

**MCHENRY COUNTY BOARD
COMMITTEE OF THE WHOLE MEETING
667 WARE ROAD
WOODSTOCK, ILLINOIS 60098**

MINUTES OF TUESDAY, SEPTEMBER 4, 2007

Chairman of the Board – Kenneth D. Koehler (District 2)

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| District 1 Yvonne Barnes Anna May Miller Marc Munaretto Dan Shea | District 2 James Heisler Kenneth Koehler Lyn Orphal Marie Chmiel | District 3 Mary L. Donner Ed Dvorak Nick Provenzano Barbara Wheeler |
| District 4 Sue Draffkorn John Hammerand Pete Merkel Sandra Fay Salgado | District 5 Tina Hill John Jung, Jr. James P. Kennedy Virginia Peschke | District 6 Randall Donley Mary McCann Dan Ryan Mary Lou Zierer |

The Honorable County Board of McHenry County, Illinois met as a Committee of the Whole on Tuesday, September 4, 2007. The meeting was held at McHenry County Government Center – Administration Building; 667 Ware Road, Woodstock Illinois.

Chairman Kenneth D. Koehler called the meeting to order at 10:00 a.m.

The roll of members was called, the following County Board Members were present: Yvonne Barnes, Marie Chmiel, Randy Donley, Mary L. Donner, Sue Draffkorn, Ed Dvorak, John Hammerand, James Heisler, Tina Hill, John Jung, Jr., James P. Kennedy, Mary McCann, Pete Merkel, Anna May Miller, Marc Munaretto, Lyn Orphal, Virginia Peschke, Nick Provenzano, Dan Shea, Barbara Wheeler, Mary Lou Zierer and Chairman Koehler. Dan Ryan and Sandra Fay Salgado were absent. Chairman Koehler declared a quorum present with twenty-two (22) members responding.

Also attending: Ralph Sarbaugh, Associate County Administrator - Finance; John Labaj, Deputy County Administrator; Peter Austin, County Administrator; interested public; and press.

PUBLIC COMMENT: None

DISCUSSION – MANAGEMENT OF VALLEY-HI NURSING HOME

Chairman Koehler stated that at the last Committee of the Whole meeting the Board expressed their interest in speaking with the two firms that staff has been in contact with regarding the management of Valley-Hi. At that meeting the Board reviewed various options including entering into a complete management contract or supporting a new Valley-Hi Administrator as a County employee with a consulting contract with an outside management firm. He noted that two firms will make presentations today. He asked Mr. Austin to introduce the first presenter.

Mr. Austin stated that Mike Scavatto of Management Performance Associates will be giving the first presentation. Management Performance Associates is the firm that conducted the recent Management Audit of the Valley-Hi Nursing Home. He explained that it was important to note the both Management Performance Associates and Revere Healthcare (the firm to give the second presentation) did not suggest a complete third party management, which was something that the County Board had discussed. Mr. Scavatto and his firm have a good relationship with Illinois county nursing homes, including those in Lake, Peoria, DeKalb, Monroe, Champagne, etc. He stated that when the County Board discussed this

issue two weeks ago some core questions were raised about how would this management idea really work? How will the firm come in and provide their expertise with the County's vision of how to operate Valley-Hi? The presentations will provide an overview of how they would approach this issue and how the Board's thoughts and philosophies will be incorporated into the firm's management.

Mr. Scavatto, President of Management Performance Associates (MPA) located in St. Louis Missouri addressed the Board noting that MPA has been in business since May of 1995. Prior to Mr. Scavatto's current position, he was President of a hospital turn-around company for approximately twelve years. MPA provides turn-around for healthcare institutions (hospitals and long-term care facilities). MPA currently manages such facilities for DeKalb, Monroe, Livingston, and one in Texas and consults with several other counties. Turnarounds are never "nice." The one key ingredient that drives a turnaround to success is the relationship between the manager and the County Board. If the objectives are not in sync, there can be no turnaround. The responsibility of the Board is to set the direction and leave the day-to-day management to others. The Board needs to decide what kind of home they want to carry out its mission and what the strategic issues are that must be faced. One of those issues is to understand that Medicare rehab services in the nursing home will be fueled by the baby boomers and a first class program should be available at Valley-Hi. Another strategic issue is the dementia market and how will the Board position itself for this growing market. When MPA comes in to work with a county, they do not particularly worry about working with personnel, 95% of the personnel working at the nursing home will do just fine because they want to.

