HCMC GOVERNANCE TRANSITION COMMITTEE

REPORT AND RECOMMENDATIONS TO THE HENNEPIN COUNTY BOARD OF COMMISSIONERS

November 15, 2004

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Executive Summary

It is our unanimous view as the HCMC Governance Transition Committee that the financial viability of Hennepin County Medical Center (HCMC) cannot be preserved long-term without significant changes to the organizational model of the hospital. Due to a multiplicity of factors, including: 1) declining government reimbursement; 2) a growing shortage of health care workers; 3) increased costs of new technology; 4) increased numbers of uninsured seeking services at HCMC; 5) the need for greater capital expenditures; and 6) increased government regulation, HCMC must begin to do business differently in order to survive and thrive. While we believe that a new model is needed, we also believe it is critical that HCMC remain a public hospital with a public mission, accountable to the County Board.

This new model is **not a "spin off"** or a privatization of the hospital, somehow designed to lessen the County's or the hospital's commitment to many of the most disadvantaged members of our community. Instead, this new model is designed to do the exact opposite – create a safety-net subsidiary of the County that is dedicated to ensuring the continuation of HCMC's mission and its provision of services to the community. This subsidiary will bring additional help to the hospital through the formation of a more expertise-driven governing board, along with other positive changes to the structure and business strategies of the hospital, in order to make the hospital more competitive as a whole. During this two-year process, the Transition Committee has received extensive input from the public, HCMC employees, County Administration, County Finance, the County Attorney's Office, HCMC Executive Staff, and outside consultants and attorneys. As this report illustrates, the Transition Committee has thoughtfully deliberated and conducted a thorough analysis of the issues and options available to HCMC. We come to the County Board with a united view that the proposed changes are necessary to ensure the continued success of HCMC. The time to act is now.

Case for Change

Hennepin County faces a serious and important decision that will affect the future long-term viability of HCMC. Hennepin County provides a broad range of vitally important services to its citizens, ranging from protecting our County's most vulnerable citizens to operating an effective county highway system. For the most part, services are provided by the County without any significant competition from the private sector. When it comes to the many services provided at HCMC, however, the milieu is significantly different.

HCMC is a vital community resource through which the County fulfills its safety net role of providing health care services to the indigent. It is important to recognize, however, that HCMC operates in a highly competitive and rapidly changing health care environment – an environment vastly different from the County's provision of classical governmental services. Ninety-five percent (95%) of HCMC's revenues come from sources other than the County, and HCMC is constantly competing with other area hospitals for patients, physicians, and employees.

In recent years the health care market has changed significantly, while HCMC's governance and operational structure has remained the same, leaving HCMC at a unique disadvantage with respect to its competitors. To maintain HCMC's quality and to lessen the future financial burden on County taxpayers, the members of the Transition Committee believe that HCMC's competitive future depends on the agility, flexibility, and

wisdom with which HCMC responds to a rapidly evolving health care market. HCMC needs to operate system-wide as a more competitive health care enterprise. **This requires a hospital-specific governing board with the expertise to understand and quickly respond to a complicated and highly dynamic health care market. It also requires a human resources system designed specifically for the delivery of health care services. Finally, it requires an institutional culture that emphasizes health care quality, performance, and accountability.**

While important public policy matters and critical financial decisions must continue to be decided by elected County officials, HCMC must be able to manage its future in much the same manner as its private sector competitors. We believe this can be accomplished, with **no negative impact** on HCMC's public mission, by implementing the changes recommended in this report. We further believe that failing to make these changes now places this great public institution at the mercy of a market that will rapidly leave it behind to the point it will no longer be financially able to perform its mission, nor be able to make the changes proposed in this report. This is a scenario detrimental to both the patients who receive much needed services from HCMC and to the quality employees who provide those services. As the Star Tribune editorial supporting the recommendations of the original HCMC Governance Task Force concluded, the alternative to such a change is a "slow death by a thousand cuts from higher levels of government that seem to care less and less about the quality of public institutions."

HCMC Today

Today, HCMC is one of America's Best Hospitals in terms of patient outcomes. It is the third largest hospital in the Twin Cities (based on operating income) and one of the largest in the region with nearly 400,000 patient visits annually. It offers a nationally recognized medical education program and provides outstanding emergency and trauma services. As a safety net hospital, HCMC not only provides high quality care to its patients, but also offers the state's only poison control center and only 24/7 acute psychiatric emergency room. HCMC is the state's most active Level 1 trauma center and is an essential part of the region's response to large-scale disasters such as terrorism.

HCMC is currently governed no differently than the more than 30 other departments of Hennepin County. Many parts of HCMC's operations and management are combined with other departments of the County to ensure uniformity and ease of administration. While this traditional government model has worked successfully in the past, this model is not designed for the market in which HCMC must operate. In particular,

- The current governance structure requires HCMC to compete with many other lines of business for the attention and leadership of the County's top management, a difficult process in a competitive environment.
- HCMC's 4,000+ employees serve under a statutorily created human resources system whose structures apply uniformly to all of the County's 12,000 employees and are not designed to meet the unique needs of a hospital.
- The Minnesota statutory limitation on joint ventures by public hospitals, which governs the recapture of capital and carryover of funds, greatly limits HCMC's ability to engage effectively in joint ventures and strategic partnerships. Such new opportunities include the potential for closer alignment with the members of Hennepin Faculty Associates (HFA), the physician group at HCMC.

- HCMC is required to make extensive public disclosures through the Minnesota Open Meeting Law and the Data Practices Act. While appropriate for a traditional government setting where the rules of a private market system do not apply, these laws allow HCMC's competitors to obtain a substantial amount of competitive information about HCMC's strategy without having to disclose the same information about themselves.

HCMC's Clouded Future

Like other hospitals across the country, HCMC faces an uncertain future due to an extremely competitive, highly regulated, and complex health care market. This dynamic has placed enormous strain on public hospitals throughout the country, resulting in financial instability and even failure. **In a report commissioned by the County Board in 2002, McKinsey and Company predicted that current trends in revenues and cost increases would result in a negative operating margin at HCMC of $60 million unless corrective action is taken.** This projected deficit is due to a downward trend in revenues and an upward trend in costs.

Compared to other hospitals, HCMC disproportionately relies on government payors who typically reimburse for services at a much lower rate than private payors. Thirty-nine percent (39%) of HCMC's patient base is enrolled in state insurance programs for the medically underserved (primarily Medical Assistance and General Assistance). In comparison, the average for hospitals across the state is only ten percent (10%). With cuts in state and federal health care programs, **HCMC has lost over $75 million in revenue sources since 1997 and will likely lose more in the future.**

At the same time, local and national trends toward increasing costs have had a significant impact at HCMC. Increased costs result from:

- A growing shortage of health care workers. In Minnesota alone, it is predicted that from 2000 to 2010 there will be a twenty-three percent (23%) increase in the number of health care jobs, while growth in all other occupations combined is expected to be only thirteen percent (13%) over the same time period. HCMC's governing and operational structure hampers its ability to attract and retain high quality health care workers. Without change, this problem will grow as the need for skilled health care workers grows.
- More uninsured seeking care at HCMC. HCMC currently provides seventeen percent (17%) of the uncompensated care in Minnesota, at a cost of approximately $22.8 million in 2003, by far the largest in the state. The next largest provider of uncompensated care is Regions Hospital in St. Paul, which provides 7.2% of the state's uncompensated care. The third largest, Saint Marys Hospital in Rochester, provides only 6.5%.
- Increased costs of new technology. In the medical field, new technology is being developed at an exponential rate. Each new invention enhances care through improved efficiencies in administration of services and improved outcomes for patients. However, these enhancements come with quite a price tag. For example, it is estimated that the implementation and use of the new electronic health record system at HCMC will cost $63 million over the next seven years. Failure to make these investments in a timely manner not only decreases the quality of care to those least able to afford it – but also makes HCMC less competitive for other

patients and significantly decreases its ability to provide state-of-the-art medical education, trauma, or other specialized services.

- The need for significant capital expenditures. HCMC's deteriorating financial position has made it difficult to recommend making major capital expenditures, though its competitors have been making significant improvements to their own facilities. This inability to invest in HCMC means that its older facilities and inefficient use of space make HCMC a less desirable location for both patients and employees. In fact, the prior Task Force recommended that the County provide HCMC with between $25-$30 million in "catch-up" funding.
- Increased regulatory requirements. New regulations in the health care field mean that more time and expense must be devoted to administration rather than improving patient care delivery.

Other public hospitals across the United States (over 60%) have attempted to address these problems by undergoing some type of governance reform.

The County Board's Response to HCMC's Predicament

In 2003, the Hennepin County Board of Commissioners (County Board) voted to evaluate whether a different structure could maximize HCMC's operations, while still maintaining its public mission. The County Board's first step was the creation of a fourteen-member HCMC Governance Task Force (Task Force), which was charged with evaluating the health care environment, HCMC's current business model, and potential models for its governance. After reviewing national and local trends, the Task Force recommended that Hennepin County create a not-for-profit corporation, accelerate capital expenditures, and enter into a formula-based payment for indigent care.

In June, 2004, the County Board created a smaller five-member HCMC Governance Transition Committee to further explore the Task Force's recommendations. We were charged with proposing methods:

- To preserve existing employee retirement benefits;
- To ensure that HCMC would remain accountable to the public and the County Board for its mission and financial performance;
- To prioritize capital expenditures now and in the future;
- To identify a consistent "volume-driven internal formula for funding charitable care";
- To develop a strategy to expand into new markets or create new revenue sources; and
- To estimate implementation costs and potential savings as a result of the new model.

We held nine meetings, six public forums, and received input from County and HCMC staff, HFA, and outside consultants. We reviewed fourteen examples of different governance models for public hospitals ranging from private non-profit hospitals to advisory boards similar to HCMC's current model. Next, we designed a model to meet the specific needs of Hennepin County. We recognized that there must be a balance between the independence HCMC needs for effective operation and the County Board's need to

ensure that HCMC's mission continues. As a result, while the initial Task Force had recommended a significantly more privatized model with separate finance, governance, and employment systems, we determined that a more public approach was essential. We believe our recommendations achieve an effective balance between County oversight and the hospital's need to be managed in a more competitive manner. **The following is the unanimous recommendation of the Transition Committee.**

Hennepin Healthcare System, Inc.

We believe the best way to create flexibility while maintaining public accountability is to ask the legislature to create a public benefit corporation, *Hennepin Healthcare System, Inc.* (HHS), to operate the hospital as a subsidiary of the County. **This new entity will have a board with special expertise whose sole purpose will be to provide strategic and managerial oversight to the hospital**, which will continue to be called Hennepin County Medical Center. This new entity will create internal systems for human resources and finance that meet the needs of the hospital. HHS will be subject to new public disclosure requirements that recognize the needs of a public hospital operating in a competitive private market.

County Board Controls

The County Board will retain control over the safety net mission of HCMC and will ensure HCMC's ongoing fiscal responsibility through a series of affirmative County Board rights and responsibilities:

- Approval of HHS's mission and strategic plans, including an annual health services plan;
- Approval of ongoing funding support for indigent care;
- Approval of bylaw changes that may affect governance;
- Approval of Board members, including the appointment of up to two County Commissioners to serve as Board members;
- Removal of the entire HHS Board under limited circumstances;
- Ownership of all the real property and plant assets;
- Provide access to capital through the County (HHS will have no independent authority to levy taxes);
- Approval of any significant assignments, mergers, or dissolution of HHS, as well as the creation of any subsidiaries;
- Approval of annual operating budgets, capital plans, and large joint ventures; and
- Confirmation of the initial employment of any new HHS chief executive officer.

This model allows the County Board to retain major decision-making authority over public policy issues which are appropriately vetted within the political process, such as HCMC's mission and financial accountability, while giving the hospital the opportunity to keep operational decisions, traditionally not public issues, out of the political process. We believe this structure strikes the appropriate balance between the need for public accountability and

the need for flexibility to quickly respond to the complicated and ever-changing health care market.

HCMC Employees: Current and Future

The Hennepin County Civil Service system is designed to meet the needs of a governmental entity whose operations do not compete directly with the private sector for business or employees. Current human resources policies result in significant impediments to HCMC's ability to recruit, manage, and tailor its workforce to meet its needs. Moreover, HCMC's current benefit and compensation system is very limited in its ability to reward performance. In a market faced with an increasing shortage of qualified health care workers, HCMC's human resources system must be able to respond quickly to changing demands in order to ensure the recruitment and retention of skilled workers. HHS will have the ability to establish a culture that rewards superior performance and a compensation and benefits system that encourages the retention of valuable employees. The new entity will also have the ability to create a new defined contribution pension plan for future employees, if necessary and desirable.

In creating our proposal, we strove to ensure a successful transition of HCMC's excellent workforce to the new entity. To that end, all active employees will be transferred to HHS, along with their service accruals and any vacation/sick pay balances. The Transition Committee has also confirmed that employees will be able to continue their participation in the Public Employee Retirement Association (PERA). In addition, the Minnesota Charitable Hospitals Act, Pay Equity and Veterans' Preference will continue to apply. HHS will recognize existing labor unions at the time of the transfer and will have the power to negotiate future labor agreements directly with union representatives.

Contract for Indigent Care

We believe that the County should begin paying for uncompensated care using a "consistent volume-driven formula for indigent care." After careful review of the issue, we recommend that the County pay HCMC for uncompensated care provided to County residents at a rate equal to between 95% and 99% of Medicaid payment rates (negotiated on an annual basis), or HCMC's actual costs, whichever is lower. This formula will ensure that HCMC remains motivated to assist uninsured individuals in seeking alternative government aid programs. We believe that this formula ensures fiscal responsibility while providing sufficient financial support to the hospital to sustain its indigent care mission.

Capital Financing

At the request of the County Board, we reviewed the Partners in Care Initiatives and HCMC's five-year capital plan to evaluate how the new model would further the strategic plan and prioritize future capital expenditures. While we agree with HCMC's current direction, we believe that a new Strategic Plan and Master Facilities Plan must be developed before any further recommendations can be made. In other words, one of the first priorities of the new HHS board will be to formulate a more detailed and extensive strategic vision for HCMC, so that future capital expenditures can be better identified and prioritized from a competitive perspective.

Implementation Costs and Savings

Implementation of this type of change will involve some upfront costs associated with passage of the legislation and creation of HHS. These costs are estimated to be within $350,000 - $400,000. Once the entity is created, costs associated with the new HHS board should be minimal as it is a voluntary board. The costs associated with our remaining recommended changes will occur incrementally as the HHS Board and HCMC management work to optimize HCMC operations. While many of these costs are associated with conducting business as a hospital and would likely be incurred under the current model, we believe these costs will be minimized because the HHS Board will be able to capitalize quickly on opportunities; lessening the overall financial burden to HCMC.

In fact, this new model presents HCMC with the opportunity to create new revenue streams through foundations, subsidiaries, and innovative joint ventures. We have also identified additional opportunities through rigorous cost management, informed and timely decision-making, "smart growth," and affiliations or ventures with other organizations, that may result in substantial cost reductions. Based on the information we reviewed, we are willing to commit to the following:

- Within three years of appointment, the HHS Board will present a report to the County Board demonstrating the achievement of at least $3 million in annual sustainable savings;
- By the end of five years, the HHS Board will achieve a sustainable operating margin necessary to generate sufficient cash flows to both finance capital expenditures and sustain HCMC's public mission (an operating margin of 2-4%); and
- By the end of five years, the HHS Board will implement a working plan to make capital reinvestments of 5-8% of the annual operating budget – investments that are necessary to sustain HCMC long-term.

By making these commitments to the community and the County Board, we feel confident that we will be able to ensure a better future for HCMC, its employees, and the community.

Change is Needed Now

We have considered the possibility that the County could achieve some of the outcomes we seek without significant structural reforms. For example, it might be possible to provide some additional oversight through the appointment of an advisory board, just as it may be possible for the County to create other ways in which to enhance the daily operations of the hospital. Indeed, the latter has already been undertaken to some extent. But this piecemeal approach fails, ultimately, to recognize that HCMC is a unique line of business with unique governance needs. It is the Transition Committee's strong belief that this approach will fall far short of the changes needed to reverse the trend predicted by McKinsey and Company.

HCMC needs:

- A specialized board with the necessary expertise to oversee an organization required to provide services in an extremely competitive health care environment;

- The opportunity to make operational and management decisions consistent with a more competitive strategy;
- The ability to create innovative joint ventures and strategic partnerships; and
- An employment system with flexibility in job design, compensation, and benefits in order to attract and retain qualified employees.

Simply put, continuing with a model that is not designed for HCMC's special needs as a public hospital actually and unnecessarily risks HCMC's ability to remain financially viable. The failure to act now will result in only two options down the road: privatization or the elimination of essential core services.

HCMC GOVERNANCE TRANSITION COMMITTEE

REPORT AND RECOMMENDATIONS TO THE HENNEPIN COUNTY BOARD OF COMMISSIONERS

November 15, 2004

I. Background

A. HCMC: Over a Century of Caring, Research and Education

Throughout its history, Hennepin County Medical Center (HCMC) has responded to the needs of the community by developing programs or services that others were unable or unwilling to provide. The only hospital in downtown Minneapolis, HCMC is the third largest hospital in the Twin Cities (based on operating revenues) and one of the largest in the region with nearly 400,000 patient visits annually to its primary care and specialty clinics. HCMC has been repeatedly named by *U.S. News and World Report* as one of America's Best Hospitals.[1] This, along with favorable comparisons to national benchmark standards for patient outcomes and some of the nation's most sought after residency programs for medical students, makes HCMC a place of distinction.

As an essential provider of safety net services, HCMC contributes to the quality of life across Minnesota in the following ways:

- **Community Needs.** HCMC has a long history of providing services and programs to meet community needs. In 1999, HCMC served more than 22,000 patients from 84 Minnesota counties. Most of these patients were referred by their local doctor because they needed the high level of expertise available at HCMC. Also, in response to the growing diversity in the metropolitan area, HCMC developed an interpreter service program that includes more than 50 full-time interpreters of 42 languages, including Russian, Somali, Spanish, Hmong, Laotian, and Cambodian.
- **Low Income and Uninsured.** While HCMC represents only five percent (5%) of revenues collected by hospitals in the state, it provides seventeen percent (17%), of all the uncompensated care in Minnesota, a cost of approximately $22.8 million in 2003. This is the largest volume of uncompensated care provided by any hospital in the state. The second largest provider of uncompensated care is Regions Hospital in St. Paul, which provides 7.2% of the state's uncompensated care; the third is Saint Marys Hospital in Rochester, which provides only 6.5%. Thirty-nine percent (39%) of HCMC's patients are enrolled in Minnesota public insurance programs for the medically underserved compared to the state-wide hospital average of ten percent (10%).
- **Medical Education.** HCMC trains physicians, health care professionals, and emergency response personnel who live and work in the cities and towns across the state. Nearly fifty percent (50%) of Minnesota's physicians have had some or all of their clinical training at HCMC. Eighty-one percent (81%) of HCMC's medical residents elect to stay in Minnesota. At any one time, there are 90 medical students and 260 medical residents training on-site at HCMC facilities.
- **Emergency and Trauma.** As a Level 1 Trauma center, HCMC delivers outstanding emergency services and disaster preparedness every minute of every day. HCMC is a designated Regional Hospital Resource Center and an essential component of the region's disaster preparedness program.

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[1] "America's Best Hospitals: Exclusive Rankings in 17 Key Specialties" U.S. News & World Report, July 11, 2004.

- **Specialized Care.** HCMC is the exclusive local provider of selected specialized services, such as hyperbaric oxygen and poison control. HCMC is the primary care provider for vulnerable populations in need of specialized services, including trauma, acute psychiatric care, burn care, oncology, high risk obstetrics and neonatal care, crisis intervention, and infectious disease. Provision of specialized care has created national and international recognition for HCMC in the areas of respiratory disorders, geriatrics, hormonal disorders, rheumatology, orthopaedics, otolaryngology, and pulmonary diseases.
- **County Services.** HCMC plays a vital safety net role in the community. Several County departments and their clients receive services provided by HCMC for which HCMC is the sole community provider. These include hospitalizations for court-ordered holds, participation in the emergency medical services system, and ancillary service tests and procedures.

B. A Public Hospital with a Challenging Future

While HCMC provides many essential services to Hennepin County residents, currently only five percent (5%) of HCMC's revenue is derived from the County's property tax funds. This financial independence is becoming increasingly threatened as HCMC looks to maintain its financial viability while continuing its mission of serving communities in need. In 2003, Standard & Poor's rating service noted that the "[d]elivery of health care products and services continues to undergo dramatic and fundamental changes."[2] Hospitals across the country face uncertainty due to the ever-changing regulatory environment, growing costs to provide care, wide-spread impact of managed care, political and social concerns facing the industry, mounting capital needs, continued competition with physicians, and an extremely competitive health care market overall.[3] As uncertainty grows and competition increases, hospitals must quickly recognize each new challenge in the marketplace and respond by identifying the systems that need change to ensure financial longevity. As described below, these challenges affect HCMC's ability to continue to fulfill its mission as a public hospital.

Growing Costs to Provide Care

It is well known that health care costs are rising across the country for many employers. These costs are due in part to the rising costs to provide care to patients. In addition, it is estimated that hospitals across the country will spend more than $11 billion to meet the public's expectation of readiness to respond to nuclear, biological, and chemical emergencies.[4] New regulations and mandates are passed every two years at a minimum. One of the most recent, the Health Insurance Portability and Accountability Act (HIPAA), is estimated to cost hospitals across the country between $4 and $22 billion to implement.[5] At HCMC, these costs include the implementation of a new electronic health record system (an estimated cost of $63 million), as well as costs incurred through time spent in the administration and completion of paperwork required by HIPAA. In

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[2] Standard's & Poor's Rating Service, Industry Surveys, Healthcare: Facilities (June 2003).

[3] Fitch Ratings Service, Health Care Special Report, "2004 Median Ratios for Nonprofit Hospitals and Health Care Systems" (August 2004).

[4] American Hospital Association, The State of Hospital's Financial Health (2002).

[5] *Id.*

addition, there are over thirty state and federal agencies that regulate Minnesota hospitals, each with their own set rules. The costs of regulatory compliance are further compounded by the need for new technology, such as cardiographic magnetic resonance imagers and head scanners, to provide efficient, high quality care. For example, it is estimated that a picture archival system, which allows for the storage of radiological films in an efficient, cost-effective manner, will cost HCMC $4 million.

