ An update on a NH&amp;C Foundation will be presented by Laura Peterson later in the agenda this evening.</li> </ul> <p><u>Operational</u></p> <ul style="list-style-type: none"> <li>✓ An OB/GYN candidate was interviewed earlier this week. An offer was made, and we expect to hear back in early March.</li> <li>✓ Dr. Jack Fallen, Family Practice, will be joining the FamilyHealth Medical Clinics in Northfield and Lonsdale in May.</li> <li>✓ Board members have been extended an offer to meet one-on-one with Steve.</li> <li>✓ CC Linstroth has been instrumental in getting “Books and Stickers” up and running in the FamilyHealth pediatric clinic, along with Dr. Flannery and Dr. Amunrud. Books and Stickers is a wonderful resource for children and their families.</li> <li>✓ Steve continues to job shadow with staff throughout the organization. Most recently he shadowed coding staff.</li> <li>✓ Steve recently attended an AHA Small and Rural Hospital conference, which was very informational. It included both executives and trustees. He would like to invite a Board member to attend next year.</li> </ul>	<p>Information only.</p>	<p>Closed.</p>

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	<ul style="list-style-type: none"> <li>✓ Nursing recently started doing mood assessments on all patients every eight hours to recognize potential violent aggression.</li> <li>✓ Reviewed statistics on the long term care center's falls and infection rates which has shown a decrease in both areas over the past few years.</li> </ul>		
<ul style="list-style-type: none"> <li>✓ Community Relations Committee Report</li> </ul>	<p>Steve O' Neill reported on the Community Relations Committee meeting earlier this evening. James Schlichting and Bob Murray attended the meeting in the absence of Jonathan Reppe who was not available, and Charlie Austin who is no longer on the Board. Neither were able to vote. The most relevant item for the Board that was discussed was Health Award donations for 2016.</p> <p>James Schlichting asked that in the future Board members let Bobbi Jenkins know when they are not able to attend committee meetings. Bobbi will extend an invitation to other Board members to attend in his/her absence as a non-voting member.</p>	<p>The Health Awards will come to the Board in March for final approval.</p>	<p>Closed.</p>
<p>6. Consent Agenda</p>	<p>Supporting documentation was included in the packet for the following items on the Consent Agenda:</p> <ul style="list-style-type: none"> <li>✓ Meeting Minutes: <ul style="list-style-type: none"> <li>✓ 01/28/16 Board Meeting</li> <li>✓ 01/28/16 Governance &amp; Planning Committee</li> </ul> </li> <li>✓ Applications for Medical Staff Membership / Privileges</li> <li>✓ Revisions to the Internal Medicine Clinical Privilege Form</li> <li>✓ Pay Equity Report</li> <li>✓ Employee Events and Recognition Policy</li> </ul> <p>CC Linstroth asked that the 01/28/16 Governance &amp; Planning Committee meeting minutes be removed from the Consent agenda for discussion.</p>	<p>A motion was made by Charlie Kyte, seconded by Virginia Kaczmarek and unanimously passed to approve the consent agenda with the exception of the Governance &amp; Planning Committee meeting minutes which were removed from the agenda for discussion.</p>	<p>Closed.</p>

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7. Approval of the Governance & Planning Committee Meeting minutes from 01/28/16 Meeting	CC Linstroth commented on the minutes from the Governance & Planning Committee meeting as they referred to the Board Chair contacting Board members related to Board leadership. She indicated that she was not contacted, and would have appreciated the discussion. No changes were recommended to the meeting minutes.	A motion was made by Steve O'Neill and seconded by Charlie Mandile to approve the meeting minutes as presented.	Closed
8. Presentations/ Discussion/ Action Items			
✓ Ambulance Monitors & Defibrillators	<p>Jerry Ehn, COO, presenting information on replacement EMS Monitors / Defibrillators. The current equipment is past the recommended life; and features/benefits that are either impossible or impractical with the current units. The recommendation is to replace the units to improve patient care, provide for better quality assurance, enhance charting, and improve employee safety. The cost of the recommended Zoll X-series units (minus trade-in) is \$145,000 and is included in the capital budget.</p> <p>A question was raised related to whether there is a warranty or maintenance agreement. Jerry responded that we have an arrangement with Allina Clinical Equipment Services to oversee equipment, but will verify this is the case with this equipment.</p>	Information only.	Bring back for approval at the March Board meeting.
✓ Nursing Patient Care Update	<p>Tammy Hayes, CNE, Hospital and Long Term Care Administrator, reported on the RN Clinical Ladder program, which allows nursing to continue to grow the scope / level of patient care delivered at NH&amp;C, to encourage professional and skill development in our bedside nursing staff, and to engage RNs to lead changes in patient care processes. The program is voluntary and has four levels. With each level there are increasing requirements. Nursing can move up and down the clinical ladder. Tammy reviewed the criteria and the process, including some examples.</p> <p>Tammy has used this process in the past, but is not aware it is being used anywhere else in Minnesota.</p> <p>The Board was supportive of this type of employee activity and felt it ties nicely into the initiative to encourage staff to</p>	Information only.	Closed.