In response to the question, will the desires of the County Board be considered by a third-party administrator, Mr. Scavatto noted that the MPA would work for the County Board not the nursing home, they are hired by the Board, fired by the Board, get direction from the Board and make sure the Board's mission is reflected in the nursing home.

In response to a third question, historically, about 80% of the Valley-Hi's residents have been indigent, does the mission of the County's Nursing Home need to change? Mr. Scavatto noted this is something the Board needs to make a decision on, noting that times change and mission statements need to adapt. The Board needs to determine if they want to continue to subsidize Valley-Hi or if they want to narrow that gap and become less dependent upon tax subsidy.

Regarding a fourth question, how would personnel questions be dealt with? Would a third-party administrator have any checks on his or her hiring and firing authority? Mr. Scavatto responded that MPA would follow whatever the County's personnel policies are.

Ms. Chmiel asked if the County selected Mr. Scavatto's firm, how much it would cost a year and if a full-time staff member would be on-site. Mr. Scavatto responded that they have quoted \$180,000; the market is 5% of revenues. MPA would provide a full-time administrator plus daily support from the office and field support at least once a month. Mr. Shea asked if the quote of \$180,000 included the full-time administrator's salary. Mr. Scavatto responded that the quote does not include this salary, which is standard in the industry. Ms. Donner asked what the proposed administrator's salary range would be. Mr. Scavatto responded between \$80,000 and \$85,000 plus benefits. He also stated that MPA would prefer a full-service contract as opposed to a 50/50 contract, noting that such a contract would water down the process which could increase the turnaround time. Chairman Koehler pointed out that agency nursing costs have caused the operating expenses to increase dramatically and those costs, although they are needed, are really crippling the County. He asked what MPA has done to improve this situation in other locations. Mr. Scavatto noted it would be difficult to totally eliminate such costs. In DeKalb County the costs decreased from \$600,000/\$700,000 per year to approximately \$100,000. Such costs in Monroe County have just about been eliminated. Livingston County is not doing as well. If the County is willing to entertain different arrangements with staff, there is a good possibility costs would decrease.