Consolidated Health Care Market

HCMC competes in a mature, managed care market in which a significant portion of health care coverage is delivered through health maintenance organizations (HMOs) and preferred provider organizations (PPOs). Historically, the market has been characterized by patient choice and access to a broad panel of providers. Market forces have achieved cost containment by exerting downward pressure on fee-for-service rates and imposing restrictions on utilization. As a result of economic pressures, three principal payor organizations in the metropolitan area remain -- Medica, HealthPartners, and Blue Cross/Blue Shield of Minnesota. These three payors compete vigorously for the provision of health coverage to employers.

The existence of these strong payors also creates intense competition among providers of health care services within the metropolitan area, forcing integration between hospitals and clinics. This has resulted in the emergence of several large health care systems:

- *Allina Hospitals and Clinics*, which operates Abbott-Northwestern, United, Phillips Eye Institute, Mercy and Unity Hospitals;
- *HealthEast*, which operates St. Joseph's Hospital, St. John's Northeast Community Hospital and Woodwinds Health Campus on the east side of the metropolitan area, as well as numerous clinics;
- *Fairview Hospital and Healthcare Services*, which operates Fairview Southdale Hospital, Fairview Ridges Hospital, Fairview University Medical Center, Fairview Northland Regional Hospital, Chisago Lakes Area Medical Center and a medical practice group, Fairview Physician Associates;
- *Children's Health Care*, which operates two pediatric hospitals in Minneapolis and St. Paul, as well as pediatric units at other adult acute care hospitals and several clinics;
- *HealthPartners*, an HMO which operates Regions Hospital in St. Paul, as well as several clinics; and
- *Park Nicollet Health Services*, a large, multi-specialty clinic which also operates Methodist Hospital in St. Louis Park.

HCMC remains one of only two independent hospitals (North Memorial Medical Center is the other) in the metropolitan area. While there are some advantages to independence; it does mean a smaller presence, less negotiating power with payors, and smaller economies of scale.

Need for Capital Expenditures

The consolidation and closure of several acute care hospitals have caused a dramatic reduction in the number of licensed hospital beds available in the metropolitan area. At

the same time, population growth and an aging population are increasing the demand for health care services, which will eventually result in a shortage of hospitals beds, at least in certain markets. In August 2004, Fitch Ratings Service published a Health Care Special Report called "2004 Median Ratios for Nonprofit Hospitals and Health Care Systems," which concluded that there were close correlations between successful hospitals and their level of capital spending. In particular, it noted that the median hospital spent 143% of its annual depreciation provision for capital improvements, or 7.3% of its annual total revenues. Based on these ratios, for the eight-year period from 1997 to 2004, HCMC has been undercapitalized by $69 to $75 million, or $9 million per year. HCMC has not added any new facilities since 1991 when it acquired the former Metropolitan Medical Center, whose buildings ranged in age from 30 to 80 years old. HCMC's facilities are spread over five city blocks, are not organized in an efficient manner, and have many redundancies in design.

Unlike HCMC, every one of HCMC's major competing hospitals is making significant capital improvements on their campuses, in order to improve efficiency and better compete for the delivery of specialized care services.

Hospital	Current Construction Projects	Estimated Costs
Fairview University Medical Center	Riverside Campus Closure and Expansion of Ambulatory Care Clinic and Children's Program	$964 million *(estimated)*
Abbott Northwestern Hospital	New Heart Hospital and Ortho-Spine Addition	$170 million
Methodist Hospital	Heart Center; Diagnostic Imaging; Cancer Center and Surgery Expansion	$86 million
North Memorial Medical Center	Inpatient and Emergency Department Expansion and New Outpatient Center	$67 million
Children's Hospital and Clinics – Minneapolis	Minneapolis Campus Expansion	$15 million

Role as Safety Net Hospital

As a safety net hospital, HCMC provides a significant level of care to low-income, uninsured, and vulnerable populations. In 2003, fifty-six percent (56%) of HCMC's revenue payor mix was derived from government programs (Medicare, Medicaid, GMAC, and PMAP). As a result, changes in payments by government payors have greatly affected HCMC revenue sources. For example, the 1997 Balanced Budget Act has resulted in a loss of $40 million in federal funding to date. Recent reductions in state reimbursement levels for Medical Assistance and General Assistance services have resulted in the loss of an additional $35 million.

At the same time, the costs of uncompensated care have grown. Uncompensated care consists of services provided to the uninsured, services provided during a gap in an individual's health coverage, or services provided to individuals who are under-insured or have high consumer co-pays or deductibles. HCMC provides the greatest level of uncompensated care in Minnesota. Currently, nearly one out of every two visits to HCMC's emergency department results in some level of uncompensated care. In 2003, HCMC provided nearly four times the median of the other "top ten" providers of uncompensated care in Minnesota.[6] This disproportionate level of care negatively affects HCMC's long-term viability. HCMC accounts for only five percent (5%) of revenues collected by Minnesota hospitals, while providing seventeen percent (17%) of the uncompensated care provided to all Minnesotans. This number will likely grow as the uninsured population continues to rise and as government programs continue to change benefits and coverage criteria.

Competitive Employment Environment

The demand for health care workers is also growing in Minnesota, placing additional financial pressure on HCMC. Between 2000 and 2020, the number of Minnesotans who are 65 or older is projected to grow by sixty percent (60%), compared to a total population growth rate over the same time period of only twenty percent (20%).[7] Since older Americans are high users of health care services, it is expected that this population growth will result in an increase of twenty-three percent (23%) in health care jobs in Minnesota as compared to thirteen percent (13%) growth in all other occupations from 2000 to 2010.[8] Even though the number of jobs is growing, the number of qualified individuals to fill those positions is decreasing. According to a July 2002 report from the U.S. Department of Health and Human Services, by 2020 there will be a twenty-nine percent (29%) national shortfall of nurses.[9] This shortage has resulted, in part, because working conditions in health care are becoming increasingly stressful; there are higher acuity patients, intensive service levels, rotating shifts, weekend work, and significant physical demands. This demanding environment means that it is more difficult for older workers to continue working and health care occupations are becoming less attractive to younger workers. HCMC's workforce is aging and replacing retired employees will become increasingly difficult. On average, nurses in Minnesota are three years older than their counterparts nationwide. This means that Minnesota (and HCMC) will likely confront the coming health care worker shortage earlier than the rest of the country.

To ensure adequate staffing levels, health care employers throughout Minnesota are developing creative employment models to attract and retain much needed employees. All health care employers are increasingly challenged to develop programs that recognize differences based on generation and culture. These programs often include:

- Flexible benefits programs;

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[6] Minnesota Department of Health, Health Care Cost Information System (2003 data) (provided in Exhibit 10).

[7] Department of Employment and Economic Development, Minnesota Economic – TRENDS "Healthcare Jobs in Minnesota: Ducking the Jobless" (January 2004).

[8] *Id.*

[9] Rachel Hillman and Annie Tietema, Department of Employment and Economic Development, Minnesota Economic – TRENDS, "Healthcare Workers – A Shortage Revisited" (July 2003).

- Health plan designs that involve employees in how money is spent;
- Increasing investments in training for inexperienced and/or new immigrant employees;
- Opportunities for professional growth and career advancement, redesign of work to accommodate the physical needs of highly skilled, but aging employees;
- Flexibility in use of time off benefits; and
- Flexible compensation alternatives.

It is imperative that HCMC have the ability, as we have proposed, to design employment programs that are competitive both today and tomorrow.

C. Moving Forward

HCMC is not alone in facing the challenges of an extremely competitive private market which threatens its long-term viability. Nationally, over sixty percent (60%) of public hospitals have undergone some type of governance reform in the past two decades, with fifty-three percent (53%) of public hospitals currently organized as separate public entities and seven percent (7%) as completely separate private non-profit entities.[10] Since 1994, hospitals controlled by state and local government in Minnesota have decreased from forty-three percent (43%) of the total number of hospitals to thirty-two percent (32%). In fact, HCMC is the only public hospital remaining in the metropolitan Twin Cities area. Many of the public hospitals that failed to reform their governance models have either become more reliant on subsidies from property taxes or have seen their size, quality, and ability to fulfill their mission decline—in some cases, resulting in complete closure or privatization. However, hospitals that have reformed, especially those hospitals whose transformations were made before financial losses started to mount, have not only been able to continue their mission, but often are able to expand the services provided to their communities.[11]

The County Board and HCMC management have initiated changes to address this challenging environment.

- Since 2002, HCMC reduced the number of full-time equivalents so that HCMC staff/patient ratios are more closely aligned with those of its competitors.
- HCMC took substantial steps to adopt a number of changes with respect to its revenue cycle.
- HCMC made significant improvements to its overall collection processes and has implemented new strategies for payor contracting.
- HCMC also redesigned its supply chain process, and it asked for and received relaxation of certain contracting restrictions.

Even with these advances, more work needs to be done. There remains an even greater opportunity to increase productivity, improve overall patient satisfaction, and enhance

[10] National Association of Public Hospitals (2003).

[11] National Association of Public Hospitals and Health Systems, *The Safety Net in Transition: Reforming the Legal Structure and Governance of Safety Net Health Systems* (1996).

HCMC's long-term financial viability. However, barriers still exist in the current structure that need to be addressed.

With over 13,000 employees, Hennepin County provides hundreds of services to more than one million residents in Minneapolis and the surrounding communities. These services range from providing roads and housing to public health services and corrections—services for which there is little to no competition from the private sector. Hennepin County is governed by a seven-member Board of Commissioners (County Board), whose members are elected to four-year staggered terms, and a County Administrator, who is appointed by the County Board. Together, they are responsible for the entire administrative operation of more than 30 departments. Under this structure, HCMC competes with many other lines of County business for the attention and leadership of the County's top management.

HCMC is run by a hospital administrator who is appointed by the County Administrator and the County Board. The hospital administrator is responsible for managing the hospital on a daily basis but must seek County Board approval for many operational decisions that would not require similar board approval in other hospitals. Because these operational decisions are decided by the County Board, they are decided at meetings open to the public. This allows HCMC's competitors to find out information on HCMC's plans for strategy, employment, finances, and patient delivery that would not otherwise be available if HCMC were private. In an industry in which competition is fierce, this gives HCMC's competitors a distinct advantage over HCMC.

HCMC's 4,000+ employees are governed by the Hennepin County Civil Service rules, which provide uniform compensation, benefits, and human resources policies for all departments of the County. Cycle times for recruiting and job classification are three to six times longer for HCMC than for its competitors. The resulting need to pay overtime or temporary agency staff is a serious cost burden, in addition to the impact of losing good candidates to the hospital's competitors. Compensation programs reward longevity rather than performance, and for many jobs, salary ranges are inadequate to retain highly trained staff. As the available workforce continues to shrink, HCMC will be required to design and implement more flexible programs that will better attract and retain skilled workers.

There are also significant limitations on HCMC's ability to enter into joint ventures. For example, Minnesota Statutes section 144.581 restricts HCMC's ability to contribute funds to a joint venture that will last more than three years without full repayment. This type of restriction limits the possibilities for closer alignment with Hennepin Faculty Associates (HFA), the hospital's physician group. At one time, HFA physicians were employees of the County and the University of Minnesota; however, in the 1980's, the physicians and HCMC leadership decided that the creation of a separate organization was more prudent because the existing model could no longer meet each of their needs. HFA physicians are integral to the provision of medical care at HCMC, and as McKinsey and Company (McKinsey) identified, there are many opportunities for greater physician collaboration. Steps have been taken to create increased alignment between HCMC and HFA, but these initiatives can only go so far under the current model. Both HFA and HCMC leadership agree that greater flexibility and increased entrepreneurial leadership will allow the hospital new opportunities to better collaborate with HFA.

To maintain HCMC's quality and to lessen the projected future financial burden on County taxpayers, HCMC needs a structure that will allow it to better compete for patients. This

requires a governing board whose experiences can provide guidance in an extremely complicated and competitive health care environment while also concentrating on the day-to-day business of the hospital. It requires public disclosure requirements that are better designed to ensure public accountability while not placing HCMC at a competitive disadvantage. It requires a human resources system designed to ensure the delivery of high quality care. It requires an institutional culture that ensures the continuation of an important public mission while capitalizing on new opportunities for joint ventures and innovative partnerships.

The development of this model is a serious and important task that will affect the future, long-term viability of HCMC. The overriding interest of the County Board is the assurance that HCMC's mission will continue, and that the hospital will be held accountable to the public for the services it provides. The overriding interest of HCMC employees is stable continued employment, competitive compensation, and the opportunity for career advancement. Neither of these goals will be possible unless HCMC's finances are stabilized and the hospital is operated successfully in the future. We agree with recommendations made by the prior Task Force and HCMC's consultants that without some change enabling HCMC to operate on a more competitive basis, HCMC will not remain financially viable. Without change, HCMC will no longer be able to provide core services at the same levels, employment and benefits will be in jeopardy, and the essential role HCMC plays in our community will decrease if not entirely disappear. This is a change that Hennepin County cannot afford to delay.

II. HCMC Governance Transition Committee's Purpose and Process

A. Purpose

The costs to deliver health care have increased faster than the payments for health care services. As a result, the traditional business model for a public teaching hospital is required to become more responsive to the changing health care environment. In 2002, HCMC and HFA agreed that a joint strategic plan was needed. The plan was developed with facilitation by McKinsey. The plan indicated that preservation of the mission and viability of HCMC was predicated on improved economic performance. Given the cost and payment trends in the hospital sector, McKinsey recommended implementing six major initiatives: revenue cycle management, purchasing/supply chain management, practice efficiency, labor productivity, payor contracting, and growth in revenues. Among the preconditions for success of these initiatives are greater flexibility and/or transformation of the governance structure.[12]

Based on the McKinsey report, the County Board voted to evaluate whether a different structure could maximize efficiency, effectiveness, and the operations of HCMC. In April 2003, the County Board created a fourteen-member HCMC Governance Task Force (Task Force) and charged it with studying the current health care environment, economic and business models, models for hospital governance, Minnesota statutes, and existing County Board policies, in order to recommend a new model for the oversight of HCMC.[13]

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[12] McKinsey Report.

[13] Exhibit 5: Resolution 03-4-132R1.

After reviewing national trends and information regarding the local environment, the Task Force presented a report with recommendations to the County Board. The Task Force concluded that Hennepin County should:

- Create a not-for-profit corporation with a diverse and experienced board, which would hold management accountable for maximizing the effectiveness, efficiency, and operation of HCMC, while meeting its mission as a public, safety net teaching hospital;
- Accelerate capital expenditures to bring HCMC's technology and the physical plant to competitive levels; and
- Enter into an agreement with HCMC to provide reimbursement for indigent care on a consistent formula basis rather than by simply funding HCMC's operating deficits.

While the County Board agreed with the Task Force's recommendation that "a transition to an alternative governance system may be essential to preserving the mission of HCMC," it determined that more information was needed.[14] On June 8, 2004, the County Board appointed a smaller five-member HCMC Governance Transition Committee (Transition Committee) to gather this information and make further recommendations on the proposed governance model. In particular, the Transition Committee was asked to provide greater specificity regarding:

- A method to preserve retirement benefits for existing employees of HCMC;
- The means by which HCMC will remain accountable to the public for its mission and financial performance;
- The means by which the County can hold the new governing body accountable for the responsiveness of HCMC services to the community and for its operating (financial) performance;
- The method to determine the priorities of the initial accelerated capital expenditures recommended in the Task Force report and the process for further determination of capital expenditures and the funding thereof;
- A consistent volume-driven internal formula for funding charitable care; and
- An aggressive plan for expansion of HCMC's market share in both suburban Hennepin County and downtown Minneapolis.

The County Board also asked the Transition Committee to review the current strategic plan for the hospital to identify opportunities a new governance structure might create relative to the evolving health care environment. Finally, the County Board asked the Transition Committee to present an estimate of the costs and ongoing savings that may be derived from implementation of the Committee's recommendations.

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[14] Exhibit 6: Resolution 04-6-293R2.

B. Members

The County Board selected the following five members from the original Task Force to serve on the Transition Committee:

- Irving Weiser; Chairman, RBC Dain Rauscher, Inc. *(Transition Committee Chair)*
- Mark Bernhardson; City Manger, City of Bloomington
- Gregory Pulles; Vice Chairman, TCF Financial Corporation
- Sharon Sayles Belton; Senior Fellow, Humphrey Institute of Public Affairs
- Nikki Sorum; Senior Vice President, Thrivent Financial for Lutherans

The Transition Committee members have a wide breadth of knowledge on finance, government, human resources, business and legal issues. **We unanimously endorse the recommendations of this report.**

C. Approach

The Transition Committee held nine meetings (2-4 hours each) and received input from County Administration, the County Attorney's Office, County Finance, and various stakeholder groups, in addition to viewing presentations from HCMC staff and outside consultants on the following topics:

- Updates and changes at HCMC since the 2003 Task Force;
- HCMC's strategic initiatives;
- HCMC's financial status, including (a) five-year financial and capital forecasts, (b) current and future levels of the services provided to other County departments, (c) uncompensated care and(d) medical education;
- A five-year capital plan;
- Public benefit corporation models across the country;
- Human resources models, including issues relating to PERA and Civil Service;
- The HCMC/HFA relationship; and
- A cost-benefit analysis of a change in the governance model.

The Transition Committee also held six public meetings in October and November, 2004, to provide information and solicit feedback from interested members of the community. We received questions and input from patients, employees, community stakeholders, and elected officials. Major themes from these discussions included the vital role of HCMC's public mission, the need to maintain the "totality of care" provided at HCMC, and the need to maintain services to a diverse patient base. Questions were raised about the future of research, why change is needed, whether the scope (in terms of geography and specialty) of services will change, what decisions will remain with the County Board, what other savings opportunities exist, and what a governance change would mean for hospital employees. This input was considered in the development of these recommendations.[15]

[15] Exhibit 7: Summary of Public Input.

From June to September, 2004, HCMC staff and outside consultants reached out to employees to learn how they felt about the proposed changes. During this process:

- HCMC staff conducted six employee forums to discuss the possible changes in HCMC's governance structure and to identify employee questions and concerns;
- An outside consultant conducted six in-depth employee focus groups to further understand employee concerns and to assess employees' readiness for change;
- Employees were invited to ask questions and provide input using a specially designated telephone hotline and intranet resources; and
- Employees received ongoing written updates and responses to many of their most pressing concerns.

Based on the input received, employees have been most concerned about continuation of their eligibility for participation in the Public Employees Retirement Association (PERA) as well as possible loss of vacation and sick time accruals. Issues concerning the continuation of the "early retiree medical benefit" and ongoing job security have also been raised. Employees understand the need for change in order to preserve HCMC's future and mission, along with its ability to sustain employment levels. Employees also express openness to new approaches and enthusiasm about the contributions they can make to greater efficiency and process improvement. Findings from the employee input processes have also been considered by the Transition Committee in forming these recommendations.[16]

III. Summary of Recommendations

In its 2003 Report, the Task Force identified several specific features of the existing governance structure that constrained the flexibility and competitive maneuverability of the hospital.[17]

1) The County Board's responsibility for a host of governmental operations has made "it difficult for the County Board to provide the level of involvement and health care expertise" necessary to manage an institution like HCMC in a changing regulatory and economic environment.
2) The Hennepin County Human Resources System, the County's job classification system applicable to most of the jobs in the hospital, is not specially designed to meet the needs of a hospital and does not provide sufficient flexibility to respond to the competitive health care environment.
3) The Minnesota Open Meeting Law and Data Practices Act apply to the hospital, except when the hospital is able to show that a specific competitive harm will be caused by the disclosure. These laws allow HCMC's competitors ready access to strategic and competitive information that would otherwise not be public.

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[16] Exhibit 8: Summary of Employee Forums and Employee Focus Groups.

[17] Task Force Report at 16-17.

4) The hospital is subject to many of the constraints of the purchasing rules and regulations applicable to government.[18] While these constraints are appropriate in a traditional government model, they prevent the hospital from being able to negotiate freely with organizations; placing the hospital at a competitive disadvantage.

We reviewed each of these challenges and developed the following recommendations. To continue HCMC's role as a safety net teaching hospital with an excellent reputation for patient care, Hennepin County needs to:

- **Create A Focused Governance Structure.** The creation of a professional health services board is required if HCMC is to achieve the focus and flexibility needed to meet the growing challenges in this quickly evolving heath care market. This board will operate subject to the reserved powers of the County Board, which will continue to oversee the overall mission and objectives of HCMC.
- **Permit Flexibility in Daily Operations While Maintaining Overall County Control.** The County Board will retain authority over significant portions of the hospital's activities through the exercise of specific financial, governance, and employment controls including the right to approve almost all indebtedness, major capital expenditures, and significant joint ventures. The day-to-day operating decisions will be decided by the new Board under a governance model that is designed to meet the needs of a public hospital in today's environment.
- **Contract for Indigent Care.** Historically, the County provided property tax support to HCMC as needed for the provision of uncompensated care. That support, while clearly assisting HCMC in its efforts to serve the indigent, was not directly tied to the services provided. By switching to a consistent, volume-driven formula for payment of services provided to the indigent, the County would be directly supporting HCMC's safety net role and encouraging HCMC to operate in a cost-effective manner.
- **Allow for Innovative Health Care Employment Models.** Changes in workforce demographics locally, regionally, and nationally are significantly affecting the supply of skilled health care professionals. To sustain itself as a critical community resource, HCMC must compete in a market where creative, flexible and adaptable programs are expected by a workforce that increasingly has other choices. While our proposal allows the hospital flexibility to develop new programs, current employees will be able to continue participation in the PERA retirement programs and retain their current County employment dates, along with vacation and sick time balances.
- **Require Public Accountability While Remaining Competitive.** Through the direct reporting and oversight process with the County Board, disclosure requirements will apply to HCMC that will ensure public accountability, without creating a competitive disadvantage for the hospital. The more restrictive requirements of the Minnesota Open Meeting Law and Data Practices Act will not

[18] Following the Task Force Report, the County Board was able to remove some of these constraints. HCMC, however, is still restricted by public procurement requirements when purchasing generic services.

apply, allowing for a more "level playing field" with respect to HCMC's competitors.

