

**Citizens' Commission on Ownership & Governance of Memorial Health System**  
**Nov. 3, 2010**  
**Meeting Summary**  
**FINAL**

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**Commissioners present:** Chair Bob Lally, Vice-Chair Martha Barton, Vice-Chair Jay Patel, Myrna Candraia, Peggy James, Paul Dougherty, Dave Munger, Bill Hodson

**Consultant:** Larry Singer

**Topic:** Final recommendation for governance and ownership of Memorial Health System

**Location:** Leon Young Service Center

**Time:** 5:00 p.m.

**Opening remarks from Commission Chair Bob Lally**

Good evening and welcome.

My name is Bob Lally and I have had the pleasure and the distinct honor to be the chairman of this Citizens' Commission.

This commission was established by Colorado Springs City Council in February 2010. The volunteer Commissioners who are before you tonight were charged, through a process of community engagement, to gather information, solicit viewpoints and ultimately, tonight, make a final recommendation back to city council on the future ownership and governance of Memorial Health System.

As we all are fully aware, this is not a new issue for the community.

What is new is this Commission did not campaign and has without any outside pressure or agenda, any political allegiance or constituencies focused its efforts locally and nationally. This Commission weighed the potential models and every decision against the established objectives and criteria. We sought the expertise of more than twenty local and national healthcare experts, the local medical and business community, the staff of Memorial Health System, a nationally-recognized consultant and, perhaps most importantly, the owners of the multi-million dollar system -- the citizens of this community. Your opinions and thoughts on what Memorial means to you resonated with this Commission.

We outreached and updated numerous local associations on our status. We updated City Council formally twice and informally via one-one discussions and e-mail updates several times. We heard from our citizens through our blog, Web site and by email PLUS we held over thirty open Commission and town hall meetings in all quadrants of our community,

To say it mildly, these past eight-plus months have been quite the journey. And to be very candid and straight forward, this Commission did its homework. We worked together as a team. We worked extremely hard and invested thousands of hours, with full transparency and at times painstakingly with due diligence, to question, research and make the tough decisions.

On Oct. 20, this Commission removed the stay as is or status quo and its variants from any further consideration. The basis for this decision come from the facts that if this community asset is not only to survive, but thrive, its decision-making capabilities need to be unhindered from the restraints of its current cumbersome council governance. This asset needs to increase its scale and access to capital. And this asset requires the ability to expand beyond the limits of the city, an option now made impossible by municipal laws.

The landscape of healthcare is an uncertain one, but Memorial and the City of Colorado Springs set out on this exploration with one great advantage: Our system is strong and has choices. Many municipal hospital systems have had their options severely limited by a loss of capital and poor performance. Memorial is the exception. But despite our successes, we cannot rest on our laurels. The City saw this as the right time to pursue other options, and the Commission realizes those other options will better serve the community now and well into the future.

Tonight, the Commission is left with five viable models. Those models are, in no particular order:

- Create a hospital authority
- Standalone 501(c)(3) nonprofit
- Affiliate with a nonprofit
- Joint venture with a for-profit
- Sell to a for-profit

Tonight you will witness and review the results of our work and our final recommendation. After the Commission's work, we look forward to hearing your questions, concerns and thoughts.

## **Meeting Summary**

### **Commission is unanimous on standalone nonprofit recommendation**

Nine months of discussion, dozens of public meetings and town halls, multiple presentations by local and national experts and hundreds of combined hours of analysis culminated in a vote to recommend the standalone 501(c)(3) nonprofit model for Memorial Health System's future. That recommendation for change will be made to Colorado Springs City Council Nov. 22 following a unanimous vote in favor of the model.

The decision to recommend the standalone nonprofit option followed Commissioner Bill Hodson's presentation of a Data Aggregation Tool, which the Commission used to help rate the pros and cons of each model in relation to the criteria laid forth by city council.

Hodson explained that the DAT was not a decision analysis tool but rather a data visualization tool used to help make a decision. He said one of the Commission's greatest challenges was sifting through the daunting amount of information gathered since the group's inception in February. Sources included guest speakers, articles, reference books and conversations with experts and consultants.

"The challenge is to integrate these into specific recommendations on governance and ownership," Hodson said, adding that the information is quantitative, not qualitative, and some information was even contradictory.