Ms. Hill stated that her constituency has noted that they want a home for our most needy residents, but if the mix of 65/35 is higher the County will need subsidize the facility. Mr. Scavatto responded "yes" and stated the needs for agency staffing could be reduced by implementing various options. The mix changes overtime and the primary ingredient is the Medicare business. Ms. Zierer stated that in reviewing option 3, it appears that the contract must be for three years. She stated she is opposed to the three year contract and pointed out that the County has a current Resolution stating that that we cannot take over 37 paying patients at Valley-Hi. Mr. Scavatto responded that he was unaware of a formal Resolution and when working at Valley-Hi the impression was that you had a high percentage of Medicaid patients. He went on to note that if the County likes its present position, the County can "leave it alone" however if the County does not like its financial position with the current mix, changes need to be made in a humane way. Ms. Zierer also stated she has received many calls from citizens and they have expressed their fear that the County is getting away from their mission statement of taking Medicare and Medicaid patients and are trying to get into the paying patient category. Ms. Zierer stated she would support option 2. Ms. Miller stated that she has also been hearing from constituents and the passing of the referendum spoke very loudly that the voters expected the County to be in the nursing home business and the County Board needs to decide if they are interested in continuing with the original mission statement that we provide care for the indigent. She pointed out that the audit identified areas that need to be addressed, but the patient care was never an issue. Chairman Koehler agreed noting that these issues will need to be determined, but today's meeting is to hear what a third party administrator could offer. Mr. Hammerand asked why MPA finds it necessary to have the hiring and firing power. Mr. Scavatto responded because the firm would be responsible for the management of the facility. Mr. Hammerand then asked what kind of circumstances have been found in other facilities where there is a high staff of temporary workers coming in and what corrective actions were taken by the firm. Mr. Scavatto stated earlier he had noted that sometimes flexible benefits and compensation packages have been implemented and in some cases a bonus retention program has been successful. Programs such as these have been the most successful in reducing agency staff, but a coordinated effort is necessary. Mr. Hammerand asked if the firm has found it better to report to the full County Board or to a Committee. Mr. Scavatto responded, to a Committee which is smaller and decisions can be made more quickly than with the full County Board. The firm would follow the County's rules and would enforce and uphold the County's policies. If any problem arose, these would be discussed with the County Administrator. He noted that there is no other company that has the track record of MPA. Mr. Dvorak asked Mr. Sarbaugh if the statement in the Audit regarding the nursing home being over budget by \$2,000,000 was a true statement. Mr. Sarbaugh responded that the \$2,000,000 deficit that was mentioned in the Audit report is operating deficit. The tax levy dollars are not included in that figure as they are not considered operating income. This can be confusing to a lot of citizens who may think we have spent through all the tax levy dollars plus an additional \$2,000,000, which has not happened. The tax levy dollars are sitting invested and we are using them only as we need them. Mr. Dvoark asked if what we are trying to do is improve the operating budget by hiring a new administrator. Mr. Sarbaugh stated he was unsure if he was qualified to answer that question. He stated that he felt an administrator hired by the County could make some improvement and should that be the decision he would encourage the County to hire a consultant to work with us on a business plan for the nursing home.

Mr. Austin noted that the Board has been asked by the voters to support the construction and operation of a nursing home through a tax levy. Will this make the turnaround easier? Mr. Scavatto responded that anything that provides financial flexibility will always make the task easier. Mr. Scavatto reviewed the tasks involved in making the turnaround.

Chairman Koehler announced he had a prior commitment and would need to leave the meeting at this time (10:55 a.m.). He asked Vice-Chairman Jung to take over the meeting.

Mr. Austin introduced Grant Shumway of Revere Healthcare along with John Smith (a Chartered Accountant). Mr. Austin noted that Mr. Shumway had contacted him and wanted to share his thoughts and experience with the healthcare industry. Mr. Austin explained that the Board has some basic "core" questions, such as – How do we what to operate the home?; what level of subsidy should be provided?; and, how does this mesh with how your firm would tackle these issues?

Mr. Shumway addressed the Members and provided some background information. Revere Healthcare, Ltd. is located in Cary, Illinois. It has planned, developed and operated long-term adult care facilities since 1985 in over forty states. They currently manage seven Illinois long-term care facilities and provide a full-time experienced team of Illinois licensed nursing home administrators, accountants, nurses, dieticians as well as marketing and support personnel. In approaching the Valley-Hi facility, Mr. Shumway stated he would start with a phrase he often uses with Boards, Alice in Wonderland? Meaning if you don't know where you are going, how do you know you are on the right road? The first recommendation would be to leave the "poor folks home" image as soon as possible and become a healthcare center. The County must re-create the nursing home, but the vision and wonderful history of the facility should not be forgotten. The way this is approached and the method in which it is implemented are very important. The facility should be known as a healthcare center with certain clinical expertise. This must involved all levels and a forward thinking plan must be created. The plan will take the involvement of the staff to implement the plan. In reviewing the report, Ms. Shumway noted there are many revenues that are available that the facility should be receiving – specifically in Medicare. This would suggest a clinical excellence. In looking at Valley-Hi currently, it is a high touch facility; a lot of TLC and care about the residents. The reimbursement systems are based on high-technology, meaning the clinical excellence that is provided. The discharge planners, which control the Medicare population, will look at the clinical aspect/expertise. He stated the Board might want to look at what has been done in Menard County, which is a rural county northwest of Springfield. This county was losing somewhere between \$50,000 to \$200,000 per month. Menard County Commissioned Revere Healthcare to create the plan while turning and realigning the facility which took roughly two years. Today Menard County is generating a profit with no subsidy. Mr. Shumway stated he is aware that three options were being considered and he would propose doing all three but at different times: (1) the short-term plan where everyone gets on the same page, including the staff; (2) a team is brought in – nurses, dietitians, planned services along with the administrator to guide the process; (3) wean away – keep monitoring, but pull-away.