- **Foster Creative Partnerships.** Today's health care industry is filled with partnerships and collaborations that solidify revenue streams and ease difficulties caused by increasing expenses. Organizations want partners with governance structures that operate with an entrepreneurial mindset and are populated with industry-specific expertise conducive to rapid decision-making – something HCMC has found difficult to provide in its current status as an Enterprise Fund of the County. Change is needed to create new opportunities for partnerships and collaborations that will further HCMC's mission.
- **Capital Infusion.** In order to remain a world-class institution, HCMC needs additional capital. County and hospital staff have determined that HCMC needs an additional $250 million in capital over the next five years of which HCMC's operations can generate $140 million. This capital investment would allow HCMC to upgrade its equipment and facilities. Because only a preliminary plan identifying significant capital needs has been completed, the Transition Committee has not prioritized this list. Instead, we encourage HCMC staff to develop a revised Strategic Plan and Master Facilities Plan that will be utilized to prioritize specific capital needs in the future. One of the first tasks for the new HHS Board will be to further develop and prioritize HCMC's capital needs.

IV. A New Era: Transforming HCMC

In its report, the Task Force identified the following characteristics believed to be most important for HCMC's new governance model.[19]

- The hospital would be accountable to the public both for its mission and financial performance.
- Hennepin County would continue to own the hospital's assets, which it would lease to the new entity.
- Hennepin County would remain responsible for providing indigent care, but it would pay for that care through a consistent formula negotiated with the hospital.
- The hospital would continue to be able to access capital markets through the County's borrowing capabilities.
- The hospital would create its own employment system to compete with private employers of health care workers.
- Hospital management would be directly accountable to a new, sole-purpose and expertise-driven hospital board.
- The new organization would have the flexibility to position itself without the unfair disadvantage of sensitive HCMC business information flowing directly to its competitors.
- The new organization would have greater ability to participate in joint ventures and otherwise align its interests with strategic partners.

[19] Task Force Report at 18-19.

- The County Board would be able to resume control of the hospital should the new organization fail to perform either financially or according to its mission.

Based on these attributes, we reviewed several different organizational models and recommend changes in the following areas.

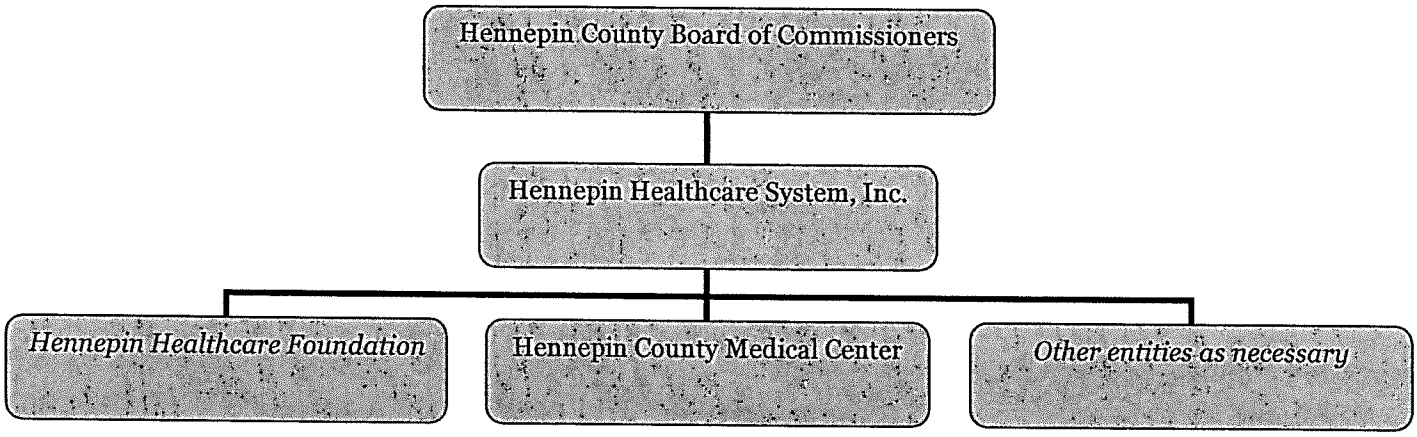
A. Create a Flexible, but Accountable Governance Structure

We reviewed fourteen examples of public hospitals to determine the best model for HCMC's new governance structure.[20] These models ranged from private non-profit 501(c)(3) hospitals who contract with government entities to provide safety-net services, to an advisory board model with a similar governance structure to HCMC today. We focused in particular on those public hospital models with a separate public entity; currently fifty-three percent (53%) of public hospitals across the country have this type of structure. Even though many examples of public corporations exist, each example is unique and specifically designed to comply with varying state and local laws, as well as meet the needs of a particular community. Rather than choose one model, we took the best elements from several models and designed a unique governance structure that we believe strikes the appropriate balance between public accountability, service to the community, and entrepreneurial spirit. While the Task Force recommended a model with significant private attributes, we felt that a model, which contains direct County Board control while retaining essential private attributes, is more appropriate for our community.

1. Hennepin Healthcare System, Inc.

We recommend creating a structure that is flexible and competitive, while still being accountable for providing medical education and outstanding patient care to the community. We therefore recommend the creation of an umbrella organization (which we have called Hennepin Healthcare System, Inc. or HHS) to oversee Hennepin County Medical Center (whose name will remain the same). As the diagram on the next page illustrates, under this model the new board will have the ability to create foundations or other entities as required to maintain HCMC's public mission, while still remaining under direct County Board control.

[20] Exhibit 9: Comparison chart of public hospitals.



While the enacting legislation[21] and corresponding bylaws[22] provide extensive detail on the proposed model, the key elements of the corporate and governance structure are outlined below.

- **Board of Directors.** We recommend that HHS be governed by a board of eleven to fifteen members, including the chief executive officer of the hospital and two Commissioners currently serving on the County Board. We recommend that directors be appointed based on criteria that will ensure diverse and beneficial perspectives and experience including, but not limited to, business management, public administration, legal, financial, medical and/or other health professional, health sector workers, public health, and the patient or consumer perspective.
- **Terms, Appointment Process.** The directors of the HHS Board will serve three year terms, but no more than nine consecutive years. Board members will be nominated by an HHS Board committee for approval by the County Board, but the County Board will not have the right to remove individual HHS Board members once appointed. Under limited circumstances, the County Board can remove the entire HHS Board.
- **Board Officers**. The HHS Board may elect a Chair, Vice-Chair, Treasurer, Secretary and such other Board officers as may be required. The Chair, Vice-Chair, Treasurer, and Secretary shall serve for a single two-year term. It is recommended that the Chair be a community representative who is not employed by the County, the hospital, or any interested health care provider organization.
- **Meetings.** The HHS Board will meet at least six times a year and provide at least quarterly reports on its activities and finances to the County Board. While HHS will be subject to public disclosure requirements, they will be different from the Minnesota Open Meeting Law and Data Practices Act and will ensure accountability through the disclosure of financial and operational information, without creating a competitive disadvantage for the hospital.

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[21] Exhibit 1: Enacting Legislation.

[22] Exhibit 2: Hennepin Healthcare System, Inc. Bylaws.

- **Employees.** All active employees will transfer to the new organization with service credit from their most recent hire date with the County. PERA participation will continue for existing employees, but the hospital will have the option to create a new defined contribution pension plan for future employees. Vacation and sick pay balances will also transfer. Civil service rules will be replaced by human resources policies that are specially designed for the needs of a hospital and the hospital will have the option to create new compensation and benefits programs. Existing labor union representation will be recognized, and the Minnesota Charitable Hospitals Act governing labor relations will continue to apply. The hospital will negotiate future labor agreements with union representatives. Pay Equity and Veterans' Preference laws will continue to apply.
- **County Services.** HCMC understands and values the role it plays in providing services to other County departments. HCMC intends to continue discussions with the respective county departments to determine which services should continue as before and which should be modified to reflect trends and changing needs. Beyond the informal interpersonal relationships and common venues for interaction (e.g. the monthly Human Services Group meetings), HCMC will continue to jointly plan and provide services with other County departments at regular interval, or on an as-needed basis.

2. Public Accountability

In order to exercise HHS's public responsibilities, and ensure that it "remain[s] accountable to the public for HCMC's mission and financial performance," we recommend that the County Board retain certain "reserved powers," and that HHS be subject to certain public accountability requirements. We recommend placing many of these reserved powers in the bylaws as opposed to the enacting legislation, because this will allow the County Board to delegate authority to the HHS Board as it deems appropriate. Unless otherwise outlined below, we recommend that all other authorities and powers to manage the facilities, assets, personnel, services and programs of HHS be delegated to the HHS Board.

Explicit County Board Controls

In many of the governance models we reviewed, the public benefit corporation's corporate powers were limited by controls imposed by the governing political entity. We evaluated several different types of controls in the areas of governance, corporate form, and human resources. Based on the information provided, we recommend implementation of the following controls.[23]

Governance

- Any change to the mission or bylaws (if substantially affecting governance) must be approved by the County Board.
- There shall be up to two County Commissioners (currently serving on the County Board) who will also serve on the HHS Board.

[23] Exhibit 3: County Board controls.

- Appointment of the slate of directors to the HHS Board shall be approved by the County Board.
- The County Board may remove the entire HHS Board under limited circumstances.

Corporate Form

- The County shall retain ownership of all the real property and plant assets, which will be leased to HHS following the creation of the new entity.
- The County Board shall approve any significant assignment, sublease, or facility-wide management contract of the hospital.
- The County Board shall approve any merger, consolidation, or dissolution of HHS.
- HHS cannot create subsidiaries without the approval of the County Board.
- The County will reserve the right to regain full operational control of HCMC upon the occurrence of certain "performance triggers," as specified in the lease, after notice and opportunity to correct has been given, and the HHS Board is unwilling or unable to remedy the deficiency.[24]

Human Resources

- The County Board has the authority to confirm the initial employment of any HHS chief executive officer.

Public Accountability

In addition to the reserved powers related to governance, corporate form, and human resources, we also recommend specific financial controls and public reporting requirements to ensure accountability to the public and to the County for HHS's use of public funds.

Financial Controls

- No ability by HHS to independently levy property taxes.
- Approval of any debt incurrence, excluding *de minimus* debt. *De minimus* debt is defined as capital leases that, on a cumulative basis, have an annual debt service of less than one percent (1%) of revenues (about $4 million currently).
- Approval of certain capital expenditures. This includes the approval of the capital budget in the aggregate and line item review and approval when (a) the aggregate budgeted spending for capital improvements is greater than ten percent (10%) of revenues (about $40 million currently) or (b) an individual capital expenditure or project is greater than one percent (1%) of revenues (about $4 million currently). In addition, approval is required when any expenditure causes the total aggregate capital expenditure amount (in a given year) to exceed the annual approved budgeted amount or when any spending for capital expenditures results in the incurrence of debt, excluding *de minimus* debt.

[24] Exhibit 4: Summary of proposed lease terms.

- Approval of the operating budget. This is defined as a five-year capital plan and annual operating and cash flow budgets. In addition to approving the budget in the aggregate, the County Board may also specifically approve certain line items which involve large capital expenditures, incurrence of debt (except if *de minimus*), payment for uncompensated care, and any joint venture when HCMC's potential capital commitment (current and future) is greater than one percent (1%) of revenues (about $4 million currently).

Public Reporting Requirements

- HHS will be required to publicly disclose annual audited financial statements, bylaws, tax returns, compensation paid to high-level employees, and reports provided to the County Board. The Minnesota Open Meeting Law and Data Practices Act will no longer apply.
- Annually, the County Board shall approve a health services plan[25] prepared by HHS that will draw from a population health needs assessment. The plan will delineate the role HHS is to have in the community and the plans HHS has for the upcoming year.
- HHS will provide, at a minimum, quarterly reports to the County Board on the health services plan, financial status, and provision of indigent care.

B. Competitive Employment Models

HCMC is a large employer in the Twin Cities area, with more than 4,000 highly skilled employees. Over sixty percent (60%) are technical and professional health care providers, and most of the remainder are technically-skilled support staff. Our Committee focused on understanding existing human resources systems and processes to identify challenges and opportunities for HCMC. We reviewed information from HCMC staff and outside consultants describing (1) employee attitudes regarding the proposed governance change, (2) a review of the current human resources program, and (3) compensation and benefit models for current and future employees of HCMC. Based on this information, we developed recommendations for a new governance model that will "preserve existing retirement benefits for existing employees of HCMC," while providing the flexibility to develop a more competitive approach.

1. Employee Attitudes

Employee concerns and readiness for change were assessed via a number of employee focus groups, quarterly employee forums, and feedback through dedicated telephone lines and the intranet. We learned that employees are very committed to HCMC's mission, serving its diverse patient population, and the special teaching and learning opportunities made possible by HCMC. Employees also understand the need to balance the mission with financial viability and recognize that this is a difficult task. Employees are flexible and open to change in the human resources programs.

[25] A proposed outline for the health services plan is provided in Exhibit 12.

2. Current Human Resources Systems

We conducted a review of current human resources systems to further understand the competitive challenges posed by existing processes. Civil Service rules and County policies provide an operating environment for hospital management that is not sufficiently competitive and which significantly inhibits HCMC's ability to effectively respond to the unique health care environment. Current policies, which emanate from County Civil Service rules, result in significant delays in HCMC's ability to recruit, manage, and redesign workload. For example, the County's seventeen-step recruiting process is three to four times longer than that of most of HCMC's competitors. This results in the loss of qualified candidates, with positions being held open due to an inability to make timely and appropriate selection decisions. Similarly, the job classification and reallocation processes involve cycle times that are three to six times longer than comparable processes in competing organizations. In an organization where work redesign is critical, this process alone is a significant encumbrance. Removal of Hennepin County Civil Service rules will allow HCMC the ability to design human resources policies that will meet the needs of this extremely competitive health care market. With the number of quality health care employees decreasing, HCMC must be able to reduce unnecessary administrative delays to enable hiring and retaining of the best employees available.

3. Benefits and Compensation

We reviewed several analyses of benefits and compensation programs to determine the challenges and opportunities present in HCMC's current employee programs and to determine the best method for continuing existing retirement benefits for existing employees. Detailed studies were undertaken by Mercer Human Resource Consulting (an actuarial analysis of PERA and the Early Retiree Health benefits); Watson Wyatt Consulting (a cost and benefit study of employee benefit plans available in the health care market); and by HCMC and Hennepin County staff (a competitive comparison of compensation rates and program design). Labor relations and employee benefits counsel were engaged to provide guidance on the relationship between the different alternatives and the viability of continuing PERA.[26]

Continuation of Existing Retirement Benefits

We found that HCMC's current retirement benefit structure through PERA provides employees with benefits that are competitive from both a cost and benefit perspective.[27] In order to retain these benefits, HHS needs to remain a public entity under the control of the County Board. The governance model we have proposed will enable HCMC employees to continue their current retirement benefits through PERA. However, because PERA costs may increase in the future, HCMC should have flexibility to create alternative defined contribution plans for future employees.

Alternative Benefit and Compensation Systems for the Future

A competitive comparison of HCMC's welfare benefits to other Twin Cities area health care organizations revealed significant opportunity to improve benefits and, at the same

[26] A more complete summary of the results of these studies is available in Exhibit 13.

[27] Mercer Analysis.

time, be more cost effective.[28] For example, HCMC is the only hospital in the Twin Cities that does not reward its employees for receiving health care services at their place of employment. A change in this benefit alone could result in over $1 million saved annually. Similarly, a detailed analysis of compensation levels at the hospital compared to HCMC's competitors revealed that average pay levels at HCMC are somewhat below competitive market rates. Salary range maximums at HCMC are often inadequate to pay median rates, resulting in high-performing individuals leaving to be paid more elsewhere.[29] The most significant problem with the current compensation model is that it rewards longevity rather than performance and, as such, does not support alignment of organizational and individual goals. HCMC must have the ability to create an environment that encourages excellence by rewarding superior performance and to ensure the retention of quality employees through competitive benefit and compensation systems.

C. Strategic Expansion and Market Development

In its resolution, the County Board requested specific information with respect to a plan to expand HCMC's service area to the suburbs and downtown Minneapolis, and information describing how the new governance model relates to the strategic plan. We reviewed material on the current HCMC initiatives and provide the following recommendations.

1. An Aggressive Plan for Expansion

The County Board asked the Transition Committee to include greater specificity regarding "an aggressive plan for expansion of HCMC's market share in both suburban Hennepin County and downtown Minneapolis." While we reviewed the projects currently underway, such as HCMC's Partners in Care Initiatives, we concluded that a review of any specific plans for market expansion should be addressed through a comprehensive update of HCMC's Strategic Plan. Planning processes are already underway and will result in HCMC becoming a more accessible and attractive health care system for patients and providers. These include:

- Targeting specific programs for promotion;
- Identifying geographic and demographic population segments to serve;
- Improving accessibility; and
- Publicizing the ways and means to access HCMC services.

We recommend that following passage of the legislation, the new board develop a plan to specifically address expanding HCMC's market share in the suburbs and downtown Minneapolis.

2. How the New Governance Model Relates to the Strategic Plan

The County Board also asked the Transition Committee to review "the strategic plans of HCMC for the purposes of identifying opportunities that a new governance structure might create relative to responding to the evolving health care market." As did the Task

[28] Watson Wyatt Analysis.

[29] HCMC Internal Staff and County Administration.

Force, the Transition Committee reviewed the results of the McKinsey report. In 2002, McKinsey recommended greater flexibility as an important precondition for the success of the initiatives deemed essential to increase revenue, manage costs, and grow patient volume. As the McKinsey report described, trends in HCMC's revenues and costs suggest a future negative operating margin of $60 million unless corrective action taken. These assumptions were based on the growing need for services among the aging population and increasing raw material costs including pharmaceuticals and technological enhancements. The most crucial strategies for combating these deficits are related to operational opportunities.

Based on the McKinsey report and on presentations made by the County, hospital staff and outside consultants, we have concluded that a new governance structure would permit HCMC to more effectively respond to challenges posed by the health care environment. Rigorous cost management, informed and timely decision-making, "smart growth," and affiliations or ventures with other organizations are necessary for HCMC's survival. Several of the Partners in Care Initiatives (productivity improvement, practice efficiency, purchasing/supply chain management) can be accomplished with greater efficiency if HCMC is less encumbered by the current structure and policies. In particular, we identified the following potential opportunities that our new governance model would create.

Alignment with Hennepin Faculty Associates

HFA is the multi-specialty group practice that has been a close strategic partner with HCMC for almost twenty years. It is imperative that HFA and HCMC continue to align economic incentives more closely in order to remain viable. Leadership of both organizations acknowledge that there are opportunities to consolidate duplicative administrative activities, reduce competing revenue-generating activities, and improve productivity and service responsiveness. A governance structure better able to focus on these strategic opportunities will support the entrepreneurial action needed to bring them to fruition.

Hennepin Healthcare Foundation

A number of National Association of Public Hospitals (NAPH) members have created foundations to raise monies to support the mission of their respective hospitals and health systems. Donors are often concerned about donating funds to a public entity, not wanting their donations to replace tax revenue. By creating HHS, a foundation could be created with a separate board and organizational structure that would more effectively attract philanthropy.

D. Funding for Capital Expenditures and Indigent Care

The earlier Task Force made several financial recommendations to provide HCMC a "level playing field," including an agreement for the funding of indigent care, the retention of depreciation and earnings, a catch-up grant of funding for capital improvements, and the use of the County's balance sheet and credit rating. The County Board asked the Transition Committee to develop a method for determining the priorities for funding capital expenditures today and in the future, as well as the formula for funding indigent care.

1. A Method for Prioritizing Capital Expenditures

A year ago, the Task Force concluded that capital spending at HCMC was currently behind industry standards. This conclusion was based on HCMC's previous six years of capital spending and concerns that HCMC was not "keeping up" with competing hospitals in terms of investments in technology and facility improvements. In fact, based on national benchmarking published by Fitch Rating Services, for the eight-year period from 1997 to 2004, HCMC has been under capitalized by $69 to $75 million, or $9 million a year. To provide the new entity with a "fair opportunity to develop and implement programs and technologies needed for long-term viability of HCMC," the Task Force recommended that the County provide "catch-up funding" for HCMC of between $25 and $30 million. Subsequently, hospital staff, working in concert with County Administration, developed a draft of a five-year capital plan and determined that HCMC needs an additional $250 million in capital over the next five years. This capital reinvestment would allow HCMC to upgrade its health records system, redesign the physical plan, create efficiencies and enhancements in the delivery of care, and provide sufficient cash flows to finance an appropriate level of reserves. HCMC operations can generate $140 million of the $250 million needed. HCMC and County staff have preliminarily recommended that the County raise the remaining $110 million through bond financing, with HCMC operations assuming responsibility for $50 million of the repayment amount, and the County assuming responsibility for the remaining $65 million.

We have reviewed this plan, but are not in a position to finalize any recommendations on how to prioritize spending at this time. We encourage HCMC management to proceed with further revisions to its current Strategic Plan, which should also include a Master Facilities Plan for all of its properties. Once this is completed, a method to prioritize capital expenditures can be developed.

2. A Consistent Volume-Driven Internal Formula for Funding Indigent Care

HCMC will not alter its commitment to serve the indigent. HCMC has for some time, however, been in the process of examining fairer and more effective ways of providing and paying for indigent care. As part of this process, the earlier Task Force recommended that the County enter into a long-term agreement with HCMC's new governing body to create a "consistent, volume-driven formula for indigent care that addresses its commitment to fully fund care for the medically indigent and vulnerable populations of Hennepin County." HCMC provides many services to safety net patients. Approximately eighty-four percent (84%) of the uncompensated care provided to HCMC inpatients is provided to residents of the seven-county metro area.

HCMC's source of revenue to cover the costs of uncompensated care is constrained because of decreasing state and federal funding for these types of services. While HCMC receives higher payments from the federal government for serving a disproportionate share of indigent patients and providing medical education, HCMC still faces financial difficulty. As noted earlier, HCMC's revenues only amount to five percent (5%) of all hospital revenues in the state, but HCMC is responsible for providing seventeen percent (17%) of all uncompensated care delivered in Minnesota.

HCMC has a number of initiatives currently underway to assist in the reduction of the costs associated with providing uncompensated care. These include emergency

department post-service collections, the relocation of the urgent care department next to the emergency room, the development of an admission and treatment policy to clarify HCMC's role in providing uncompensated care, the redesign of patient scheduling, and a revised registration process designed to assist patients in identifying alternative financing programs. While these initiatives are substantial, experiences of other public benefit corporation models illustrate the need for establishing a consistent formula that dictates the amount the County will pay for services provided to indigent County residents. [30]

We took the following principles into consideration when evaluating the volume-based formula for funding charity care:

- HCMC must remain motivated to qualify uncompensated care recipients for alternative government aid programs, prior to qualifying those residents for Hennepin County uncompensated care payments;
- The County will retain authority for HCMC's mission and its admission and treatment policy;
- Hennepin County will pay HCMC only for care provided to County residents; and
- The formula must be simple, logical, and administered in a fair way, but still be able to evolve with experience.