The Commissioners, on their own time, rated each of 12 criteria against the eight possible governance and ownership models analyzed over the past several months. The criteria were rated as fitting the models "very poorly," "poorly," "well" and "very well." Those ratings were translated into numerals with "1" representing to lowest ranking and "4" representing the highest. The rankings from each commissioner were then averaged.

Of all the models, the standalone 501(c)(3) ranked the highest across all criteria.

Before voting, however, the Commission discussed each model, except the "stay as is" model and its variants, which the Commissioners voted to eliminate at its Oct. 20 meeting.

Consultant Larry Singer began the conversation with a brief overview of each of the remaining models under consideration. He addressed the hospital authority model, stating it was a model the Commission looked at seriously, adding the Commissioners heard from Denver Health's CEO Dr. Patricia Gabow on July 15 regarding the a hospital authority.

"It's an interesting model," Singer said, "in that it is a creature of its enabling legislation." He added that there were aspects that differentiated Denver Health from Memorial from the start, including an already-integrated delivery system, a "strategic difference for Memorial."

The second possibility was an affiliation with a nonprofit, a model presented by Navigant Consulting's David Burik on Aug. 4. Singer said Penrose-St. Francis Hospital is a local example of an association with a large nonprofit. Scale would be achieved quickly under this model, Singer said, however local control would be severely limited.

Singer reflected on several representations of the 501(c)(3) model including Burik's presentation, as well as Poudre Valley Health System's CEO Rulon Stacey on July 7 and Memorial Health System's presentation before the Commission on Sept. 1 where Memorial CEO Larry McEvoy endorsed the model.

Singer then explained the Commission's analysis of the for-profit and joint venture models, which were also highlighted by Burik.

Before delving into the models discussion, Singer reminded the Commissioners and those in attendance that each model was “analyzed in the abstract,” and that the Commission had been discussing each model individually. He said that a “richer conversation” would be had at the meeting regarding advantages and disadvantages across all the remaining models. Singer also stated that parameters and safeguards specific to the preferred model would need to be discussed.

Lally began the models conversation with the hospital district. He spoke of Gabow’s presentation regarding Denver Health, and pointed out that that system was city-owned before transferring to a hospital district. Lally said Memorial could, perhaps, achieve the success of Denver Health under a similar model, but it would take a significant amount of time due to advantages Denver Health had prior to making the conversion.

Commission Vice-Chair Jay Patel agreed, explaining that public health components, such as poison control and emergency response were already embedded within the system. To create such a system from scratch, he said, would take years.

Commissioner Peggy James said Colorado Springs being a two-system community adds an additional hurdle to the district model, adding that recommending a district would “betray (the Commission’s) promise” of not burdening taxpayers further, as the district would require a mill levy.

Commissioner Dave Munger said he liked the district model in that it facilitates coordination of information across the jurisdiction established. He added, however, that the complexity of establishing coordination in this community with split control between the city and county would be a “big disadvantage.”

Singer pointed out that the district model scored poorly under the agility criterion.

Commission Vice-Chair Martha Barton said Denver Health receives some taxpayer support regarding indigent care, and that Gabow shared, during her presentation, concerns about the costs associated with the system’s academic presence. Gabow differentiated Denver Health from Memorial additionally when she explained that integration was inherent to that system because all the doctors were already employees prior to the conversion. Barton said the integration of public health throughout Denver County adds to the complexity.

Hodosn expanded on Barton’s comments, stating complexity was not a criterion, but it is important. He said complexity needed to be explored across all models, and that he would add ease of reversibility as something to consider.

Munger said it was clear from the discussions of the city’s fiscal sustainability hearings that a major responsibility of the Commission was to reduce financial and legal liability of the taxpayer. Munger said the district model does not do that. In fact, he said, it may increase liability and the taxpayers’ burden.

Singer said the Data Aggregation Tool pointed to nothing inherent in the district model that enhances integrated delivery. He added that there was no indication that if the district model was adopted it would turn Memorial into a highly efficient and agile system.

Barton said Denver Health's transition took legislative action and the Colorado State Legislature had to get behind it. She said the political atmosphere in the mid-1990s was different than today's, making it more complicated to do the necessary legislative work.