Ms. Donner asked what kind of salary a new administrator would receive. Mr. Shumway responded that working under the management regime the salary range would be \$75,000 to \$85,000; if they are "stand-alone" that amount should be doubled. Ms. Zierer asked if this would be a three year contract. Mr. Shumway stated the contract would be "whatever makes sense." Basically the weaning could begin in year two / three. If the County felt they were capable of taking over at anytime this could be done. He stated it would depend on what the County wants, but recommended it not be done until the situation is fixed. Mr. Shea asked, outside of the administrator, what would be the general amount of other staffing that would be used. Mr. Shumway responded they have on-staff, other administrators to back-up the administrator; they have dietitians, accountants, nurses, plan service people that would be on-site as much as necessary. Mr. Hammerand stated it has been pointed out that the County has a Resolution that provides for a maximum of 37 paying patients and asked what Mr. Shumway thought about this. Mr. Shumway stated that currently the nursing home is averaging 21 to 22 paying patients per day, but he was not aware of the resolution. It was noted that there are various ways to decrease costs, through streamlining and becoming more efficient. One focus would be on Medicare, which pays almost three times of what Medicaid does. Currently, the nursing home is not getting the best or fullest reimbursement as allowed by laws and regulations. The more the facility specializes in something clinically the more people will come to the facility. The focus should not be only on TLC, but on high-tech. The facility currently has an inordinate use of agency staff and this must be controlled. Mr. Shumway stated they

manage five rural facilities and over the last year the total costs for agency staff for those five facilities would be about \$30,000. The agency cost at Valley-HI is at \$700,000.

Mr. Sarbaugh stated that on the agency costs, we have recently learned that most of the nurses are only working a 31 hour week. They will all be moving to a 40 hour week beginning October 1 which will cut down our agency costs. Originally, these hours were cut in the mid 90's to help save some costs when the County was going through some financial difficulties and Valley-Hi was funded through the General Fund. Those hours were never increased. Out of the 30 nursing positions, only 5 are working a 38 $\frac{3}{4}$ hour week, which will be changed in the near future.

Ms. Chmiel questioned what the costs would be and if the administrator would be their employee or the County's employee. Mr. Shumway stated costs would be based on a percentage of revenue – performance based, which is typical in the nursing home industry. The administrator at this point in time would be the firm's employee. Ms. Wheeler stated that to her knowledge 21 to 23 private pay beds are maintained at the facility. There currently 126 beds at the facility. She also was unaware of the resolution and asked to know the history of that resolution and if it was prior to the referendum. Mr. Sarbaugh stated the Resolution was done in the mid 1990s prior to the referendum. Mr. Shumway reported that Illinois is the 49th lowest reimbursed state for Medicaid and no blame should be made. He stated that the firm focuses on what the County wants to accomplish, where you want to be, what will be the charitable amount. The County needs to be a healthcare facility, not the poor folk's home.

Mr. Austin asked Mr. Shumway to address their need to have hiring and firing authority and how this would be worked out. In response, Mr. Shumway stated that virtually all the operating systems will be the County's (accounting, hiring personnel, purchasing).