Based on these principles, we recommend that once HHS is created, an agreement based on the following formula be established between HHS and the County.[31]

> *Hennepin County will reimburse HCMC for uncompensated care provided to Hennepin County residents at the lesser of:*
>
> *a) a rate equal to between ninety-five percent (95%) and ninety-nine percent (99%) of Medicaid payment rates negotiated on an annual basis, or*
>
> *b) HCMC's actual cost.*

We believe that this formula takes into consideration the appropriate factors and will be sufficient to maintain HCMC's mission. We recommend, however, that the formula be adjusted on an annual basis for the first few years as the hospital adjusts to receiving payments for services rendered rather than as a direct subsidy from the County to HCMC's operations.

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[30] Both Nassau Health Care Corporation (Nassau, NY) and Westchester Medical Center (Valhalla, NY) illustrate the financial difficulties faced by public corporations when the public funding source for indigent care is eliminated.

[31] This formula was established through the work of County Administration, County Finance and HCMC Executive staff.

E. Estimated Costs and Operational Savings

1. Implementation Costs

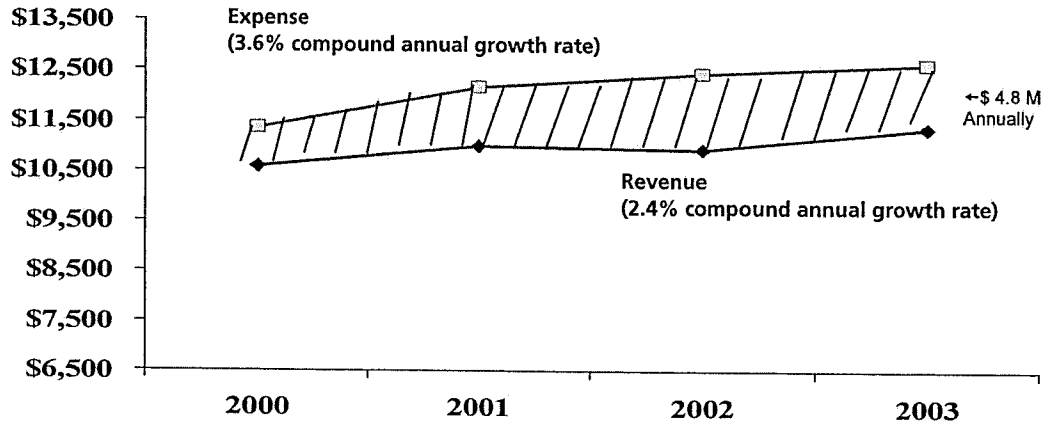
The changes we are recommending will involve some upfront costs associated with implementation of the legislation and legal costs associated with finalization of the bylaws, operating agreement, lease, and other documents required to create HHS. It is estimated that $100,000 - $150,000 will be spent in the passage of the underlying legislation and that the legal costs incurred during the transition period would not exceed $250,000. Once HHS is established, the costs associated with the new board will be *de minimus*, as the board will be a voluntary board.

The other costs associated with our recommendations will occur incrementally and, for the most part, will be recouped following implementation of the recommended changes. For example, we estimate that developing a new human resources system designed to meet the needs of a hospital will cost approximately $700,000 over the next two years. We estimate that a redesign of the human resources system will reduce the overall costs to HCMC and will allow for a recapture of the amount spent to implement this change. As HCMC management and the new HHS Board work to develop new strategies to foster collaborations, create new market strategies, implement capital expenditures, and in other ways enhance the care delivered by HCMC, other costs will be incurred. Most of the costs are associated with conducting business as a hospital and, therefore, would likely be incurred even under the current model. We believe, however, that these costs will be minimized under our recommended model because the HHS Board will be able to more quickly capitalize on opportunities and will have the flexibility to adapt to the changing marketplace.

2. Operational Savings

The County Board requested an estimate of the ongoing savings derived from our recommendations. As McKinsey identified and the graph below illustrates, HCMC has been experiencing an annual $4.8 million gap between its expenses and revenues.

Net Patient Revenue and Operating Expense per Adjusted Discharge



SOURCE: HCMC Internal Financial Records

We reviewed a significant amount of data pertaining to operational opportunities under a new governance model through changes in partnerships and employment systems, the creation of foundations or subsidiaries, and the strategic alignment with HFA. The opportunities present ways to eliminate this $4.8 million gap. While there is no silver bullet, we believe we have identified many opportunities to save money through the new organizational structure, and are willing to commit to the following:

- Within three years of appointment, the HHS Board will present a report to the County demonstrating the achievement of at least $3 million in annual sustainable savings;
- By the end of five years, the HHS Board will achieve a sustainable operating margin as is necessary to generate sufficient cash flows to finance capital expenditures and maintain HCMC's mission (an operating margin of 2-4%); and
- By the end of five years, the HHS Board will implement a working plan to make capital reinvestments of 5-8% of the annual operating budget, investments that are necessary to sustain the long-term financial viability of HCMC.

By making these commitments to the community and the County Board, we feel confident that we will be able to ensure a future for HCMC that is better for the community, and for all of HCMC's employees and patients.

F. Why Major Structural Change?

In reviewing alternative governance structures, we examined whether we could achieve the required changes under the current County structure. Under Minnesota law, the County has the ability to create an advisory board of three to nine people who would provide advice and guidance to the hospital staff and County Board. Such a board would have no independent authority to make decision, and the County Board would still be fully responsible for all decisions that it currently makes. Furthermore, it would not result in the removal of many of the legal obstacles that currently exist, which prevent HCMC from being much more competitive and, therefore, hinder HCMC's long-term ability to fulfill its mission. While this may have worked successfully for other county functions, this model does not recognize the many differences between a hospital that functions in a highly competitive environment and a government entity that provides services to the community in an environment left exclusively to government. The overall Hennepin County governance model is designed to meet the needs of a broad constituency of people who look to the government to "take care of" those services that no other private entity can provide. This is not the environment in which HCMC operates day-to-day.

Minnesota's health care environment forces HCMC to compete with other hospitals that can provide the same services at the same price. As a result, HCMC's future depends on a model that recognizes it is a unique enterprise within the County. This will require a board with the expertise to respond quickly to the highly volatile and dynamic health care market. At the same time, the County Board must be able to oversee the mission of HCMC, along with the overall provision of services to the community. Public disclosure requirements must be designed to balance the need for fiscal responsibility with the reality that HCMC is a public hospital in a private market. As HCMC faces increasing difficulty in attracting skilled workers, HCMC needs a human resources system that is designed to better attract employees who are essential to providing high quality care. Finally, HCMC must have the ability to encourage entrepreneurial partnerships that will enhance HCMC's

financial stability, and ensure the continuation of HCMC's mission long-term. We believe that our proposed model recognizes HCMC's differences, but continues to ensure the fiscal responsibility and public accountability that all government entities must have as fiduciaries of public funds.

V. Transition Process

Should the Hennepin County Board vote in favor of proceeding with the implementation of this new governance model for HCMC, there will be many steps to follow.

Passage of the Legislation

State legislation is needed to create the new entity because the County does not have the legal authority to form a political subsidiary and implement the proposed governance model. In addition, legislation will provide for the flexibility needed on such matters necessary to implement the model effectively, such as employment, public disclosure requirements, and the alleviation of existing limitations on joint ventures. The proposed legislation is attached as Exhibit 1. Once the proposed legislation is introduced to the Legislature, potential changes may arise with respect to its exact language and intent. A process will need to be established to pursue the legislation, monitor and approve any proposed changes, and ensure, to the extent possible, that the legislation meets with the full intent of the Transition Committee and the County Board.

Drafting of Definitive Agreements

The proposed bylaws for the new organization are attached as Exhibit 2. These bylaws contain our recommendations on how the new entity should function from a governance perspective. It is understood that once the legislation is passed, these bylaws will need to be finalized and approved by the County Board.

In addition, there are other documents, such as the lease and operating agreement between the County and HHS (outline attached as Exhibit 4) that will need to be finalized. This stage of our work focused on the overall governance model of the new entity, its relationship to the County Board, employment changes, and other key matters related to the governance and organizational structure for HCMC. It is intended that while the proposed legislation is pending before the Legislature, HCMC management continue to develop the details of the lease, the circumstances under which the County would have the right to revoke the lease, and such other matters concerning how the new model will be successfully implemented. These agreements would also more specifically address the indigent care formula, cash flows, capital expenditures, and how HCMC will continue to provide services to the County, including transitions to the new entity.

Transition to the New Governance Model

We recommend targeting January 1, 2006, as the implementation date for the new governance model. We believe this target date is reasonable, assuming that the work recommended in this report can proceed in connection with the passage of the proposed legislation and the drafting of definitive agreements. To accomplish this prior to January 1, 2006, the County would need to review and approve the bylaws for the new entity, as well as finalize all other agreements, including the lease and operating agreement. If these

efforts are successful and the final agreements approved, the new board of HHS would begin its work on January 1, 2006, with full implementation of the new governance model. On that date, the transition of employees would be effective and the management of HCMC facilities would transfer to the new HHS board, with the level of public accountability and oversight by the County Board outlined in this report and mandated by the new bylaws and legislation.

Based on this timeline, we recommend that the County Board convene a transition committee by March 31, 2005, and direct it to:

- Achieve the development of an updated Strategic Plan and Master Facilities Plan for HCMC;
- Oversee development of all final transaction documents, including bylaws, the lease and operating agreement with the County;
- Develop an operational transition plan to ensure the seamless continuation of services provided through HCMC to the County and to the community;
- Oversee the due diligence process to ensure an effective transition to the new entity effective January 1, 2006;
- Oversee the development of a 2006 budget for purposes of presentation to the County Board, which will include income, cash flows, and a five-year capital plan; and
- Recommend the final slate of HHS Board members to the County Board by October 31, 2005.

VI. Conclusion

Today, HCMC is one of America's Best Hospitals, providing excellent patient care, essential community services, and top notch medical education. We strongly believe, however, that continuing with a model that is not designed for HCMC's special needs as a public hospital will unnecessarily risk HCMC's ability to remain financially viable. To maintain HCMC's important role, a safety net subsidiary of the County must be created in the form of a public benefit corporation. This new entity will provide new entrepreneurial leadership through the expertise of a sole-purpose board, while maintaining HCMC's role as the leading public hospital in the Twin Cities serving the diverse needs of our community. Employees will be able to retain their retirement benefits through PERA, but will also benefit from a hospital-specific human resources system designed to be competitive with other hospitals in the market. The model will encourage new partnerships and strategic alignments, creating opportunities for HCMC to grow its patient base and its overall market share. The final result will reverse the downward trend that faces HCMC and instead provide a structure that allows HCMC to have a growing patient base and operating revenues needed to survive and thrive as one of "America's Best Hospitals" in the future.

List of Attachments

1) Enacting Legislation
2) Hennepin Healthcare System, Inc. Bylaws
3) County Board Controls
4) Summary of Proposed Lease Terms
5) Resolution 03-4-132R1.
6) Resolution 04-6-293R2.
7) Summary of Public Input
8) Summary of Employee Forums and Employee Focus Groups
9) Comparison Chart of Public Hospitals
10) Uncompensated Care Charts
11) Hennepin County Medical Center Income Statement (5 year comparative)
12) Proposed Outline for Health Services Plan
13) Summary of Human Resources Studies
14) December 7, 2003 Minneapolis Star Tribune Editorial

Bill to Create a Public Benefit Corporation to Provide Health Care and Related Services in Hennepin County, Minnesota

Table of Contents

CHAPTER ____-S.F./H.F. No. _____

An act relating to public and municipal corporations; creating a public benefit corporation to provide health care and related services, education, and research; providing for governance of Hennepin County Medical Center; amending in part and repealing in part Minnesota Statutes 2002, section 383B.217, as amended (the "Act").

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Sec. 1. **CREATION OF A PUBLIC BENEFIT CORPORATION.**

There is created a corporation which shall be public in nature. The public benefit corporation shall be known as Hennepin Healthcare System, Inc. The purpose of the corporation is to engage in the organization and delivery of health care and related services to the general public, including the indigent as defined by state and federal law and as determined by the Hennepin County Board of Commissioners, and to conduct related programs of education and research.

Sec. 2. **DEFINITIONS.**

Subdivision 1. **TERMS.** For the purpose of this Act, the terms defined in this section have the meanings given them unless the context clearly indicates otherwise.

(a) "Corporation" means the public benefit corporation created by Section 1.

(b) "County" means the County of Hennepin, Minnesota.

(c) "County Board" means the Hennepin County Board of Commissioners and its member(s).

(d) "HCMC" means the Hennepin County Medical Center, which is the medical center established and operated by the County pursuant to section 383B.217.

(e) "Effective Date" means the effective date of the sections of this Act, as defined in Section 31.

Sec. 3. **BOARD.**

Subdivision 1. **GOVERNANCE.** The Corporation is be governed by a board of directors consisting of between eleven (11) and fifteen (15) directors including no more than two Commissioners currently serving as elected officials on the County Board.

Subd. 2 **TERM, QUORUM, AND MANNER OF ACTING.** The term of office for directors, and rules governing quorum, and manner of acting for the board of directors must be specified in the bylaws of the Corporation which shall be approved by the County Board, except that:

(a) A vote of a majority of the board shall be required to hire or discharge the Corporation's administrator, to approve the annual budget, and for any action which requires subsequent approval by the County Board as specified in section 8; and

(b) Directors of the Board of Directors or any committee or advisory assembly or council appointed by the Board of Directors may participate in a meeting by means of telephone conference or similar communications equipment which enables all persons participating in the meeting to hear each other during the conduct of such meeting. Such participation shall be considered presence in person at such meeting for purposes of notice and quorum requirements as specified in the Bylaws.

Subd. 3. **REMOVAL.** A director may be removed without cause by the affirmative vote of a two-thirds (2/3rds) majority of the board of the Corporation. The County Board may petition the board for removal of a director, but has no independent right to remove a duly appointed director. The County Board may remove the board in its entirety. The bylaws of the Corporation shall specify the terms or conditions upon which removal of the board may occur.

Sec. 4. **OFFICERS.**

Subdivision 1. **ELECTION.**

(a) The officers of the board of the Corporation shall consist of the chair, the vice chair, the secretary, and the treasurer and such other officers as the board shall from time to time, deem necessary. The board shall elect officers by a majority vote of the board at the annual meeting, or in the case of the initial board, at the first meeting following appointment by the County Board.

(b) Any of the offices or functions, with the exception of the chair and vice chair, may be held or exercised by the same person.

Subd. 2. **REMOVAL.** An officer may be removed without cause by a two-thirds (2/3rds) majority vote of the board of the Corporation.

Sec. 5. **AUTHORITY AND DUTIES OF OFFICERS AND DIRECTORS.**

Subdivision 1. Officers and directors have the authority and duties in the management of the business of the Corporation that the bylaws prescribe or, in the absence of such prescription, as the board determines.

Subd. 2. Officers and directors shall discharge their duties in good faith, in the manner the officer or director reasonably believes to be in the best interests of the Corporation, and with the care an ordinary prudent person in a like position would exercise under similar circumstances.

Subd. 3. Officer and directors are not considered to be trustees with respect to the Corporation or with respect to property held or administered by the Corporation, including without limit, property that may be subject to restrictions imposed by the donor or transferor of the property.

Sec. 6. **BYLAWS.**

Subdivision 1. **BOARD ADOPTS OR AMENDS.** Subject to the County's reserved powers specified in section 8, the board may adopt, amend or repeal bylaws relating to the management of the business or regulation of the affairs of the Corporation not inconsistent with this Act or other law.

Subd. 2. **PROCEDURE AND NOTICE.** The procedure for amending the bylaws must be specified in the bylaws. Notice of the meeting at which the amendment shall be considered and notice of the amendment shall be given as provided in the bylaws.

Sec. 7. **CORPORATE POWERS.**

Subdivision 1. **AUTHORITY AND POWERS OF THE BOARD.** Subject to the reserved powers and limitations specified in section 8 or as specified in the bylaws of the Corporation, the Corporation, through its board, shall relative to the delivery of health care services, have, in addition to any authority vested by law, the authority and legal capacity of a nonprofit corporation under chapter 317A, including the authority to:

(a) have members of its governing authority or its officers or administrators serve as directors, officers, or employees of the Corporation's ventures, associations, or corporations;

(b) hire and discharge an administrator;

(c) approve personnel policies and practices, any applicable labor agreements, and levels of compensation and benefits recommended by the administrator;

(d) use employees, agents, consultants, and facilities of the County, as necessary in the discretion of the board, paying the County its agreed proportion of the compensation or costs pursuant to an agreement with the County;

(e) expend funds, including public funds in any form, or devote the resources of the Corporation to recruit and retain physicians whose services are necessary or desirable for meeting the health care needs of the population and for the successful performance of the Corporations' public purposes. Allowable uses of funds and resources include the retirement of medical education debt, payment of one-time amounts in consideration of services rendered or to be rendered, payment of recruitment expenses, payment of moving expenses, and the provision of other financial assistance necessary for the recruitment and retention of physicians, provided that the expenditures in whatever form are reasonable under the facts and circumstances of the situation;

(f) offer, directly or indirectly, products and services of the Corporation and/or affiliated entities to the general public, and retain any profits earned through the provision of these products and services for the purpose of advancing the mission of the Corporation;

(g) own shares of stock in business corporations;

(h) borrow money and issue bonds in support and promotion of the Corporation's purpose and mission and providing any rights and obligations related thereto;

(i) accept gifts, grants, loans, or contributions of funds or property or financial or other aid in any form from, and enter into contracts or other transactions with, the federal government, the State of Minnesota, third party payors, or any other source, and to use any such gifts, grants, loans or contributions for any of its corporate purposes;

(j) enter shared service and other cooperative ventures;

(k) join or sponsor membership in organizations intended to benefit the Corporation;

(l) enter partnerships, joint ventures, or other business arrangements to advance the mission of the Corporation;

(m) sue or be sued; and

(n) incorporate other corporations, both for profit and non-profit.

Subd. 2. **OTHER POWERS.** Subject to the reserved powers and limitations specified in section 8 or as specified in the bylaws of the Corporation, the Corporation shall have all the powers necessary and convenient for the operation, administration, management, and control of the Corporation's affairs. The enumeration of specific powers in this section is not intended to restrict the power of the Corporation to take any action which in the exercise of its discretion is necessary or convenient to further the purposes for which the Corporation exists, and that is not otherwise prohibited by law, whether or not the power to take the action is necessarily implied from the powers expressly granted.

Sec. 8. **LIMITATIONS UPON CORPORATE POWERS; RESERVED POWERS.**

Subdivision. 1. **POWERS RESERVED TO THE COUNTY.** Notwithstanding the authority granted to the board in section 7, the County Board shall retain specific controls over the Corporation's mission, ability to incur indebtedness through the County, indigent care, and governance. These County Board controls must be specified in the bylaws, which shall be approved by the County Board.

Subd. 2. **RESTRICTION ON DISPOSITION OF THE ASSETS.** The Corporation shall not have the power to dissolve, merge, consolidate, transfer or otherwise dispose of, or distribute all or substantially all of the assets without the express prior approval of a majority the County Board.

Subd. 3. **DISTRIBUTION OF ASSETS UPON DISSOLUTION.** In the event of the dissolution of the Corporation, the net assets of the Corporation shall be distributed to the County for use by it for public purposes.

Subd. 4. **COMPENSATION AND PAYMENT LIMITATIONS.** No part of the net earnings and assets of the Corporation shall inure to the benefit of any private individual, nor shall any part of the income or assets of the Corporation be distributed to or divided among any private individuals as dividends or otherwise.

Sec. 9. **CORPORATE SEAL.**

The Corporation shall not have a corporate seal.

Sec. 10. **BOARD MEETINGS.**

In accordance with the bylaws of the Corporation, the board shall provide for annual, regular and special meetings to be held at a designated interval throughout the year. Notice of these meetings shall be provided in accordance with the bylaws of the Corporation.

Sec. 11. **MEETING OPEN TO THE PUBLIC.**

Each year the Corporation shall hold a meeting which must be open to the public. At this meeting the board of directors and/or the administrator of the Corporation shall report on the affairs of the Corporation and goals for the future. At this meeting, a report shall be given on the Corporation's health services plan and a copy of this report shall be made available to the public.

Sec. 12. **PUBLIC DEPOSITORY.**

The Corporation shall have jurisdiction over its accounts and payrolls and shall establish and maintain a public depository. The Corporation may use the County as a public depository. If the depository is not the County, the depository must be subject to chapter 118A, except that the Corporation shall determine the appropriate security. The Corporation shall establish and maintain all necessary accounts. The Corporation may establish reserve accounts, depreciation accounts, and working capital funds in order to operate on an accrual basis.

Sec. 13. **TRANSFER OF RIGHTS.**

Subdivision 1. **CORPORATION AS CONTINUATION OF HCMC.** The Corporation created by section 1 shall be considered a continuation of HCMC for purposes of all the rights, liabilities and contractual obligations of the County pertaining to the operations of HCMC except as otherwise provided herein. The Corporation succeeds to all rights and contractual obligations of the County pertaining to the operations of HCMC with the same force and effect as if those rights and obligations had been continued by the County itself.

Subd. 2. **PENDING MATTERS.** The Corporation may conduct and complete any legal action, administrative proceeding, or any other matter commenced by or against HCMC or the County, on behalf of HCMC, which was incurred before or pending as of the Effective Date, in the same manner, under the same conditions, and with the same effect as though such action, proceeding, or other matter were conducted or completed by HCMC or the County acting on behalf of HCMC.

Subd. 3. **TRANSFER OF DOCUMENTS REQUIRED.** HCMC or the County, on behalf of HCMC, shall transfer and deliver to the Corporation all contracts, books, bonds, plans, paper, records, including all personnel and medical records, and other property of every description within the jurisdiction or control of HCMC or the County acting on behalf of HCMC except as otherwise provided herein.

Subd. 4. **TRANSFER OF FUNDS.** All unspent funds appropriated to HCMC or the County on behalf of HCMC shall be transferred and appropriated to the Corporation as of the Effective Date.

Sec. 14. **LEASE AND/OR TRANSFER OF ASSETS.**

Subdivision 1. **CORPORATE STATUS.** The Corporation shall be considered a "public corporation" for purposes of section 465.035.