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	<p>"think outside the box", and be collaborative. Tammy added that there is a financial incentive at different levels of the ladder.</p>		
<p>✓ Merit Pay Transition</p>	<p>Vicki Stevens, HR Executive / Clinical Operations Administrator reviewed the transition to merit pay. Previous practice included merit-based pay for exempt staff and a step-in-grade system for hourly staff. Moving to an all merit based pay system will help us attract and retain top talent, including the ability to hire talent in salary ranges; provide motivation for staff, high performers receive higher increases, and achieve alignment with organizational goals. She reviewed the compensation model and the transition. Performance review forms are being refined, and all staff will have a performance review April 2017 and be eligible for a salary review.</p> <p>The Board inquired about training of supervisors to have the skillset to give this type of feedback to employees in a positive way. Vicki responded that exempt staff are currently in the merit pay program. HR is, however, developing a handbook that will provide additional training.</p> <p>There was some discussion about what is going on in other community markets as a whole, and how many other hospitals have merit-based systems.</p> <p>Administration feels this change will make a positive impact on staff as staff in merit-pay systems are generally more engaged and satisfied with their work. We have piloted some departments on the process with staff embracing it positively with no negative impact on the process.</p> <p>The Board supported the transition to merit pay and looks forward to updates on progress and staff are transitioned.</p>	<p>Information only.</p>	<p>Closed.</p>

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<p>✓ Foundation Update</p>	<p>Laura Peterson, In-house Legal Counsel and Compliance Officer, reported on her findings on foundations in the area and in the state of Minnesota. Northfield Area Health Care Foundation was created in 1981 and in 1982 the balance was \$93.45. It later involuntarily dissolved in 1997 for failure to file annual documents. Currently the only two hospitals in the state without a foundation (Madison and Northfield). The average assets in Minnesota is \$2 million, with 86% of the hospitals using the funds internally only. There are 10 organizations in Northfield with foundations; some would be in competition with NH&amp;C. She also reviewed the pros and cons of starting a foundation including:</p> <p><u>Pros</u></p> <ul style="list-style-type: none"> <li>• Support capital improvements</li> <li>• Ensure continues health care excellence</li> <li>• Provide meaningful giving opportunities</li> <li>• Fund healthcare initiatives</li> <li>• Fund scholarships</li> <li>• Assure continued growth, meet challenges, etc.</li> </ul> <p><u>Negative</u></p> <ul style="list-style-type: none"> <li>• Requires an FTE to organize and operate</li> <li>• Compete with other local foundations</li> <li>• Wrong time to begin another initiative?</li> </ul> <p>The consensus of the Board was to continue to explore possible opportunities to collaborate with the hospital auxiliary or other low maintenance arrangements, taking into consideration that this a busy time to take on a big initiative and we are over budget in FTEs.</p>	<p>Information only.</p>	<p>Continue to explore and keep the Board updated.</p>

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<p>✓ Annual Bonus Pool and Process</p>	<p><u>2015 Bonus</u></p> <p>Steve Underdahl presented information on the staff bonus recommendation for 2015 (all employee bonus (AEB) and management incentive plan (MIP)). Both bonus have been in place for over 25 years.</p> <p>The AEP was paid out at various rates throughout the years. An expectation of the 2015 AEB was a financial trigger; therefore, for the first time it was not included in the 2015 budget. Furthermore, in 2016 there will be additional patient satisfaction and quality / safety metrics expectations.</p> <p>The MIP is separate from the AEB and paid out based on management / executive goal performance, and is not tied to institutional macro performance. The expectation is it would be tied to a financial trigger, as well as patient satisfaction and quality / safety metrics in 2016. Percentage of bonus available by management level ranges are:</p> <ul style="list-style-type: none"> <li>• Level one – Manager: 2.5%</li> <li>• Level two – Director: 5%</li> <li>• Level three – Administrators: 10%</li> <li>• Level four – VPs: 15%</li> <li>• Level five – President / CEO: 20% (per contract) the CEO is the only employee with a contract.</li> </ul> <p>Administration’s recommendation for bonuses prior to the PERA GASB 68 adjustment was 1.5% for the AEB. Steve noted that after the PERA adjustment, in order to maintain the 3% margin, a bonus would be equal to .75%. A 1% bonus is equal to a 2.91% margin. The recommendation for the MIP is to payout relative to goal performance (acknowledging that the financial trigger has been met).</p> <p>Steve reviewed the financial impact for both bonuses and asked for a Board decision given the new information on the PERA GASB 68 and the required adjustment to the 2015 financial statements.</p> <p>There was extensive discussion about the procs and cons of bonuses, including the financial impact on the institution.</p> <p>Bob Murray abstained from discussion and voting due to a conflict of interest.</p>	<p>A motion was made by Charlie Kyte and seconded by Steve O’Neill to approve a 1% All Employee Bonus for 2015, and the MIP as presented. There were no objections. Bob Murray abstained from discussion and voting due to a conflict of interest.</p>	<p>Closed.</p>