Munger said, regarding Hodson's concept of reversibility, there are some model alternatives that do not foreclose establishing a hospital district if, in the future, that would make sense. However, options such as selling to a for-profit would close that possibility.

The Commission moved the conversation to the next model under consideration, the standalone 501(c)(3).

Patel said the Commission was diligent in that Memorial's executive team was last to present. He said it was interesting that the model most closely matched the Commission's charter and that the group was interested in creating a legacy and finding the governance model that would allow that legacy.

Lally said the Commission heard from several experts to gain a national perspective on the standalone nonprofit model, including Stacey of Poudre Valley Health System and Ed Epperson of the Carson Tahoe system. He said themes to the model that resonated with him were local boards, local control and a representation of local values.

Barton said the standalone nonprofit model seemed to best provide the opportunity to customize conditions in order meet the city's future needs and incorporate local healthcare providers.

Commissioner Myrna Candreia said the community made it clear that Memorial was a "local jewel" and that if the standalone nonprofit transition were done well, local control will be maintained.

Singer said the Commission heard from two separate financial advisors during the course of the group's work and that both concluded that model projections for the standalone model showed sustainability.

Patel said a common theme during the Commission's tenure was the importance of local control, explaining that the community is more likely to donate to a foundation and volunteer if it is for a local organization.

Munger asked Singer to explain the differences between affiliating with a nonprofit and the nonprofit spinoff option, and how each would limit maneuverability.

Singer said Memorial would not find another local organization with the scale that would facilitate alignment, adding anti-trust laws would prevent that. Singer said anyone with the scale to align with Memorial would mean that organization would be the "dominant player." Singer said "joining one means giving up economy to be part of a family," explaining that in profitable years for Memorial, money may flow out to help weaker systems. But in years where Memorial struggles, money flows in. He said any large organization will have centralization of capital and decision-making at its headquarters, which will be outside of Colorado Springs.

In addition to acting as a safety net, affiliation means lower bond ratings and group purchasing power. Singer said the affiliation relationship must be clear up front because, once a contract is signed, the ability to chart any future is essentially over. He said some organizations are in a position where they must consider such an affiliation, but Memorial is financially stable enough to pursue other options.

Barton said the ability for a system to run and have a culture of its own does translate back to quality of care and, while there is “tons of strength” to be gained in affiliating, it would be more difficult to define culture when headquartered outside the community.

The Commission then moved its discussion to the sale to for-profit and joint venture models. Singer began the discourse by explaining that the opportunity to create a joint venture is limited because of the numbered organizations that will pursue such a partnership. He added, however, that there would be more suitors if the decision were to sell the system outright.

Singer said the typical joint venture agreement is an 80 percent asset transfer to the purchasing entity while retaining 20 percent ownership locally.

Patel addressed the for-profit model with financial research, stating the financial report placed the system’s price tag at approximately \$430 million. Settling costs upon a sale including the defeasing of bonds would leave the city with approximately \$230 million. Additional costs would include any outstanding lawsuits and PERA payments equaling another \$38 million. Patel said that would leave a relatively small sum to go toward a foundation mandated through the state’s Hospital Transfer Act. In addition, the community would likely lose the \$70 million annually doled out in indigent care.

“What is the benefit to the community?” Patel said. “The financials are not there. The indigent care is not there. The volunteer hours are lost. Why give money to a for-profit foundation?”

Patel said the sale could eventually cost the community due to the elimination of unprofitable services from a new for-profit entity. Services including psychiatric care and pediatrics would fall back on the city.

“For me, the for-profit (option) went away very quickly,” Patel said.

Candreia said one thing that struck her about the for-profit option regarding quality of care was that for-profits come out as the lowest ranked. She added that there is no guarantee if sold, the system would not be sold again within a few years.

Hodson said he has researched the two largest Colorado healthcare foundations created through the Hospital Transfer Act and that, while the grants provided through those foundations may be useful, they are not always community focused and do not necessarily go toward improving community health.

Patel said, regarding economic impact, Memorial currently employs 4,100. If sold, the high-paying executive jobs will be gone and Services that are not profitable would disappear. In addition, human resource jobs would likely be sent away, endangering many local jobs.