Subd. 2. **LEASE OF THE REAL PROPERTY.** Notwithstanding any other laws to the contrary, as of the Effective Date, the County shall enter into a lease and such other transaction documents with the Corporation as are necessary for the operation of the Corporation, which shall consist of substantially all of the Real Property acquired by or turned over to the County for the establishment, operation or maintenance of HCMC prior to and as of the Effective Date. Subject to restrictions specified in the written lease and other transaction documents by and between the County and the Corporation, the County shall lease the Real Property exclusively to the Corporation. For the purposes of this subdivision, Real Property shall mean the real property used by the County for the operations of HCMC that the County shall lease to Hennepin Healthcare System, Inc., as specified in the lease documents and this Act as of the Effective Date.

Subd. 3. **REQUIREMENTS OF LEASE.** In order for the County to enter into the lease described in subdivision 1, the lease must also address the following:

a) continued primary use of the property for health and hospital services;
b) indigent care;
c) capital improvements;
d) joint ventures and partnerships;
e) assignments and subleases; and
f) changes to hospital capacity.

Subd. 4. **TRANSFER OF ASSETS.** The County shall transfer to the corporation Assets as designated by the County in transactional documents accompanying the lease for use in the operations of HCMC. For purposes of this subdivision, Assets shall mean the equipment, and/or other personal property used by the County for the operations of HCMC that the County shall transfer to Hennepin Healthcare System, Inc., as specified in the transaction documents and this Act as of the Effective Date.

Subd. 5. **NO ADVERTISING OR BIDS.** The County may transfer and lease the Assets and Real Property to the Corporation as specified in subdivision 2 and 3 without first advertising for or soliciting any bids.

Sec. 15. **TRANSITIONAL PROVISIONS; STATUS OF PRESENT EMPLOYEES.**

Subdivision 1. **EMPLOYEE TRANSFER.** All persons employed by the County whose employment is accounted for in the County Enterprise Fund for HCMC, on the Effective Date, shall be transferred to the Corporation, as specified in the Lease and other transactional documents referenced in section 14. The transfer of employees to the Corporation under this subdivision does not constitute severance or termination of employment or a layoff entitling transferred employees to severance pay, benefits, or any other right that may be applicable in the case of severance, termination or layoff.

Subd. 2. **CURRENT POSITIONS.** Each person employed by the County who is transferred to the Corporation on the Effective Date shall retain employment and accrued benefits, including participation in deferred compensation programs, and will be recorded by most recent date of employment with Hennepin County upon transfer to the Corporation created herein. Persons employed at the Corporation created herein shall not be subject to the County human resources system as contained in Chapter 383B.26 and any rules related to it.

Subd. 3. **BARGAINING UNITS.** The Corporation shall recognize existing bargaining units organized by employees of HCMC and the exclusive representatives of those bargaining units as of the Effective Date. The Corporation shall adopt all current labor agreements as of the Effective Date for the term of those agreements, except for county-wide references, county-wide provisions, and county-wide human resources rules.

Subd. 4. **CHARITABLE HOSPITALS ACT.** The Corporation shall be considered a "charitable hospital" within the meaning of section 179.35, and the provisions of the Charitable Hospitals Act, section 179.35 et seq. shall apply to the Corporation and all persons employed by the Corporation. For the Corporation, "terms and conditions of employment" means the hours of employment, the compensation therefore including fringe benefits except retirement contributions or benefits other than employer payment of, or contributions to, premiums for group insurance coverage of retired employees or severance pay, and the employer's personnel policies affecting the working conditions of the employees.

Subd. 5. **EMPLOYEE RETIREMENT BENEFITS.** Employees of the Corporation shall be included in the definition of "public employee" pursuant to the Public Employees Retirement Act, chapter 353, and shall be eligible to participate in the Public Employees Retirement Association. Employees transferred to the Corporation pursuant to subdivision 1 of this section and any employees hired by the Corporation after the Effective Date, shall participate in the Public Employees Retirement Association. Notwithstanding anything to the contrary in this subdivision, upon creation of alternative retirement plans pursuant to subdivision 6, the Corporation has the authority to designate classes of employees hired after that date for participation in such alternative retirement plans in lieu of participation in the Public Employees Retirement Association.

Subd. 6. **RETIREMENT OPTION.** The Corporation has the authority to structure defined contribution plans and other employee welfare benefit plans, not to include defined benefit pension plans, in any manner the Corporation deems appropriate. Any retirement benefit plan established by the Corporation shall comply with the financial reporting requirements for public pension funds under section 356.20.

Subd. 7. **EMPLOYEES ELIGIBLE TO CONTINUE PARTICIPATION IN PUBLIC EMPLOYEE RETIREMENT ASSOCIATION CORRECTIONAL, POLICE AND FIRE BENEFIT PLANS.** Notwithstanding subdivisions 5 and 6 of this section, both existing and future employees of the Corporation who would have been eligible to participate in the Public Employees Retirement Association Fire, Police and Correctional Benefit Plans prior to the creation of the Corporation shall continue to be included in the definition of "public employee" pursuant to the Public Employees Retirement Act, chapter 353, and shall continue to be eligible to participate in the Public Employees Retirement Association Fire, Police or Correctional Benefit Plans.

Subd. 8. **PARTICIPATION IN STATE DEFERRED COMPENSATION PLAN.** Employees of the Corporation, at the election of the Corporation, shall be eligible to participate in the Minnesota deferred compensation plan under section 352.96 and post-retirement health

care savings plan under section 352.98, the Hennepin County deferred compensation plan, and all other deferred compensation arrangements for which they are now eligible.

Subd. 9. **CORPORATION AUTHORITY TO ESTABLISH PERSONNEL POLICIES AND SET COMPENSATION AND BENEFITS.** Notwithstanding any law to the contrary, and consistent with the provisions of this section, the Corporation and any subsidiaries have the authority to establish all personnel policies and practices, negotiate any applicable labor agreements, and to set all levels of compensation and benefits which are considered appropriate by the board.

Sec. 16. **BONDING AUTHORITY OF THE CORPORATION.**

Subdivision 1. **MUNICIPALITY.** The Corporation shall be considered a "municipality" pursuant to section 475.51, subdivision 2, for purposes of bond issuance and shall have all the authority conferred on municipalities by chapter 471 unless that authority is modified in this section.

Subd. 2. **SALE OF BONDS.** Subject to the reserved powers and limitations specified in section 8 and notwithstanding any of the Corporation's enumerated powers, the Corporation may issue and sell revenue bonds or other revenue obligations to finance capital improvements or for the acquisition and betterment of additional facilities to be utilized for the delivery of health care and related research or for other proper corporate purposes.

Subd. 3. **SECURITY FOR BONDS.** Subject to the reserved powers and limitations specified in section 8 and notwithstanding any of the Corporation's enumerated powers, the bonds may be secured by a mortgage of any property or any interest in part thereof. The bonds must be in an amount and shall mature as provided by resolution of the board and may be issued in one or more series and shall bear a date or dates, bear interest at a rate or rates, be in a denomination or denominations, be in the form either coupon or registered, carry the conversion or registration privileges, have rank or priority, be executed in the manner, be payable in medium of payment at the place or places, and be subject to the terms of redemption with or without premium as the resolution may provide. The bonds may be sold at public or private sale at a

price or prices determined by the resolution. Notwithstanding any law to the contrary, the bonds must be fully negotiable. The Corporation may enter into the covenants the board by resolution shall deem necessary and proper to secure payment of the bonds. The revenue bonds must state on their face that they are not payable from nor may be a charge upon any funds other than the revenues and property pledged or mortgaged for their payment, nor shall the Corporation be subject to any liability on them or have the power to obligate itself to pay or pay the revenue bonds from funds other than the revenues and property pledged and mortgaged. No holder or holders of the bonds shall ever have the right to compel any exercise of any taxing power of the County or any other public body to pay the principal of or interest on any of them, nor to enforce payment of them against any property other than that expressly pledged or mortgaged for their payment.

Sec. 17. **FINANCING THROUGH THE COUNTY.**

In addition to the authority granted in the preceding section, the County may include any part of the costs of a project undertaken by the Corporation in a capital improvement plan adopted under section 373.40 or an equipment acquisition pursuant to 383B.117, subdivision 2, and may issue bonds for such purposes pursuant to and subject to the procedures and limitations set forth in section 373.40 or 383B.117, as appropriate, whether or not the capital improvement or equipment to be financed is to be owned by the County or the Corporation.

Sec. 18. **OPEN MEETING LAW; GOVERNMENT DATA PRATICES ACT.**

Subd. 1. **CORPORATION NOT SUBJECT TO OPEN MEETING LAW AND DATA PRACTICES ACT.** The Corporation and any organization, association, partnership, or corporation created, controlled or owned by the Corporation, shall not be subject to the Minnesota Open Meeting Law, chapter 13D, or the Minnesota Government Data Practices Act, chapter 13.

Subd. 2. **CORPORATION TO MAKE INFORMATION PUBLICLY AVAILABLE.** The Corporation shall make available for public inspection the following:

(a) The Corporation's annual audited financial statements, prepared in accordance with generally accepted accounting principles, and which shall include all of the information a charitable organization is required to disclose under section 309.53, subd. 3;

(b) The Corporation's current federal tax or informational return in file with the Internal Revenue Service, if applicable; and

(c) The Corporation's bylaws.

Sec. 19. **TORT LIABILITY.**

The Corporation shall be a "municipality" for purposes of tort liability pursuant to chapter 466.

Sec. 20. **REVENUE RECAPTURE ACT.**

The Corporation shall be considered a "claimant agency" for purposes of the Revenue Recapture Act, chapter 270A.

Sec. 21. **PURCHASING.**

Subdivision 1. **PUBLIC PROCURMENT.** Notwithstanding any law to the contrary, contracting and purchasing of goods, materials, supplies, equipment, and services that are included as part of a contract for the purchase of goods, materials, supplies, equipment or services are specifically exempted from sections 383B.141 to 383B.151 and 471.345 to 471.371 or other applicable laws related to public procurement.

Subd. 2. **PURCHASING AND SERVICE CONTRACTS.** The Corporation may purchase directly or utilize the services of a nonprofit cooperative hospital service organization, the County, the State of Minnesota, the University of Minnesota, or any other political

subdivision or agency of the State of Minnesota in the purchase of all goods, materials, and services that the Corporation may require.

Sec. 22. **LEGAL COUNSEL.**

With respect to the provisions of section 388.051, the Corporation shall be deemed a part of Hennepin County for purposes of the Hennepin County Attorney serving as legal counsel to the Corporation; provided, however, that the Corporation and the Hennepin County Attorney may enter into an arrangement with respect to the hiring of outside counsel on behalf of the Corporation. The Corporation shall reimburse the County for legal services provided by the Hennepin County Attorney, including any and all costs, and the reimbursement shall be credited to the budget of the Hennepin County Attorney.

Sec. 23. **SELF-INSURANCE.**

Subdivision 1. **SELF-INSURANCE.** The Corporation may participate in any self-insurance program established by the County in accordance with section 383B.155.

Subd. 2. **ADDITIONAL BENEFITS TO EMPLOYEES.** The Corporation may provide for the payment of additional benefits to employees from their accumulated vacation, sick leave, or overtime credits if the employees of the Corporation and any of its subsidiaries are entitled to the benefits of the workers' compensation law and have at the time of compensable injury accumulated credits under a vacation, sick leave, or overtime plan or system maintained by the Corporation. The additional payments to an employee may not exceed the amount of the total sick leave, vacation, or overtime credits accumulated by the employee and shall not result in the payment of a total weekly rate of compensation that exceeds the weekly wage of the employee. The additional payments to any employee shall be charged against the sick leave, vacation, and overtime credits accumulated by the employee. Employees of the Corporation and any of its subsidiaries entitled to the benefits of the workers' compensation law may receive additional benefits pursuant to a collective bargaining agreement or other plan, entered into or in effect on or after January 1, 2003, providing payments by or on behalf of the employer and these additional benefits may be unrelated to any accumulated sick leave, holiday, or overtime credits

and need not be charged against any accumulation; provided that the additional payments must not result in the payment of a total weekly rate of compensation that exceeds the weekly wage of the employee. The Corporation and its subsidiaries may adopt rules and regulations consistent with chapter 179 to carry out the section relating to payment of additional benefits to employees from accumulated sick leave, vacation, overtime credits, or other sources.

Sec. 24. **HOSPITAL AUTHORITIES.**

The Corporation shall not be considered a hospital or hospital district subject to the provisions of section 144.581.

Sec. 25. **TAX EXEMPT STATUS.**

The Corporation is an organization exempt from taxation pursuant to chapter 290 and chapter 297A.

Sec. 26. **PREPAID HEALTH PLAN.**

The Corporation is a County affiliated public teaching hospital for purposes of section 256D.03, subdivision 4.

Sec. 27. **INTERGOVERNMENTAL TRANSFERS.**

For purposes of Medical Assistance, Medicaid, Medicare and other public programs, the Corporation shall continue to be a "unit of state or local government," and a " government owned or operated hospital," and shall be eligible to receive "intergovernmental transfers" and "certified public expenditures" as such may be authorized from time to time by the State of Minnesota and/or by Hennepin County.

Sec. 28. **INDIGENT CARE.**

Subdivision 1. **SERVICES.** The Corporation shall provide health care and related services for the indigent of the County as required by the terms of the lease as specified in Section 14, subdivision 2, consistent with any agreement for payment for those services made with the County.

Subd. 2. **FUNDS.** Notwithstanding any law to the contrary, the County may provide funds for the purchase of medical care for the indigent of the County from a provider selected by the County with or without public bid.

Sec. 29. **STATUTORY AMENDMENT.**

Minnesota Statutes 2002, section 383B.217, is amended as follows:

383B.217 ~~Medical center and~~ HMO Purchases and Marketing.

Subd. 7. ~~Purchases and marketing.~~ (a) Contracting and purchasing made on behalf of the ~~Hennepin County Medical Center and its~~ ~~health maintenance organization (~~HMO~~)~~ of goods, materials, supplies, equipment, and services that are incidental to or that are included as part of a contract for the purchase of goods, materials, supplies, or equipment are specifically exempted from sections 383B.141 to 383B.151 and 471.345 or other applicable laws related to public procurement. Contracting and purchasing of services shall comply with sections 383B.141 to 383B.151 or other applicable laws related to public procurement.

(b) Notwithstanding chapter 13D, the county board on behalf of the ~~medical center and~~ HMO may meet in closed session to discuss and take action on specific products or services that are in direct competition with other providers of goods or services in the public or private sector, if disclosure of information pertaining to those matters would clearly harm the competitive position of the ~~medical center or~~ HMO.

(c) The ~~medical center and~~ HMO shall inform the county board when there are matters that are appropriate for discussion or action under paragraph (b). The county administrator or the administrator's designee shall give the board an opinion on the propriety of discussion or action under paragraph (b) for each of the matters. The county board may, by a majority vote in a public meeting, decide to hold a closed meeting under paragraph (b). The purpose, time, and place of the meeting must be announced at a public meeting. A written roll of members present at a closed meeting must be made available to the public after the closed meeting. The proceedings of a closed meeting must be tape recorded at the expense of the county board and be preserved for not less than five years after the meeting. The data on the tape are nonpublic data under section 13.02, subdivision 9, until two years after the meeting. A contract entered into by the county board at a meeting held on behalf of the ~~medical center or~~ HMO is subject to section 471.345. All bids and any related materials that are considered at the meeting must be retained for a period of not less than five years. After the expiration of the term of any contract entered into pursuant to this subdivision or a period of two years, whichever is less, the contract, the bids, and any related materials are public data. The contract, the bids, and any related materials are subject to review by the state auditor at any time.

(d) Data concerning specific products or services that are in direct competition with other providers of goods or services in the public or private sector are trade secret information for purposes of section 13.37, to the extent disclosure of information pertaining to the matters would clearly harm the competitive position of the ~~medical center or~~ HMO. The data are trade secret information for the term of the contract or a two-year period, whichever is less.

(e) Notwithstanding section 471.345 or other applicable law, the county board on behalf of the ~~medical center,~~ HMO, ambulatory health center, or other clinics authorized under section 383B.219, may contract, except for services, by any means that the county board or at its direction the ~~medical center or~~ HMO may determine. When contracting for services, the county board must comply with sections 383B.141 to 383B.151 and other applicable law, except that the board may contract with a private or public cooperative purchasing organization if it can be established that the purchasing organization's services that are purchased have been awarded through a competitive or request for proposal process.

(f) This subdivision applies to the ~~medical center,~~ HMO, ambulatory health centers, or other clinics authorized under section 383B.219, as well as any other organization, association, partnership, or corporation authorized by Hennepin County under section 144.581.

Sec. 30. **REPEALED.**

Subdivisions 1, 2, 3, 4, 5, 6, and 8 of Minnesota Statutes 2002, section 383B.217, are repealed.

Sec. 31. **EFFECTIVE DATE.**

Sections ____, ____, ____, and ____, are effective when the initial board of the Corporation takes office according to section 4. Sections ____ to _____, and ____ to _____ are effective the day after the County Board files a certificate of local approval in compliance with section 645.021, subdivision 3.

Approved _____. 200_

BYLAWS

OF

THE HENNEPIN HEALTHCARE SYSTEM, INC.

Effective
January 1, 2006

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BYLAWS

OF

THE HENNEPIN HEALTHCARE SYSTEM, INC.

This document constitutes the bylaws (these "Bylaws") of the Hennepin Healthcare System, Inc. (this "Corporation"), a Minnesota public benefit corporation formed pursuant to Minnesota Statutes Chapter _____ (the "Act"), for the purpose of regulating and managing the internal affairs of this Corporation.

ARTICLE I.
PURPOSE

The purpose of the Corporation is to engage in the organization and delivery of health care and related services to the general public, including the indigent as defined by state and federal law and as determined by the Hennepin County Board of Commissioners, and to conduct related programs of education and research.

ARTICLE II.
OFFICES AND CORPORATE SEAL

Section 2.1 **Registered Office.** This Corporation may have such offices and places of business at such locations, within the State of Minnesota, as the board of directors of this Corporation ("Board of Directors") may from time to time designate, or the business of this Corporation may require.

Section 2.2 **Seal.** This Corporation shall have no corporate seal.

ARTICLE III.
MEMBERS

Section 3.1 **Members.** This Corporation shall have one (1) class of members: a Governing Member (as defined in **Section 3.2**).

Section 3.2 **Governing Member.** The Governing Member of this Corporation is the County of Hennepin, Minnesota (the "County"), as represented by the Hennepin County Board of Commissioners (collectively, the "County Board" and individually, the "Commissioner(s)"). The Governing Member has voting rights, duties and privileges, including specifically the Reserved Powers (as defined in **Article IV**), as to all matters specified under the Act and these Bylaws. The Board of Directors of this Corporation shall be empowered to carry out the rights,

duties and privileges of the Governing Member as specified in **Sections 5.1** and **5.2** of these Bylaws.

Section 3.3 **Actions by Governing Member.** Any vote or other action required or permitted by the Act or these Bylaws that is taken by the Governing Member of this Corporation shall be duly and validly cast or taken if such vote or action is cast or taken pursuant to a resolution of the County Board, acting on behalf of the Governing Member of this Corporation.

Section 3.4 **Meetings.** At least quarterly, the Chair of the Board of Directors or the Chief Executive Officer shall brief the County Board on matters concerning the Corporation. Notice of the meeting shall be provided according to the procedures established by the County Board.

ARTICLE IV.
GOVERNING MEMBER
RESERVED POWERS

As specified under the Act and in addition to any other rights reserved to the Governing Member in this **Article IV**, and other sections of these Bylaws, the Governing Member shall have the following specific Reserved Powers relating to the governance and operation of this Corporation. Final decisions with respect to the following listed matters shall be subject to the approval by majority vote of the County Board acting on behalf of the Governing Member.

(i) Any change in these Bylaws or this Corporation's mission materially affecting governance of this Corporation;

(ii) Approval of the slate of Directors nominated by the Governance Effectiveness Committee as specified in **Section 9.7**;

(iii) Approval of the initial hiring of the chief executive officer;

(iv) Approval of any debt incurrence, excluding *de minimus* debt. *De minimus* debt is defined as capital leases that, on a cumulative basis, have an annual debt service of less than one percent (1%) of revenues);

(v) Approval of the capital budget in the aggregate and line item review and approval for (a) when the aggregate budgeted spend for capital is greater than ten percent (10%) of revenues or (b) when an individual capital expenditure or project is greater than one percent (1%) of revenues. In addition, approval is required when any expenditure causes the total aggregate capital expenditure amount (in a given year) to exceed the annual approved budgeted amount or when any spending for capital expenditures results in the incurrence of debt, excluding *de minimus* debt;

(vi) Approval of operating budget, which is defined as a five-year capital plan and annual operating and cash flow budgets. In addition to approving the budget in the aggregate, the

County Board may also specifically approve certain line items which involve large capital expenditures, incurrence of debt (except if *de minimus*), payment for uncompensated care, and any joint venture when HCMC's potential capital commitment (current and future) is greater than one percent (1%) of revenues (approximately $4 million currently);

(vii) Approval of an annual health services plan. The health services plan will draw from a populations health needs assessment and shall delineate the role HCMC is to have in the community.

(viii) Any decision on dissolve, merge, consolidate, or transfer this Corporation's assets to an entity other than the County;

(ix) Any decision to create a subsidiary, for profit or not-for-profit; or

(vii) Any assignment, sublease, or facility-wide management contract of this Corporation that may substantially impact the County Board' Reserved Powers as specified in this **Article IV**.

ARTICLE V.
BOARD OF DIRECTORS

Section 5.1 **Corporate Powers.** Except as otherwise specified in these Bylaws or under the Act, and subject to the Reserved Powers and authority of the Governing Member as specified in **Article IV**, the property, affairs, activities, and business of this Corporation shall be managed by or under the direction of the Board of Directors. In addition to all other powers and authority conferred upon them by these Bylaws and under the Act, the Board of Directors shall have the power to do all lawful acts necessary and expedient to the conduct of this Corporation that are not prohibited by these Bylaws or applicable law. Specifically, this Corporation, through its Board of Directors, shall have the authority and all necessary power to exercise overall management of the facilities, assets, personnel, services, and programs of this Corporation, including, but not limited to:

(i) appointing such officers, employees, and agents as this Corporation may require for the performance of its duties and delegating some or all of the duties or powers of the Board of Directors to other persons; provided, however, that such delegation shall be approved by the Board of Directors and subject to the supervision and control of the Board of Directors;

(ii) appointing an Executive Committee (as specified in **Section 9.2**) and other Committees of the Board of Directors (as specified in **Section 9**); provided, however, that all Committees must operate under the authority and control of the Board of Directors, and no Committee may substantially divest the Board of Directors of its authority and obligations to provide ongoing oversight of this Corporation's activities and operations;

(iii) appointing advisory committees and other ad hoc committees, including but not limited to community or advisory committees;

(iv) having directors, officers, or administrators of this Corporation serve as directors, officers, or employees of this Corporation's ventures, associations, or corporations;

(v) paying reasonable expenses to the members of the Board of Directors as specified in **Section 5.6**.