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	<p><u>2016 Bonus</u></p> <p>Jerry Ehn presented a recommendation for the 2016 staff bonus plan, including the All Employee Bonus (AEB) and the Management Incentive Plan (MIP).</p> <p>The AEB will be based on a financial threshold of a 3% margin before dollars are available for the bonus, must meet a roll-up measure of NRC Picker's 90<sup>th</sup> percentile of patient experience goal related to patients who would recommend NH&amp;C, and meet quality and safety measures related to 30 day readmission ratio at or below CMS standards, value based purchasing score greater than national average and infection rates/ratios at or below national standards.</p> <p>The MIP will have the same requirements, with the addition of individual goals.</p> <p>The reason for the change is to support our efforts to become a high value organization, and alignment with our objectives will allow NH&amp;C to continue to be successful as an independent organization.</p> <p>Jerry showed examples of bonus calculations.</p>	<p>A motion was made by Virginia Kaczmarek, and seconded by CC Linstroth to approve the 2016 bonus plan as presented.</p> <p>Bob Murray abstained from voting due to a conflict of interest.</p>	<p>Administration will communicate information on bonuses to all staff, including talking points and examples, as well as discussing at staff meetings. Staff will also receive regular updates on goal status throughout the year.</p>
<p>✓ Board Committee Assignments</p>	<p>2016 Board committee assignments were distributed at the meeting.</p>	<p>Information only.</p>	<p>Closed.</p>
<p>✓ Meeting with Auditor</p>	<p>James Schlichting reported on his meeting with Rob Schile from CliftonLarsonAllen following NH&amp;C annual audit. He received a high level review of the audit, including question regarding our new CFO, and was questioned about any concerns with management, etc.</p>	<p>Information only.</p>	<p>Closed.</p>
<p>✓ Nominations for Secretary and Treasurer</p>	<p>The Governance &amp; Planning Committee nominated Charlie Kyte as Treasurer of the Board. This nomination was not done last month with the Board Chair and Vice Chair because the Treasurer is typically the Chair of the Budget &amp; Finance Committee, and the committee assignments weren't made until this month. There were no nomination for Secretary.</p> <p>There were no additional nominations from the Board.</p>	<p>A motion was made by James Schlichting, seconded by Virginia Kaczmarek and unanimously passed to accept the nomination as presented.</p>	<p>The election of the Treasurer will take place at the March Board meeting.</p>

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9. Roundtable, Announcements and Questions	<p>James reported on the following items:</p> <ul style="list-style-type: none"> <li>• Monthly meetings are held with the Board Chair, Vice Chair and Steve Underdahl to plan the month Board agendas. James would like to invite an additional Board member to attend the meeting each month.</li> <li>• He recently attended a Clinic Executive Committee meeting and will be attending the next Credential's Committee meeting to review the medical staff application/ reapplication process before files come to the Board for approval.</li> <li>• Would like all Board members to review and sign off on the conflict of interest statement. A copy will be sent to the Board to sign and return to administration to keep on file.</li> <li>• Appreciated Charlie's Kyte work as the Board Chair for the past two years.</li> </ul>	Bobbi Jenkins will email the Board with the dates of the planning meetings and assist in a schedule for the year.	Closed.
10. Pending Items	<ul style="list-style-type: none"> <li>✓ Market Strategy Retreat is April 1 at St. Olaf College. More information for the meeting, including an agenda will be sent to the Board prior to the retreat.</li> <li>✓ CEO Evaluation Process will occur similar to last year. James Schlichting will meet with the Director of HR to assist in the process.</li> <li>✓ Board Self-Assessments were distributed at the meeting and will be discussed at the March Board meeting.</li> </ul>	Information only.	Closed.
11. Adjourn	The meeting was adjourned at 10:05 p.m.		