Munger said the for-profit option was another model that would be “attractive” if it met certain conditions. One condition would be that the buying entity would be headquartered in Colorado Springs, keeping those executive salaries in the community.

Patel addressed annual tax revenues that would come to the city via a for-profit sale. He said it is estimated that \$6 million dollars in sales and use taxes not currently paid by the city-owned system would be split between the city, county and state. The city, Patel said, would see, perhaps, \$1 million of that annually.

“The benefits to the general fund are minimal compared to uncompensated care and services,” Patel said.

Barton spoke to the impact a for-profit sale would have on local healthcare partnerships, stating Memorial and health service partners “are braided with services here.” She said nonprofit human services benefit from partnering with a large healthcare system. She said access is enhanced because of Memorial’s partnership with community services such as Peak Vista and the Department of Health as well as relationships with the El Paso County Medical Society and TriCare.

Singer said a fundamental issue is that motivations for being in healthcare for for-profits and nonprofits are flipped. For-profits want to make money, Singer said, while nonprofits make money to provide healthcare.

Munger said it is important to recognize that a sale closes options and that, regarding reversibility, a for-profit sale gives no opportunity to reverse that decision. He added that there seems to be a trend that when hospitals are sold to a for-profit, the cost of care rises.

Singer said the Commission’s goal while looking at these models was identifying characteristics that are endemic to those models. He said, because Poudre Valley Health System was successful in one aspect does not mean it will happen locally. He said the commission has done a good job finding those endemics, adding that giving up control in a sale is endemic to that model.

“The homework has been done and the right questions have been asked,” Singer said..

Lally then made a motion that the standalone 501(c)(3) option be the Commission’s recommendation to city council. All the Commissioners supported the motion.

The Commission then turned their focus to creating parameters regarding their recommendation. After lengthy conversation regarding the depth and detail of those safeguards, it was determined the Commission would agree on the general parameters they would discuss further when they meet in executive session on Nov. 10.

Those parameters included:

- Tax exemption
- Community benefit
  - Charity care
  - Continuing community health partnerships
  - Quality assessments
  - Commitment to community problem-solving
- Community governance
- Community interest
- Reversionary interest
- Remuneration

Singer said some form of remuneration recognizing the city's "shepherding" of the health system would not be unusual, but the specifics perhaps should not be made by the commission.

#### **PUBLIC COMMENT**

Audience member Walter Lawson said he had seen a projection during McEvoy's presentation that patient revenue would be \$900 million in five years. He said that would mean a need to raise rates.

Dougherty said a strong competitor in Penrose-St. Francis will keep Memorial's costs competitive.

Lawson said he was concerned the Commission was not addressing potential cost increases.

Patel said costs go up in any business and Memorial would not likely be an exception. In healthcare, he said, the biggest cost is payroll. Fewer doctors presently means those with experience have increased their rates. Patel said the community will have to address its payor mix in order to rein in costs and pointed to Poudre Valley as a successful example.

Lawson said an additional concern was that there is no guarantee a standalone 501(c)(3) would "facilitate anything" and that the Commission needs to build in assurances if the system faces financial hardships.

"If this system gets in trouble, where is worse case protection," Lawson asked. He pointed to the current mill levy as a safety net. He also said there is no assurance of lower costs to the community or better outcomes.

"I want hard requirements," Lawson said. "Otherwise this process should not go forward. This process is not about making money for the city. There is not enough conversation here about how to protect the patients."

Dougherty said worse case protections will be discussed, but there is no way to assure lower costs.

"I don't know any business that will guarantee lower costs," Dougherty said. "As for better outcomes, lots of organizations will be looking over the shoulder (of the health system) and if there are not good outcomes, people will read about it in the newspapers and go to Penrose."

McEvoy stood and made a plea to the Commission to continue its charge outside of the pressures certain to come from local politicians and the voting public.

"This Commission is least encumbered by political realities," McEvoy said. "Look at this problem and define it in a pure way; what is the best thing for this community and patients?"

He said the Commission should not burden itself with predicting how the voters will interpret the decision and let city council "fashion something that will work." He asked the Commission to "stay focused on the question at hand. What is best (model) based on this criteria?"

"Don't give up your ability to answer that question and what's best for this community. Council will get into practicalities," he said.