(vi) hiring and discharging an Chief Executive Officer;

(vii) approve personnel policies and practices, any applicable labor agreements, and levels of compensation and benefits for all employees as recommended by the Chief Executive Officer;

(x) using employees, agents, consultants, and facilities of the County, including the Hennepin County Attorney, as necessary in the discretion of the Board of Directors, and paying the County its agreed proportion of the compensation of costs pursuant to an agreement with the County;

(xii) arranging for or contracting for the provision of health care and related services, including, but not limited to, the provision of medical care for the indigent;

(xii) offering, directly or indirectly, products and services of this Corporation and/or affiliated entities to the general public, and retain any profits earned through the provision of these products and services for the purpose of advancing the mission of this Corporation;

(xiii) entering into obligations or contracts and carrying out any acts incidental to the transaction and promotion of this Corporation's purpose, including but not limited to purchasing insurance;

(xiv) borrowing monies and issuing bonds in support and promotion of this Corporation's purpose and for providing any rights and obligations related thereto;

(xv) acquiring, holding, mortgaging, pledging, or disposing of shares, bonds, securities and other evidence of indebtedness of any domestic or foreign corporation, either profit or non-profit, and either public or private, and, if the owner thereof, to exercise all rights, powers, and privileges of ownership including the right to vote;

(xvi) acquiring, by purchase, grant, lease, gift or otherwise, and to hold and to use real or personal property necessary, convenient, or desirable to carry out this Corporation's purposes;

(xvii) accepting gifts, grants, loans, or contributions of funds or property or financial or other aid in any form from, and entering into contracts or other transactions with, the federal government, the State of Minnesota, third party payors, or any other source, and to use any such gifts, grants, loans or contributions for any of its purposes;

(xviii) entering into shared service and other cooperative ventures and arrangements;

(xix) joining or sponsoring membership in organizations intended to benefit this Corporation and to promote its corporate purpose;

(xx) entering partnerships, joint ventures, or other business arrangements to advance the mission of this Corporation;

(xxi) participating as a member of other corporations, whether domestic or foreign;

(xxii) bringing suit or being sued;

(xxiii) incorporating other corporations, both for-profit and non-profit;

(xxiv) making donations to other charitable entities, domestic or foreign, consistent with the purpose of this Corporation; and

(xxv) conducting this Corporation's affairs within and without the State of Minnesota.

Section 5.2 **Other Powers.** Subject to the Reserved Powers and limitations specified in **Article IV**, the Board of Directors shall have all the powers necessary and convenient for the operation, administration, management, and control of this Corporation's affairs. The enumeration of specific powers in **Section 5.1** is not intended to restrict the powers of this Corporation to take any action which, in the exercise of its discretion, is necessary or convenient to further the purposes for which this Corporation exists, and that are not otherwise prohibited by law, whether or not the powers to take the action are necessarily implied from the powers expressly granted under these Bylaws and not prohibited by the Reserved Powers and limitations as specified in **Article IV**.

Section 5.3 **Composition and Election.** The Board of Directors shall have eleven (11) directors, including the key officers of this Corporation, the Chair, the Vice Chair, the Secretary, and the Treasurer, the Chief Executive Officer of this Corporation and two Commissioners currently serving on the County Board. Directors shall possess a high degree of experience and knowledge in relevant fields and a high degree of interest in the corporation. Directors shall be appointed based in part on the objective of ensuring that this Corporation includes diverse and beneficial perspectives and experience, including, but not limited to, those of business management, law, finance, medical and/or other health professionals, health sector workers, public health, and the patient or consumer perspective. Directors shall be selected in the manner described in **Section 5.10**.

Section 5.4 **Terms.** The initial directors shall be appointed by the County Board and shall the following terms: three (3) directors with one (1) year terms; four (4) directors with two (2) year terms and four (4) directors with three (3) year terms. Following the expiration of the terms for the initial directors, the following terms shall apply to the directors of this Corporation. Directors shall serve staggered three (3) year terms and a maximum of nine (9) years without

additional approval by the Board of Directors, before this Corporation shall require such director to take at least a one (1) year absence from the Board of Directors. After the expiration of an initial Board of Directors term, a newly-elected Director shall be officially seated on the Board of Directors at the first Board meeting after his/her election.

Section 5.5 **Compensation.** Director shall not be compensated for services rendered to this Corporation in their capacity as directors and, if applicable, as members of committees, advisory assemblies or councils of the Board of Directors.

Section 5.6 **Costs and Reimbursement.** Pursuant to policies established by the Board, a director may be reimbursed for reasonable costs and expenses necessarily incurred for travel or other purposes for the advancement of this Corporation's purpose and in furtherance of the best interests of this Corporation.

Section 5.7 **Voting Rights.** Each director shall cast one (1) vote in any matter that comes before the Board of Directors. No director shall have the right to vote by proxy. Unless provided otherwise under the Act or these Bylaws, an action of the Board of Directors shall be passed by a simple majority vote of those present at a meeting at which quorum is present during voting.

Section 5.8 **Resignation.** A director may resign at any time by giving written notice to the Chair or Chief Executive Officer of this Corporation. A resignation shall take effect at the later of the time specified in the resignation or upon acceptance of the written resignation by the Chair or Chief Executive Officer.

Section 5.9 **Removal of Directors.** Any director may be removed by a two-thirds (2/3rds) majority vote of the directors in office. Any director who attends less than seventy percent (70%) of the regular Board meetings or regular committee meetings in any given year shall be automatically removed from the Board of Directors and all committees and officer positions within this Corporation, unless the remaining Board of Directors determine otherwise. Any director who is also a Commissioner shall be automatically removed from the Board of Directors upon the loss of his or her position as a Commissioner on the County Board.

Section 5.10 **Vacancies.** When a vacancy occurs mid-term, the Board of Directors shall fill the vacancy with an individual nominated by the Governance Effectiveness Committee. Each director so appointed or chosen to fill a vacancy shall hold office as a director until the expiration of the term being filled and a successor has been duly-elected and qualified as specified in these Bylaws. All other vacancies shall be filled as specified in **Section 9.7**, subject to approval by the County Board.

Section 5.11 **Annual Meetings.** The Board of Directors shall hold an annual meeting, which shall be a regular meeting of this Corporation for purposes of the manner of notice to be provided to the directors as specified in **Section 5.14**. The Chair shall designate one (1) regular meeting within the last four (4) months of this Corporation's fiscal year as the Board of Directors' annual meeting.

Section 5.12 **Regular Meetings.** The Board of Directors shall hold regular meetings, at a minimum, six times a year. If the time or place of a regular meeting shall be changed, notice may be given to each director as specified in **Section 5.14**. Notice of any adjourned meeting may not be given other than by announcement at the meeting at which adjournment is taken.

Section 5.13 **Special Meetings.** Special meetings of the Board of Directors may be called at any time by the Chair and must be called by the Chair whenever requested in writing by any four (4) or more directors. Notice of special meetings shall comply with **Section 5.14**. A special meeting may be called without notice to the directors if: (i) all voting directors of the Board of Directors convene; (ii) all voting directors of the Board of Directors agree to the holding of such special meeting at the designated time and place; and (iii) all the voting directors of the Board of Directors in writing waive all right of notice.

Section 5.14 **Notice of Meetings.** Notice of a meeting, whether a regular or special meeting, must be: (i) mailed to each director addressed to a director's residence or usual place of business, at least five (5) days before the day on which the meeting is to be held; or (ii) delivered personally, by telephone, facsimile, or other electronic means of communication, not less than three (3) days before the day on which such meeting is to be held. The notice must state the time and place and, for purposes of a special meeting, shall state the purpose of the meeting.

Section 5.15 **Place of Meetings.** The Board of Directors may hold its meetings at the general business offices of this Corporation or at such place or places within or outside the State of Minnesota as the Board of Directors may, from time to time, determine.

Section 5.16 **Time of Meetings.** The Board of Directors may hold its meetings at such times as it determines.

Section 5.17 **Waiver of Notice.** A director may waive notice of a meeting of the Board of Directors. A waiver of notice by a director entitled to notice is effective whether given before, at, or after the meeting, and whether given in writing, orally, or by acceptance. Attendance by a director at a meeting also constitutes a waiver of notice of such meeting, unless such director objects at the beginning of the meeting to the transaction of such business because the meeting is not lawfully called or convened and such director does not participate in the meeting.

Section 5.18 **Electronic Communications.** Directors of the Board of Directors or any committee or advisory assembly or council appointed by the Board of Directors may participate in a meeting by means of telephone conference or similar communications equipment which enables all persons participating in the meeting to hear each other during the conduct of such meeting. Such participation shall be considered presence in person at such meeting for purposes of notice and quorum requirements as specified in these Bylaws.

Section 5.19 **Quorum and Manner of Acting.** A majority of the Board of Directors constitutes a quorum for the transaction of business. A majority of the Board of Directors present may adjourn the meeting until a quorum is present. Except as otherwise specified in the

Act or in these Bylaws, the board may act by a majority vote those present so long as quorum is also present at the time of the vote.

Section 5.20 **Written Action in Lieu of Meeting**. The Board of Directors or members of a committee, advisory council or assembly may approve an action required or permitted of the Board of Directors or members of a committee or advisory council or assembly by executing a unanimous written consent signed by all of the members of such governing body, as the case may be.

ARTICLE VI.
CORPORATE OFFICERS

Section 6.1 **Number and Qualifications.** Officers of this Corporation shall be a Chair, a Vice Chair, a Secretary, and a Treasurer, and may include one (1) or more assistant secretaries and such other officers as the Board of Directors may, from time to time, determine are necessary to oversee the management and affairs of this Corporation. With the exception of the Chair and Vice-Chair positions, any two (2) or more offices may be held by the same person. With the exception of the Chair, Vice Chair, Secretary, and Treasurer positions, officers need not be directors.

Section 6.2 **Election.** All officers of this Corporation shall be elected by majority vote of the directors in office during the annual meeting of the Board of Directors.

Section 6.3 **Term.** All officers shall be elected for a term of two (2) years. No officer serving as Chair, Vice Chair, Secretary, or Treasure shall be allowed to serve more than one term in the same position without taking at least a one (1) year absence.

Section 6.4 **Resignation; Removal; Vacancies.** An officer may resign at any time by giving written notice of resignation to the Chair of the Board of Directors or the Chief Executive Officer of this Corporation. A resignation takes effect at the later of the time specified in the written notice or at the time when the written notice is accepted. An officer may be removed by two-thirds (2/3rds) majority vote of the directors in office. An officer whose removal is under consideration by the Board of Directors is not entitled to vote on the question of his/her removal as an officer and shall not be counted in determining the presence of a quorum. Any director who is removed as specified in **Section 5.9** or resigns as specified in **Section 5.8** and who is also an officer shall be deemed to have resigned as an officer, effective as of the date such officer is removed as a director. Any employee who is no longer employed by the Corporation or HCMC shall be deemed to have resigned as an officer; effective as of the date such employee is no longer employed by the Corporation. A vacancy in any office occurring for any reason shall be filled for the unexpired portion of such term by the affirmative vote of a majority of the remaining directors, though less than a quorum, present at any meeting of the Board of Directors.

Section 6.5 **Chair.** The Chair shall: (i) preside at all meetings of the Board of Directors; (ii) develop mechanisms to implement the actions approved by the Board of Directors and ensure that all orders and resolutions of the Board of Directors are carried into effect; and

(iii) perform all other lawful duties as specified in these Bylaws that may, from time to time, be prescribed by the Board of Directors. The Chair shall be a community representative who is not employed by the County, the hospital, or any interested health care provider organization.

Section 6.6 **Vice Chair.** In the absence of the Chair, the Vice Chair shall perform the duties of the Chair, and when so acting, shall have all the powers of and be subject to all the restrictions placed upon the Chair under the Act and these Bylaws. The Vice Chair shall also perform any other lawful duties or obligations assigned or otherwise delegated by the Board of Directors.

Section 6.7 **Secretary.** The Secretary shall: (i) act as the secretary at all meetings of the Board of Directors, unless an assistant secretary or some other person is appointed to act as secretary; (ii) when requested to do so, give proper notice of the meetings of the Board of Directors and committees or advisory councils or assemblies; (iii) maintain or supervise the maintenance of this Corporation's records, including the Act, these Bylaws (each as amended or restated), and the minutes of all meetings of the Board of Directors and committees or advisory councils or assemblies; and (iv) perform all other lawful duties as prescribed by the Board of Directors from time to time.

Section 6.8 **Treasurer.** The Treasurer shall: (i) have control over the corporate funds and securities of this Corporation; (ii) cause to be kept full and accurate accounts of receipts and disbursements of this Corporation; (iii) cause all monies and other valuables to be deposited to the credit of this Corporation in such depositories as may be designated by the Board of Directors, subject to approval of the Governing Member, as applicable; (iv) disburse the funds of this Corporation as ordered by the Board of Directors, subject to approval of the Governing Member, as applicable; (v) report to the Board of Directors and account for such transactions; and (vi) perform all other lawful duties as prescribed by the Board of Directors from time to time.

Section 6.9 **Compensation.** Officers shall not be compensated for services rendered to this Corporation in their capacity as officers, or, if applicable, as members of committees, advisory assemblies or councils of the Board of Directors.

Section 6.10 **Costs and Reimbursement.** Pursuant to policies established by the Board, an officer may be reimbursed for reasonable costs and expenses necessarily incurred for travel or other purposes for the advancement of this Corporation's purpose and in furtherance of the best interests of this Corporation.

ARTICLE VII.
CHIEF EXECUTIVE OFFICER

The Chief Executive Officer of this Corporation shall be approved by the Board of Directors, serve as a director on the Board of Directors, and provide regular reports to the Board of Directors. The Chair and Vice Chair of the Board of Directors shall interview and recommend candidates to the remaining Board of Directors for the Chief Executive Officer position. The

County Board shall confirm the Chief Executive Officer during the initial hiring process. Subject to the ultimate authority of the Board of Directors under law or these Bylaws, the Chief Executive Officer of this Corporation shall: (i) have overall responsibility for management of this Corporation; (ii) work with the Chair to ensure that orders and resolutions of the Board of Directors are properly implemented; (iii) sign and deliver, in the name of this Corporation, deeds, mortgages, bonds, contracts or other instruments pertaining to the business of this Corporation, except in cases in which the authority to sign and deliver such documents is required by law under the Act to be exercised by another person on behalf of the Governing Member or is expressly delegated by the Act, these Bylaws, or the Board of Directors, to another officer, agent, or duly-appointed representative of this Corporation or to the Governing Member; (iv) maintain records of and, when necessary, certify proceedings of the Board of Directors; and (v) perform such other duties as prescribed by the Board of Directors or the Governing Member, as applicable.

The Board of Directors may, from time to time, appoint such other key personnel to assist the Chief Executive Officer as it deems necessary to carry out the duties and obligations of the Board of Directors on behalf of this Corporation.

ARTICLE VIII.
SUBSIDIARY CORPORATIONS OR AUXILIARY ORGANIZATIONS

Subject to approval by the County Board as specified in **Article IV**, this Corporation may have one (1) or more subsidiary corporations or auxiliary organizations, to operate for the benefit of this Corporation and assist this Corporation in carrying on its own charitable purposes as specified in the Act and these Bylaws. The bylaws of such subsidiary corporation or auxiliary organization shall specify its purposes and the details of its organization, and any amendments thereto, and shall be subject to the control of this Corporation and its Board of Directors as its sole governing member unless determined otherwise by the Board of Directors.

ARTICLE IX.
COMMITTEES

Section 9.1 **Committees.** Committees of the Board of Directors shall be standing or special committees. Standing committees shall include an Executive Committee, a Strategic Planning and Marketing Committee, Quality and Professional Affairs Committee, Finance and Audit Committee, Governance Effectiveness Committee, Human Resource Committee and such other standing committees as the Board of Directors may, from time to time, authorize. The Chair shall appoint a director to each Committee chair position, subject to the approval of the Board of Directors. Each Committee, whether standing or special, shall have such membership, rights, powers, authority, duties, and responsibility as determined by the Board of Directors from time to time, but shall have no power to act except as specifically directed by the Board of Directors. Each Committee shall have at least three (3) members, unless otherwise specified in these Bylaws and with the exception of the Executive Committee and the chair of the respective

committee, the rest of the members need not be directors. Such committees shall, at all times, be subject to the direction and control of the Board of Directors and shall report to the Board of Directors upon request or as otherwise specified in these Bylaws.

Section 9.2 Executive Committee. The Executive Committee shall consist of at least five (5) members, including the Chair. Upon request, the Chief Executive Officer, in a non-voting capacity, shall attend Executive Committee meetings and provide reports to the Executive Committee. The Executive Committee shall have the power to transact all regular business of this Corporation during the period between meetings of the Board of Directors, subject to any prior limitation or direction imposed by the Board of Directors or the Governing Member, as applicable.

Section 9.3 Strategic Planning and Marketing Committee. The Strategic Planning and Marketing Committee shall be responsible for those duties and obligations related to the strategic planning and marketing initiatives of this Corporation as the Board of Directors delegates to it, as determined from time to time.

Section 9.4 Quality and Professional Affairs Committee. The Quality and Professional Affairs Committee shall be responsible for those duties and obligations related to the clinical quality outcomes, patient safety, and medical staff issues of this Corporation as the Board of Directors delegates to it, as determined from time to time.

Section 9.5 Finance and Audit Committee. The Finance and Audit Committee shall be responsible for those duties and obligations related to the annual budgets and financial plans and of this Corporation as the Board of Directors delegates to it, as determined from time to time.

Section 9.6 Human Resources Committee. The Human Resources Committee shall be responsible for those duties and obligations related to employee benefits and salaries, labor agreements, and other contracts or services issues related to employees impacting this Corporation as the Board of Directors delegates to it, as determined from time to time.

Section 9.7 Governance Effectiveness Committee. The Governance Effectiveness Committee shall consist of at least five (5) members, at least one (1) who shall be familiar with the legal issues impacting the governance and management of this Corporation as a statutorily-created corporate entity and public benefit corporation and interested in the promotion of this Corporation's purposes. The Governance Effectiveness Committee shall be responsible for those duties and obligations related to this Corporation's compliance with the legal requirements and governance documents, including specifically the Act and these Bylaws, governing the business and affairs of this Corporation and such other governance and management issues as the Board of Directors may delegate to it, as determined from time to time.

In addition, the Governance Effectiveness Committee shall nominate the candidates requested by the Governing Member, through its County Board, of a number that, at a minimum, fills all pending vacant positions. The Governance Effectiveness Committee shall meet at least

two (2) months prior to the annual meeting of the Board of Directors for the purpose of nominating individuals to fill pending vacant director positions.

The Governance Effectiveness Committee shall present its slate of candidates to the County Board for approval and final selection no less than one (1) month prior to the annual meeting of the Board of Directors. The County Board shall choose to accept or reject the entire proposed slate of candidates to fill any vacancies on the Board of Directors. If the County Board rejects the slate of candidates, the Governance Effectiveness Committee shall propose a new slate of candidates for approval by the County Board.

Section 9.8 Other Committee(s). The Board of Directors may, by majority vote, establish one (1) or more standing or ad hoc committees designating one (1) or more directors or non-directors to serve on such committees. Each committee shall consist of at least three (3) or more members, including at least one (1) director who shall serve as chair. Any committee shall, if so requested by the Board of Directors, provide recommendations and other actions or advice to the Board of Directors toward accomplishment of specific objectives of this Corporation for which the committee was formed. As may be determined by the Board of Directors from time to time, a committee shall have the authority and the management of the specific business purpose(s) for which the committee was formed.

Section 9.9 Advisory Assemblies and Councils. The Board of Directors may, by majority vote, designate one (1) or more organizations, governmental representatives, individuals, or other persons to serve on an advisory assembly or council reporting to the Board of Directors with such powers, duties and obligations as may be designated by the Board of Directors. Advisory assemblies or councils shall have no voting rights and shall report to the Board of Directors upon request.

ARTICLE X.
FISCAL YEAR

The fiscal year of this Corporation shall be based on a calendar year ending December 31.

ARTICLE XI.
FINANCIAL MATTERS; BOOKS AND RECORDS

Section 11.1 Books and Records. The Board of Directors shall cause to be kept:

(i) records of all proceedings of the Board of Directors and all committees;

(ii) records of all actions of the Governing Member related to the Corporation; and

(iii) such other records and books of account of this Corporation as shall be necessary and appropriate to the conduct of this Corporation's business.

Section 11.2 Documents Kept at Registered Office. The Board of Directors shall cause to be kept at the registered office of this Corporation originals or copies of:

(i) records of all proceedings of the Board of Directors and all committees;

(ii) records of all actions of the Governing Member related to the Corporation;

(iii) all financial statements of this Corporation; and

(iv) a copy of the Act and these Bylaws, including any amendments and restatements thereof.

Section 11.3 Accounting System and Audit. The Board of Directors shall cause to be established and maintained, in accordance with generally accepted accounting principles for similar organizations applied on a consistent basis, an appropriate accounting system for this Corporation. The Board of Directors shall cause the records and books of account of this Corporation to be audited by an independent certified public accounting firm at least once each fiscal year and at such other times as the Board of Directors may, in its discretion, deem necessary or appropriate.

Section 11.4 Contracts, Checks, Drafts and Other Matters. All deeds, mortgages, bonds, contracts, or other instruments pertaining to the business of this Corporation, and all checks, drafts, or other orders for the payment of money, and all notes, bonds, or other evidences of indebtedness issued in the name of this Corporation, shall be signed by the officer(s), agent(s), or other duly-appointed representatives of this Corporation, and in a manner as determined by the Board of Directors, from time to time.

ARTICLE XII.
CONFLICTS OF INTEREST; CONFIDENTIALITY

Section 12.1 Conflicts of Interest. Any director, officer, key employee, or member of a committee or advisory council or assembly of this Corporation who is interested in a matter, contract, or transaction presented to the Board of Directors, or committee, for action, authorization, approval, or ratification shall (unless his/her interest therein is obvious from the matter, contract, or transaction itself), without request, make a prompt, full, and frank disclosure of such interest to the Board of Directors or the committee or advisory council or assembly, as the case may be, prior to action upon the matter, contract, or transaction. The disclosure (if required) shall include all material facts about the matter, contract, or transaction. The body to which the disclosure is made shall thereupon determine, by majority vote, whether the disclosure shows that a conflict of interest exists or can reasonably be deemed to exist. If the body to which the disclosure is made determines that the conflict exists or can reasonably be deemed to exist, that fact shall be noted in the minutes of the meeting at which the matter, contract, or transaction is considered or acted upon, and the interested person shall not vote on, nor use his/her personal

influence on, nor participate (other than to present factual information or to respond to questions) in, the discussion or deliberations with respect to the matter, contract, or transaction. The interested person shall not be counted in determining the presence of a quorum at any meeting where the matter, contract, or transaction is considered or acted upon. The minutes of the meeting shall reflect the disclosure made, the vote on the existence of a conflict, and where applicable, the interested person's abstention from voting and participation, and whether a quorum was present. For purposes of this **Section 12.1**, a person shall be deemed to be "interested" in a matter, contract, or transaction if such person is involved in the matter, or is a party (or one of the parties) proposing to contract or deal with this Corporation, or is a shareholder, partner, employee, officer, or director of, or has a material financial or influential interest, in the entity proposing to contract or deal with this Corporation. Any matter, contract or transaction wherein a conflict of interest exists or is deemed to exist with respect to one (1) or more members of the body voting on the matter, contract, or transaction shall in all cases be fair and reasonable to this Corporation and approved by a two-thirds (2/3rds) vote of the body voting on such matter.

Section 12.2 Confidentiality. Any Director, officer, key employee, member of any committee or advisory council or assembly, or any other person with access to trade secrets and other business information as identified by the Board of Directors (collectively, "Insiders") shall keep such information confidential, including without limitation, trade secrets and business information, and shall not disclose any such information to any person, firm, payor or other third party without the written consent of this Corporation, nor use any such information for any purpose other than as authorized by or for the benefit of this Corporation. Any disclosure or use of information concerning this Corporation in violation of this **Section 12.2** shall be grounds for removal from the role the Insider serves with this Corporation and termination of any relationship applicable to the party, or to the employer of the party, at the option of this Corporation, and shall subject the party, in addition, to any damages for breach of this **Section 12.2** or remedies available to this Corporation at law or in equity, including, without limitation, the right to obtain injunctive relief to prevent any threatened or pending disclosure or use of information in violation of this **Section 12.2**. This duty of confidentiality and non-disclosure shall not apply to sharing of information with other Insiders or with the Governing Member's employees who have need to know such information in connection with their work for or on behalf of this Corporation, work performed within or on behalf of this Corporation, and in circumstances for which the Board of Directors has determined that information shall not be subject to this **Section 12.2**. Each Insider shall also comply with state and federal laws and regulations concerning confidentiality of records.

ARTICLE XIII.
INDEMNIFICATION

Section 13.1 Indemnification. This Corporation shall have the authority and legal capacity of a Minnesota nonprofit corporation under chapter 317A , as now enacted or as hereafter amended, and shall indemnify its former, present, and future members, officers, directors, employees, agents, and other duly-appointed representatives to the full extent provided

by law against expenses and liabilities, and carry and maintain insurance therefor, but only under the circumstances, in the manner, and to the extent permitted by law.

Section 13.2 Cumulative Rights. The rights of indemnification provided in **Section 13.1** shall not limit, but shall not be in addition to, any other rights to which such member, director, officer, employee, agent or other duly-appointed representative may otherwise be entitled by contract, law or statute, or otherwise. In the event of such person's death, such rights shall extend to such person's heirs, legal representatives, or successors. The foregoing rights shall be available whether or not such person continues to be a member, director, officer, employee, agent or other duly-appointed representative of this Corporation at the time of incurring or becoming subject to such liability and expenses, and whether or not the claim asserted against such person is based upon matters which antedate the adoption of these Bylaws.

Section 13.3 Protected Action. This Corporation and its directors and officers shall be fully protected in making any determination under the Act or these Bylaws, or in making or refusing to make any payment under the Act or these Bylaws, in reliance upon the recommendations, advice, or other determination of the Governing Member.

Section 13.4 Severability. If any provision of this **Article XIII** shall for any reason be determined to be invalid, the remaining provisions thereof shall not be affected thereby, but shall remain in full force and effect.

ARTICLE XIV.
EXEMPT ACTIVITIES

Notwithstanding any other provision of the Act or these Bylaws, no member, director, officer, employee, agent, or other duly-appointed representative of this Corporation shall take any action or carry on any activity by or on behalf of this Corporation which they knew or should have know to be inconsistent with the exemption from taxation granted by the Act, or with the purposes of this Corporation as specified in the Act or these Bylaws, or with the provisions of any amendments or restatements thereof.

ARTICLE XV.
RULES OF ORDER

Robert's Rules of Order (Revised) shall be followed whenever the chair of any meeting of the members, if applicable, the Board of Directors, or any committee, deems it necessary or advisable to invoke formal parliamentary procedures to manage controversy or expedite decision-making.

ARTICLE XVI.
AMENDMENT

These Bylaws may be amended, revised, or restated, from time to time, to include or omit any provision which could lawfully be included therein or omitted therefrom at the time the amendment, revision, or restatement is adopted. Any number of amendments, or an entire revision, or restatement of these Bylaws may be considered, acted upon, and adopted, provided the amendment, revision, or restatement of these Bylaws is discussed and presented at a meeting of the Board of Directors called for such purpose, and, in the case of a special meeting, provided that the notice of the meeting indicates that the purpose is the proposed amendment, revision, or restatement of these Bylaws. An affirmative vote of at least two-thirds (2/3rds) of the Board of Directors shall be required to approve such amendment, revision or restatement, and shall then be submitted to and ratified by the Governing Member, through its County Board if required by **Article IV**.

ARTICLE XVII.
EFFECTIVE DATE

These Bylaws and any amendments hereto shall become effective the day after the **County Board files a Certificate of Local Approval in compliance with Minn. Stat. § 645.021, subd. 3, and upon the initial Board of Directors taking of office as specified in the Act.**

[Signature page to follow.]

THIS IS TO CERTIFY that these Bylaws were duly adopted by the Board of Directors of this Corporation pursuant to **Minn. Stat. § _____ on the ___ day of _____, 2004**, to be effective January 1, 2006.

THE HENNEPIN HEALTH AND HOSPITAL AUTHORITY, INC.

By: _____
Its: Chair/President

[The rest of this page is left intentionally blank – End of document.]

County Board Controls

Corporate Power	New Corporation		Hennepin County Board	
	Advises	Decides	Advises	Decides
GOVERNANCE				
Changes to the bylaws or mission*		X (non-material change)		X (material change)
Election of Board Members	X (end of term)	X (mid-term)		X (end of term)
Resignation of Individual Board Members		X	X (may petition for removal of individual board members)	
Removal of Entire Board				X (whole board under limited circumstances)
Create Board committees and advisory committees		X		
FINANCIAL POWERS				
Annual operating budget including a five (5) year capital plan, annual income statement, and cash flows.*	X			X
Capital Expenditures*		X (if expenditures cumulatively is less than 10% of revenues or individually less than 1% of revenues)		X (If expenditures cumulatively are greater than 10% of revenues or individually greater than 1% of revenues)
Joint Ventures*		X (if total capital exposure is less than 1% of revenues)		X (if total capital exposure is greater than 1% of revenues)
Indebtedness / Bonding Authority*	X (all indebtedness except *de minimus* debt)	X (*de minimus* debt)		X (all indebtedness except *de minimus* debt)
Ability to dissolve, merge, or transfer substantially all of its assets*	X			X
Assignment, sublease, or facility-wide operations management contract*	X			X
Create subsidiaries, including foundations or other entities as required	X			X
Health services plan	X			X
POWERS RELATED TO EMPLOYMENT				
Initial hiring of a new chief executive officer.	X			X
Establish compensation, benefits, and all related contracts and services of all employees of the Corporation.		X		
Establish personnel policies and operate a system of personnel management governing the employees of the Corporation.		X		
Negotiate labor agreements governing the employees of the Corporation.		X		
Contract with the County as necessary in the discretion of the Board, paying the County compensation or costs for their use.		X		

* Denotes a reserved power of the County Board.

Outline of Lease and Operating/Management Agreement between Hennepin Healthcare System, Inc. and Hennepin County

Once the new corporation is formed Hennepin Healthcare System, Inc. (the Corporation) and Hennepin County (the County) through the Hennepin County Board of Commissioners (the "County Board") shall enter into a lease and operating agreement (together the "Lease") for use of HCMC's physical plant and facilities. [1] The Lease will preserve the County's ability to ensure that its public health service mission is fulfilled, and that community healthcare needs are met on an ongoing basis. As stated in the Legislation, the Lease must address the continued primary use of HCMC's property for health and hospital services; indigent care, capital improvements, joint ventures and partnerships, assignments and subleases, and changes to hospital capacity. The consideration for use of HCMC facilities would be the Corporation's undertakings in the Lease; there would be no cash rent, except for existing obligations. The Corporation will pay all capital and operating costs of HCMC.

The Lease would contain customary provisions covering matters such as

- Making "improvements" in HCMC;
- Casualty losses;
- Tax exemption issues;
- Mortgage rights;
- Liens;
- Assignment/subletting; and
- Indemnification.

The Lease would also include terms that would address the following:

1. Use as a Hospital including maintaining (in terms of physical facilities, level of equipment and technology, operating systems, staffing ratios, etc.) HCMC as a premier general hospital offering primary, secondary, tertiary and selected quaternary-level services.

2. Continuation of Certain Core Services such as emergency medical services, primary care clinics, obstetrics, and psychiatry unless specifically authorized by the County Board to alter these core services.

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[1] It is assumed that, as is customary in such transactions: (a) Hennepin County will long-term lease HCMC's physical facilities to the Corporation; and (b) HCMC's contracts, equipment leases, short-term or non-capital assets, etc. will be conveyed or assigned to the Corporation under a sale agreement. All the terms are subject to ongoing review of statutory and regulatory issues and all other applicable legal documents.

3. Continuation of Emergency Preparedness including participation in any community-wide emergency preparedness, bio-safety or similar public health response plans.

4. Adequate Insurance Levels, in particular, customary levels of property, casualty, general liability, professional liability and other policies of insurance (through commercial insurance, reinsurance, self-insurance, captive or other arrangements) in order prudently to protect the facilities and assets.

5. Academic Affiliation for undergraduate and graduate medical education institutions, unless changes in accreditation rules, reimbursement or similar matters make it unreasonable or infeasible to do so.

6. Indigent Care, in particular, the County's payment for indigent care and the Corporation's commitment to provide such care under a consistent, formula-driven methodology that complies with law and HCMC's historic mission.

7. Hospital Accreditation through the continuation of programs and procedures implementing quality measures required by JCAHO and other accreditation organizations.

8. Provision of Services to the County to other county departments at regular intervals or on an as needed basis, including in particular, hospitalizations for court-ordered holds to the participation in the emergency medical services system to ancillary service tests and procedures.

The Initial Term would be for approximately five years. The Lease would likely allow the County Board (or its representative) to examine HCMC's facilities upon reasonable notice. The Lease will also contain certain "performance triggers" -- certain specified circumstances under which the County Board would have the right to regain full operational control of the HCMC if, after notice and opportunity to correct the problem, the Corporation's Board is unable or unwilling to correct the deficit. These performance triggers would likely include such items as: 1) a significant change in the mission of the Corporation; 2) a violation of the County's Reserved Powers; 3) an unresolved breach of the Lease; or 4) any change or event that would be materially adverse to the business, assets, or financial condition of the Corporation, such as an external disaster that caused severe financial distress for the Corporation. All of these terms would be negotiated in greater detail after the passage of the Legislation and creation of the Corporation.

RESOLUTION NO. 03-4-132R1

[2003]

Locked

The following Resolution was offered by Commissioner Opat, seconded by Commissioner Stenglein:

WHEREAS, the County Board, County Administration, HCMC Administrators and Hennepin Faculty Associates (HFA) have participated in developing a Strategic Plan for HCMC; and

WHEREAS, the HCMC Strategic Plan may be more readily implemented with an alternative organizational structure and may afford greater opportunities to align economic incentives between business units of the health care system.

BE IT RESOLVED, that the Hennepin County Board of Commissioners, hereby establishes the HCMC Governance Task Force and appoints the 14 members listed below:

1. Irv Weiser, Chairman
2. Mark Bernhardson
3. Susan Boren
4. Albert Gallmon
5. Dr. Don Jacobs
6. Bruce Lambrecht
7. Peggy Leppik
8. Greg Pulles
9. Sharon Sayles-Belton
10. Roger Siegal
11. Nikki Sorum
12. Jeff Spartz
13. Gordon Sprenger
14. Sandy Vargas

BE IT FURTHER RESOLVED, that the HCMC Governance Task Force will study hospital governance, Minnesota Statutes and existing County policy and recommend to the County Board the following:

1. A legal, organizational and governance structure for the oversight of the Hennepin County Medical Center (HCMC) to maximize the effectiveness, efficiency and operation of HCMC, while meeting its mission as a safety-net, teaching hospital serving the needs of its multiple constituents.

2. Guidelines for determining roles and responsibilities between the County Board and any oversight or advisory board recommended by the Task Force.

3. To the extent that any advisory or oversight board is recommended by the Task Force, such recommendation shall include the roles and responsibilities of its members, their method of selection, tenure and other relevant matters; and

BE IT FURTHER RESOLVED, that the HCMC Governance Task Force will submit recommendations back to the Board of Commissioners no later than September 2, 2003; and

BE IT FURTHER RESOLVED, that in support of the HCMC Governance Task Force, the County Administrator is directed to negotiate and execute contracts with The Governance Institute, and Hogan & Hartson L.L.P., each in an amount not to exceed $25,000.

Commissioner Dorfman offered an amendment to add the word "public" in the first resolving clause, under item 1, before "safety-net", seconded by Commissioner Koblick and ADOPTED unanimously.

The question was on the adoption of the Resolution as amended and there were 7 YEAS and 0 NAYS, as follows:

COUNTY OF HENNEPIN
BOARD OF COUNTY COMMISSIONERS

Mark Stenglein	X
Gail Dorfman	X
Peter McLaughlin	X
Randy Johnson	X
Linda Koblick	X
Penny Steele	X
Michael Opat, Chair	X

RESOLUTION ADOPTED ON 04/22/03

ATTEST: _____
Clerk of the County Board

Agenda No: 9

Hennepin County, Minnesota
RESOLUTION NO. 04-6-293R2

The following Resolution was offered by Commissioner Johnson, seconded by Commissioner Koblick:

WHEREAS, HCMC is nationally recognized as one of the nation's best hospitals, providing high quality medical care for all in our community and attracting, training and retaining for Minnesota some of our nation's top medical talent; and

WHEREAS, the County Board, County Administration, HCMC Administrators and Hennepin Faculty Associates (HFA) have participated in developing a Strategic Plan for HCMC; and

WHEREAS, the County Board appointed an HCMC Governance Task Force to study hospital governance, Minnesota statutes and existing County policy, along with the forces driving today's health care economics and business models; and

WHEREAS, as a result of this evaluation the HCMC Governance Task Force recommended transition of HCMC governance to a new public, non-profit corporation created by the County, reserving to the County necessary powers to ensure, on behalf of the community, the preservation and enhancement of HCMC's mission and services; and

WHEREAS, THE HCMC Governance Task Force recommended seeking authorization from the State Legislature for the County to create a public benefit corporation to govern HCMC; and

WHEREAS, THE HCMC Governance Task Force recommended that the County Board appoint a committee to oversee a process to implement its recommendations; and

WHEREAS, the HCMC Governance Task Force identified specific activities or issues that need further study, and are articulated in the report; and

WHEREAS, the HCMC Governance Task Force also recommended that the County "enter into a long term (5-10 years) agreement with HCMC's new governing body to create a consistent, volume-driven formula for indigent care that addresses its commitment to adequately fund care for the medically indigent and vulnerable populations of Hennepin County;" and

WHEREAS, the HCMC Governance Task Force also recommended that the County should provide a catch-up grant for the under funding of capital improvements and necessary funding for working capital and transition costs; and

WHEREAS, the County Board concurs with the Task Force recommendation that a transition to an alternative governance system may be essential to preserving the mission of HCMC in a rapidly evolving and increasingly competitive health care system; where reduced federal, state, and private funding make the current business/governance model difficult to sustain; and

WHEREAS, the County Board believes it needs more specific information if it is to more fully define, develop and forward a recommendation to the State

Legislature to authorize the creation of a new public, non-profit corporation to govern HCMC; therefore

BE IT RESOLVED, that the County Board creates and appoints the following people to an HCMC Governance Transition Committee:

1. Irv Weiser, Chair
2. Mark Bernhardson
3. Gregory Pulles
4. Sharon Sayles Belton
5. Nikki Sorum

BE IT FURTHER RESOLVED, the Committee is requested to report its detailed recommendations to the County Board by November 15, 2004.

BE IT FURTHER RESOLVED, that in making its final recommendations, the Committee is requested to include greater specificity regarding, among other things, the following subjects:

1. A method to preserve existing retirement benefits for existing employees of HCMC;
2. The means by which HCMC will remain accountable to the public for its mission and financial performance;
3. The means by which the new governing body will be held accountable to the County for the responsiveness of HCMC services to the community and operating (financial) performance;
4. The method to determine the priorities of the initial accelerated capital expenditures recommended in the report, and the process for further determination of capital expenditures and future funding thereof;
5. A consistent volume-driven internal formula for funding charitable care.
6. An aggressive plan for expansion of HCMC's market share in both suburban Hennepin County and downtown Minneapolis;

BE IT FURTHER RESOLVED, that the Committee is requested to review the strategic plans of HCMC for the purpose of identifying opportunities that a new governance structure might create relative to responding to the evolving health care environment.

BE IT FURTHER RESOLVED, that the Committee is requested to provide the County Board with an estimate of the implementation costs and ongoing savings that may be derived from the implementation of the Committee's recommendations.

BE IT FURTHER RESOLVED, that the County Administrator be authorized to approve and sign contracts, after communication to the Board of Commissioners and approval by the County Attorney's Office, in the total amount not to exceed $750,000 in order to carry out the delegations of this resolution; and that the Controller be authorized to disburse funds as directed.

BE IT FURTHER RESOLVED, that the Hennepin County Board and HCMC staff, in consultation with the Minneapolis Medical Research Foundation, develop a plan to establish a separate HCMC Foundation or to create a medical care subdivision within the existing Minneapolis Medical Research Foundation to assist in raising funds to support the medical care mission of HCMC.

BE IT FURTHER RESOLVED, that the Hennepin County Board, working with HCMC staff, outside counsel to the Board and the Hennepin County Attorney, develop recommendations concerning the closer alignment of HFA and HCMC and any other changes deemed necessary in the relationship between HFA and HCMC, and invite

comments from the HCMC Governance Transition Committee.

The question was on the adoption of the Resolution as amended and there were 5 YEAS and 2 NAYS, as follows:

COUNTY OF HENNEPIN BOARD OF COUNTY COMMISSIONERS	YEA	NAY	OTHER
Michael Opat	X		
Mark Stenglein	X		
Gail Dorfman		X	
Peter McLaughlin		X	
Linda L Koblick	X		
Penny Steele	X		
Randy Johnson, Chair	X		

RESOLUTION ADOPTED ON 06/08/04

ATTEST: _____
Clerk of the County Board

Summary of Public Input

Six public meetings were held in October and November to provide information to interested members of the community about the work of the Transition Committee and to solicit feedback. Meetings were held on Oct. 5 at Sabathani Community Center in Minneapolis; Oct. 6 at the Eden Prairie Library; Oct. 11 at The Urban League in Minneapolis; Oct. 12 at Ridgedale Library in Minnetonka; Oct. 13 at Brookdale Library in Brooklyn Center; and Nov. 4 at the Hennepin County Government Center. A presentation was also delivered to a monthly meeting of the East Downtown Council at HCMC on Oct. 28. Meetings with key stakeholder groups have been held throughout the summer and fall.

Questions raised included:

- Will a "diverse board" represent the ethnic diversity of the community?
- What will happen to research?
- Why do you need "professional management"?
- Can you raise money in a different way, perhaps through a foundation?
- What about future tax increases to fund the hospital?
- Will you limit services to people from other parts of the state?
- How is this insulating the county board? From what?
- Will you ask the other counties in the metro area to reimburse HCMC?
- Who would be on the new board?
- What will give us confidence that the new board will run the hospital correctly?
- Will this board take over the hospital administrator's job?
- Is there any thought to growing new business at HCMC?
- What other cities have done this? What other models are we considering?
- What about outpatient clinics and boutique clinics, will there be closures?
- Will there be a detailed proposal provided to commissioners?
- How will the mission continue?
- Will operations be improved so elements of the system work better together?
- Will employee benefits be preserved?
- Will there be cuts?
- Will any new board members be from outside of Hennepin County?
- Do other counties have a say into your plans?
- What will happen when you go to the legislature?
- Have you looked into sharing services with other hospitals?
- Is there redundancy in research and teaching?
- What's the difference between the library board structure and this?

Listed below is a summary of the primary statement and themes raised by the public and various interested stakeholder groups:

- The private sector doesn't understand or provide the totality of care, the linkages of all the systems to help patients, and the knowledge and expertise of the staff at HCMC. If that is shredded, the needs will increase in other areas of Hennepin County.
- This is cost shifting away from who should be paying for this service.
- HCMC is vital for community health preparedness for epidemics, other public health crises.
- The process of making changes has several phases, including legislative approval.
- An admission and treatment policy is needed.
- The physician group (HFA) is supportive of this proposal.
- It is important that the diversity remain – especially the service to diverse patients.
- It is important that you hold on to the mission and identity of HCMC.
- As a patient, I'd like to see different things at the hospital work together better.
- Putting a county commissioner on the new board continues political pressure.
- Creating two-tiers of benefits is a concern.

Publicity for the public meetings included notification of 32 local print and electronic media outlets including daily, neighborhood, ethnic, and community newspapers; health press; and radio and television stations. Display advertisements were placed in 14 community newspapers. Radio interviews were broadcast on Minnesota Public Radio and the MNN radio network. Notices were placed on the HCMC.org Website and County and hospital employees were notified via electronic newsletters. Special letters of invitation were sent to the Hennepin County State Legislative delegation, all mayors in Hennepin County, all City Administrators in Hennepin County, and Minneapolis City Council members.

Employee Input

Three employee forums were conducted at the end of June and again at the end of September, 2004. Between 250 and 300 employees attended in each month. Employee forums are routinely held quarterly, and since the HCMC Governance Task Force began meeting in 2003, employee questions have centered on issues such as:

- Will we become a private organization/ be bought by another healthcare organization/ be bought by HFA?
- Will I be able to continue as an active participant in PERA?
- Will I have to use my sick and vacation pay balances before the transition date?
- What will happen to Early Retiree Health Coverage?
- Will I have to reapply for my job?
- Will my labor union change?

In September, hospital administration communicated their recommendations regarding PERA, carry over of vacation and sick pay balances, support for continued representation by existing labor union representatives, and continued employment for all active employees. Employee questions at the September Forums centered somewhat less on personal employment concerns and more on strategic questions. For example, employees asked:

- Why can employees of HCMC get free health coverage for going to another provider, and not for using our own organization?
- Why can we not have a single-plus one premium level? I have a child, but I can't afford the family coverage.
- How will we preserve the hospital mission?
- Will we have flexibility to determine our own medical benefits in the future?
- Will it cost more for us to go our own way with health insurance?
- How will we handle benefits for veterans and military reservists in the future?
- What is HCMC doing to try to keep health care costs down?
- Will we have some kind of transition plan for the Early Retiree Health Benefit going forward?
- How will we find a way to be reimbursed for the charity care we do for other counties?
- Does HFA support the governance change?
- How much of our health insurance cost increase comes back to us as a provider?

In addition, during August 2004 HCMC engaged an outside consulting organization, Clarity One, Inc. to do an assessment of employee concerns and openness to change. Six employee focus groups were conducted, involving 50 randomly selected employees from across the organization. Highlights of those meetings are attached.

Clarity One

Clarity One, Inc.
17 Sierra Rosa Loop, Santa Fe, NM 87506

Focus Group Highlights

On August 11th and 12th Clarity One facilitated a series of focus group meetings for HCMC staff members. The purpose of these meetings was to understand how people are feeling about the potential governance change and also how they feel about HCMC as a place to work.

A total of 50 randomly selected people participated from across the organization. There were 6 focus groups in all. We asked not to know participant names so that people could share their perspectives on a confidential basis. We analyzed participant responses and prepared this report so that everyone at HCMC can hear what their colleagues had to say.

- Participants report that maintaining the HCMC mission is very important to them. They also understand the need for the organization to be financially viable.
- Participants see potential benefits to a governance change especially in the areas of making decisions more quickly, the ability to streamline process, and reducing the political aspect of the current situation.
- However, they also raise concerns regarding benefits and job security. Some are concerned that HCMC will be sold. Many worry that Administration is not communicating the full picture. Others feel that governance change analysis is ongoing and information is being shared as it comes available.
- PERA, accrued sick and vacation time, and retiree medical are all identified as being very important. Participants report that they would be willing to consider other benefits changes if these benefits could be preserved.
- The things that are appealing about working at HCMC are: the challenge of learning new things, trauma center and teaching hospital environment, diversity of patients, dedicated colleagues, job security and benefits, and pride in HCMC outcomes.
- There are also some things about working at HCMC that are difficult for people such as stress, old equipment and systems, and budget cuts. Some report feeling that the facility is not as clean as they would like it to be.

- Many people report that they have excellent managers. Many others feel that they are not being treated respectfully by their managers.
- Most participants say they would like to have more feedback from their managers and that they would like to have a more effective review process.
- Although most people report having very dedicated colleagues, every focus group identifies the issue of those who do not do their fair share of work. They report that this causes patient safety concerns and increases the workload for those who are dedicated.
- Opinions about how competitive compensation is vary by job class. Some report being at the top of the market, others believe they are below. People generally believe that pay ought to be based on the market, cost of living, and merit. However, some express concern about favoritism if merit pay were introduced.
- Participants identify some compensation issues such as RN and Lab increases, wage freeze, and top of scale cap.
- Participant perspectives also vary about how competitive HCMC benefits are. Some people see parking and the loss of the shuttle as concerns. Learning and development are very important to participants and they suggest enhancements to tuition reimbursement.
- Participants see a need for more efficient systems and process. They make many specific suggestions in this area such as centralized patient check in, medical records system, purchasing process, and Human Resources policies.
- Participants report that more frequent communication and more specific information would be helpful as the due diligence process moves along. People who attend the Forums like them, but many people are not able to attend. Participants suggest that leaders be more visible. They also suggest using newsletters and videos more instead of relying so much on e-mail. Another suggestion is to allow people plenty of time to make decisions once the choices are known.
- Having focus groups is seen as a good thing to do. Participants express appreciation for being included. Many express a desire for this input to be taken seriously.

We thank those of you who took the time to attend and appreciate your openness and your contributions to this important initiative.

Elaine Claire
President, Clarity One, Inc.

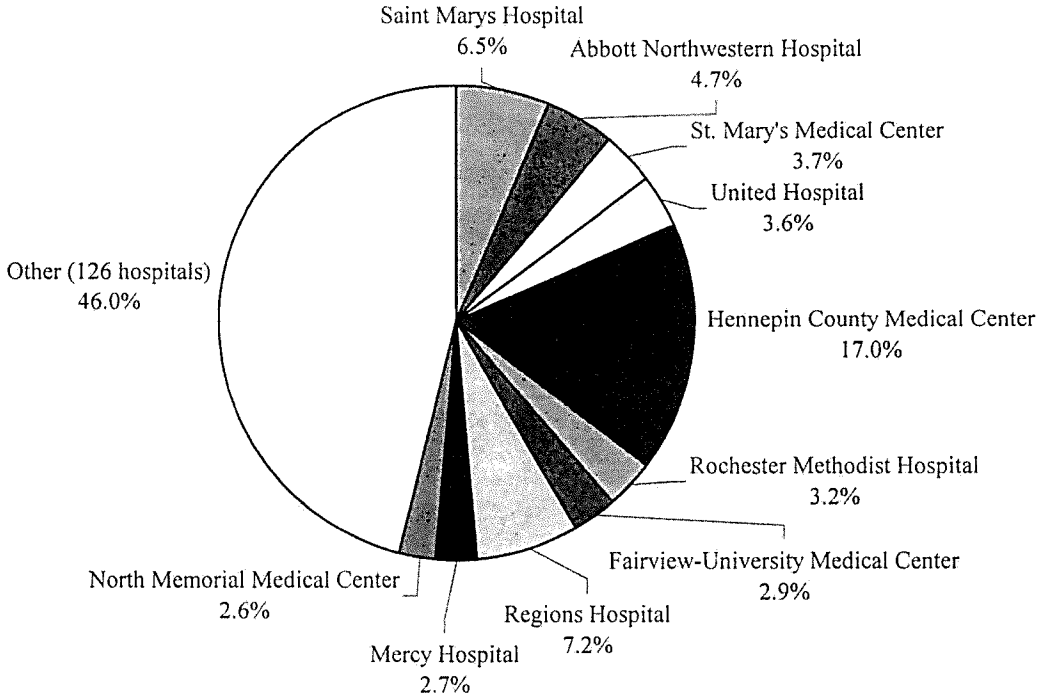
Comparison Chart of Public Hospitals

	St. Paul-Ramsey Medical Center	Westchester County Medical Center	Wishard Hospital	Hawaii Health Systems Corporation	Community Medical Centers	D.C. Health and Hospitals PBC	Erie County Medical Center	Nassau Health Care Corp.	El Camino	New Liberty Hospital District	Health District of Northern Larimer County	Angleton-Danbury Hospital District	Denver Health and Hospital Authority	Cambridge Health Alliance
SCOPE														
Multi Facility	X	X		X	X	X	X	X					X	X
TYPE OF ENTITY														
PBC	X	X	X	X	X	X	X	X	X					X
Political Sub-division				X+							X	X	X	
Hospital District									X	X				
GOVERNING BODY														
Publicly Elected									X	X	X	X		
Appointed		X	X	X		X	X	X	X				X	X
GOVERNMENT ENTITY REQUIREMENTS														
Open meetings	X	X	Must keep record of meetings				X	X			X			
Eminent Domain			X				X	X	X			X		

	St. Paul-Ramsey Medical Center	Westchester County Medical Center	Wishard Hospital	Hawaii Health Systems Corporation	Community Medical Centers	D.C. Health and Hospitals PBC	Erie County Medical Center	Nassau Health Care Corp.	El Camino	New Liberty Hospital District	Health District of Northern Larimer County	Angleton-Danbury Hospital District	Denver Health and Hospital Authority	Cambridge Health Alliance
EMPLOYMENT														
Staff are public employees	**No**	**Yes**	**Yes**	**Yes**	**No**	**No**	**Yes**	**Yes**	**No**	**No**	**Yes**	**Unknown**	**No**	**No**
Physicians are employees of entity	**Separate corporate entity**	**Private and faculty**	**Faculty**	**Faculty**	**Private**	**Unknown**	**Faculty**	**Some private, some staff**	**Private**	**Private**	**Private**	**Unknown**	**Faculty**	**Staff**
FUNDRAISING														
Contract with City		X					X	X						X
Foundation	X		X	X	X		X		X	X			X	
Bonding Authority	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Taxing Authority			X				X*	X*		X	X	X		
Government funding	X	X		X				X					X	

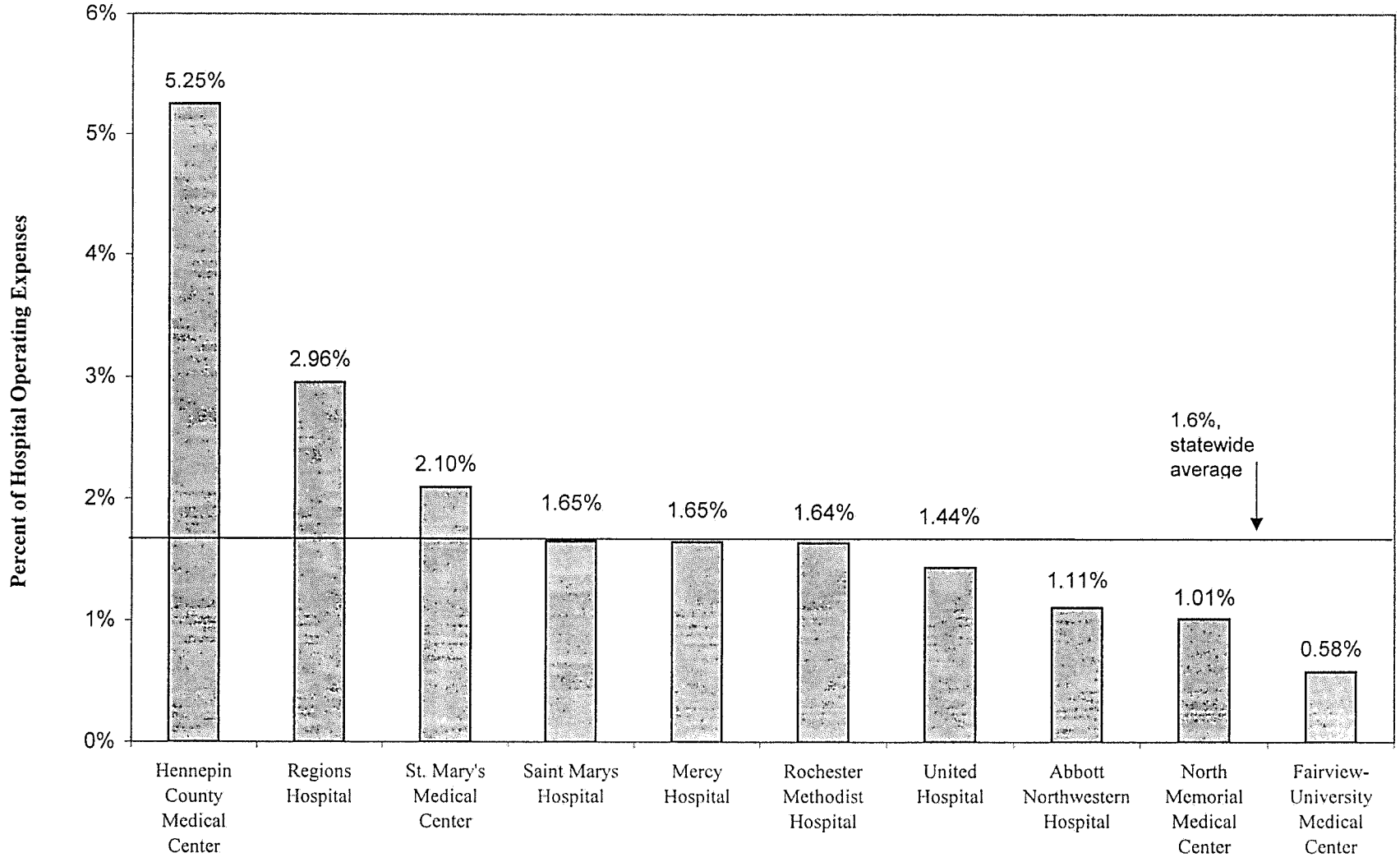
+ Hawaii Health Systems Corporation is an agency of the state of Hawaii.
*County may levy taxes to benefit the corporation.

Percent of Uncompensated Care Provided by Minnesota Hospitals, 2003*



*uncompensated care figures are cost based.
Source: MDH, Health Care Cost Information System

Percent of Operating Expenses Tied to Uncompensated Care for the 10 Largest Providers of Uncompensated Care, 2003*



*uncompensated care figures are cost based. Source: MDH, Health Care Cost Information System

Hennepin County Medical Center

Income Statement

Five Year Comparative

($000 omitted)

	- Year Ended 12/31 -				
	1999	**2000**	**2001**	**2002**	**2003**
Inpatient Gross Revenue	$349,211	$389,322	$418,186	$448,354	$465,823
Outpatient Gross Revenue	164,258	183,081	205,170	226,168	240,026
Other Patient Revenue	3,318	3,060	3,770	4,755	3,539
Gross Revenue	516,787	575,463	627,126	679,277	709,388
Contractual Discounts	194486	227974	257326	287728	310505
Charity Care	9,825	11,176	12,164	15,837	17,892
Net Patient Revenue	312,476	336,313	357,636	375,712	380,991
Other Operating Revenue	8,051	13,019	17,857	19,244	18,167
Total Other Op. Revenue	8,051	13,019	17,857	19,244	18,167
Net Operating Revenue	320,527	349,332	375,493	394,956	399,158
Personal Services	204,793	214,052	241,367	262,188	264,615
Commodities+Services	55,522	58,267	64,365	70,138	70,204
Administrative	18,781	19,539	18,812	20,322	22,182
Bad Debts	24,149	24,464	28,624	23,870	22,463
Fixed + Other	11,685	12,601	15,236	15,893	16,163
MA Surcharge	6,970	7,629	6,228	4,859	5,622
Depreciation/Amortization	19,493	19,338	18,486	19,456	20,427
Interest	2,130	1,874	1,808	1,762	1,597
Total Operating Expenses	343,523	357,764	394,926	418,488	423,273
Operating Profit (Loss)	(22,996)	(8,432)	(19,433)	(23,532)	(24,115)
Tax Levy	16,716	11,063	14,380	17,345	19,002
IGT 3 Upper Payment Limit				4,822	1,368
Net Profit/Loss	$ (6,280)	$ 2,631	$ (5,053)	$ (1,365)	$ (3,745)

Annual Health Services Plan
Outline

I. Community Benefit and Performance: Year End Review
   - A. Goals
   - B. Actions
   - C. Indicators and Outcomes

II. Context for Coming Year
   - A. Population Health Objectives (e.g. State; metro, county, local)
   - B. Hennepin County Community Indicators
   - C. Community Health Status
     1. Epidemiology
     2. SHAPE II
     3. Inventory of Community Assets and Existing Services
   - D. Plans and Priorities: (e.g. Hennepin County, Hennepin County Human Services Department, City of Minneapolis)
   - E. Other Environmental Parameters: e.g. Policy, Regulation, Financing, Evolving Trends, Competition
   - F. Supply and Demand, Core Services
   - G. Summary of Issues: Challenges and Opportunities

III. Health Services Plan for Coming Year
   - A. Mission Affirmation and Role
   - B. Goals
   - C. Priorities and Strategies
   - D. Program Portfolio
   - E. System Coordination and Integration
   - F. Programs and Systems Addressing Regional Health Issues
   - G. Indicators and Targeted Outcomes

Summary of In-Depth Studies Conducted By Mercer, Watson Wyatt, Internal HCMC Staff, and Outside Legal Counsel

Mercer Analysis: This study indicated that HCMC's current retirement benefit structure (through PERA) provides employees with a benefit that is currently competitive from both a cost and benefit perspective. However, the Committee has also been advised that PERA costs are likely to increase, and benefit levels may be reduced. As a result, the Transition Committee is recommending that HCMC be given flexibility to create alternative defined contribution plans for future employees. In addition to the Mercer study, initial discussions were conducted with the Executive Director of PERA and the Executive Director of the Legislative Commission of Pensions and Retirement. Both indicate that the level of decision-making control to be retained by the County appears to be sufficient to allow existing employees to continue participation in PERA. They also indicate that "carve-outs" of specific classifications of future employees should not present policy concerns, since such arrangements have been approved for other organizations.

Mercer consultants also completed an actuarial analysis of the financial impact of the County's Early Retiree Health Insurance policy. Under proposed new government accounting standards, the cost of the program is a significant concern. However, this is an issue for the entire County, not an issue presented by a governance transition. The transition Committee has not developed any recommendation regarding the current policy for the hospital alone, although we propose that the Hospital have the option to change the program independent of what the County does.

Watson Wyatt Analysis: Consultants completed a competitive comparison of HCMC's welfare benefits to other Twin City area healthcare organizations; and analysis of the costs and benefits associated with a change to a more competitive package. They have concluded that there is significant opportunity to improve benefits, and to be more cost-effective at the same time. One example they cite is that HCMC is the only hospital in the Twin Cities area that does not reward its employees for using its own facilities. In fact, employees in the HealthPartners medical plan must pay a premium for that privilege. Consultants at Watson Wyatt have estimated this cost-saving opportunity alone at over $1.0 million annually.

Compensation Review: Internal HCMC staff, with the support of County Human Resources staff, has conducted a detailed analysis of compensation at the hospital. Average pay levels at HCMC are somewhat below competitive market rates, and there are some job classifications that are significantly out of range with market averages. Although these are not numerous enough to cause serious concern currently, the anticipated "0" increase in 2005 will likely result in more significant problems. More significantly, the design of the compensation program does cause concern: it is a system that rewards longevity rather than performance, and as such does not support alignment of organization and individual goals or the creation of a stronger culture of accountability. Salary range maximums at HCMC are often inadequate to pay median rates, with the result that high performing individuals must leave in order to be paid competitively. Further, the administrative processes that serve as its foundation, with cycle times 3 to 6 times longer than competing organizations, create serious drag on the organization's ability to adapt to change.

Labor Relations: Review of the proposed structure has led to the conclusion that two primary concerns of HCMC's represented groups can be accommodated. The first is continuation of PERA for existing and possibly future employees. As noted above, the new governance structure is designed to permit that. The second relates to continuation of coverage under the Minnesota Charitable Hospitals Act as the governing labor law. Given the level of ongoing County control in the affairs of HCMC, continued coverage under the Minnesota Charitable Hospitals Act could be maintained with appropriate legislative changes.

OUR PERSPECTIVE

HCMC

How to preserve a fine hospital

Minnesotans who get their medical training by watching "ER" every Thursday night probably have an image of Hennepin County Medical Center that looks something like this: a lobby full of gunshot victims, lunatics, drug addicts and ravaged teenagers, all screaming or bleeding and being stitched back together by manic medics up to their elbows in gore.

The truth is rather different. Minnesota's biggest public hospital is a nationally known center for oncology, obstetrics, trauma and burn treatment. Half of Minnesota's doctors received at least part of their training at its downtown Minneapolis campus. For six years in a row, it has landed on U.S. News & World Report's list of America's best hospitals. It is the state's biggest provider of care to the indigent, but it also derives a large share of its revenue from paying customers with insurance who have made it their hospital of choice.

For all that, the hospital faces a long-term crisis. Six years ago, in the Balanced Budget Act of 1997, Congress decided that it no longer wanted to pay for the things that public hospitals do, including training doctors and healing the poor. Last year Minnesota's Legislature made much the same decision, trimming millions of dollars from state insurance programs that help the working poor pay their hospital bills.

So it's easy to understand why the Hennepin County Board, which officially oversees the hospital, suddenly feels rather bereft. Public hospitals across the country are closing in droves, and even though Hennepin County taxpayers furnish only 5 percent of the hospital's budget, the commissioners are worried about the facility's long-term finances.

That's why a county task force recommended last fall that the hospital get a new governing structure that could simultaneously increase revenues and reduce costs, and that's why the County Board should endorse the recommendation, a decision that could still come this month.

Well-meaning people, including some in the medical community and some on the county board, fear that turning HCMC into an independent nonprofit is merely cutting it adrift from taxpayer support — and indeed it would be inexcusable for the county to shed its responsibility to operate a high-quality, urban teaching hospital.

But the task force included people of conscience as well as expertise — including financial executive Irving Weiser and former Mayor Sharon Sayles Belton — and our sense is that it has genuinely sought ways to protect the hospital, not abandon it. Under the current structure, for example, hospital executives must go to the County Board for every outlay exceeding $25,000, a political chore that hampers nimble and entrepreneurial management. A new governing board would also have greater flexibility to trim labor costs, which are higher than those at comparable hospitals, though it should bear in mind that there is probably a good correlation between cost of staff and quality of medicine. While proposing this sort of management streamlining, the task force also recommended that the hospital retain the ability to borrow money using the county's fine credit rating and receive an immediate infusion of $25 million for long-delayed capital improvements.

This is not an easy decision for stewards of a great metropolitan resource. But the alternative is probably a slow death by a thousand cuts from higher levels of government that seem to care less and less about the quality of public institutions.

MINNEAPOLIS STAR TRIBUNE, Dec. 7, 2003