Mr. Munaretto noted that Mr. Shumway has expressed a willingness to work with the County on a shorter than three year basis and would combine elements of a consultant relationship and a management role to allow us to achieve the catharsis necessary to deconstruct and reconstruct the Valley-Hi operation. He noted that Mr. Shumway has indicated in the proposal that a performance based fee based on revenue is desired. He asked if Mr. Shumway would consider a flat fee. Mr. Shumway responded that could be considered, noting that they have done it both ways. Mr. Munaretto stated it is important for the County Board to understand that Mr. Shumway is a local resident, taxpayer and a nationally renowned healthcare professional and provides an element of flexibility that does not appear to exist in other evaluations that this Board has done. Mr. Shumway stated that they have worked in 40 different states and recognize the different trends and does not want to take away from the mission or the excellent reputation of the facility.

Ms. Donner asked what happens if the firm does not like what the County requests. Mr. Shumway stated these issues are discussed.

Ms. Zierer stated that before the County goes any further the Board needs to decide what we want to do and what option we want to move forward with. Mr. Austin stated today was to have a conversion around both alternatives and perhaps provide staff direction as to how to move forward. Ms. Chmiel asked if the County retains the right to keep the administrator hired by the firm at the end of the turnaround period or if the County would need to pay some kind of additional finder's fee. Mr. Shumway responded that they have never done a finder's fee. The administrator would ultimately decide if they wanted to stay as a County employee.

Member's requested a copy of a vendor summary sheet that was distributed at a previous meeting. Mr. Shea stated this was a document from the Purchasing Department that needed further review by the Committee.

Ms. Orphal left the meeting at 11:35 a.m.

Mr. Kennedy stated that he had thought today's meeting was to decide which of the three philosophies the County wanted to follow. He noted his option is that the County needs to do something drastic, the business practices at Valley-Hi need to be improved, the level of care is good and there have been a lot of good ideas presented by both companies. He stated he is in favor of going with the third approach and having a management company come and bring their administrator in to run the nursing home. The previous method did not work. Both companies appear to have a good track record. The improvements in the business practices will more than pay for the management fees for whatever number of years (1 to 3) it may take. The turnaround needs to be made and should start immediately. He noted he supports the statement that we are here to serve our neediest residents first which is our important mission and goal that our constituents also support.

Ms. Zierer disagreed with Mr. Kennedy stating she favored the second option. She stated she could not agree with spending the funds to hire a management firm. She felt the County has enough good help and these issues can be handled by the County with an outside firm severing as a consultant for a year.

Ms. Barnes noted that there are a number of members absent at this point. She stated she would lean toward a management contract, but she would like to see more definitive numbers prior to making a final decision.

Mr. Merkel stated that members have raised some good points, but felt that ultimately the public looks to the Board to manage all county functions as most efficiently as possible. He stated that his concern, if the County hires an administrator (option #2) how much time would our current staff (the Administrator, Assistant County Administrator – Finance, etc.) be spending at the facility and how much have the spent this past year. It will cost money to go to option #3, but how much will be saved in the current staff time if this option is selected. All costs need to be considered.

Ms. Zierer asked for Mr. Austin's and Mr. Sarbaugh's opinion and how they feel.

Mr. Austin stated that we both are excited about getting some outside help, whether it is option 2 or option 3 or a blending. He stated that Mr. Sarbaugh has raised concerns that Valley-Hi has been presented in too dire of a situation. A simple explanation is that the expenses are out pacing the revenues and this needs to be changed. He stated he would like the expertise from an outside firm to help change this course, because it does take staff too much time. He stated that staff could support either option and would follow Board's direction.

Mr. Sarbaugh agreed with Mr. Austin's comments. He stated his heart is with Valley-Hi and perhaps he is not looking at the facility as unbiased as he should. He stated what he would like the Board to leave with today is, we are very technical at Valley-Hi and calls are received from the local hospitals asking for us to take Medicare patients, however we are limited because we only have 10 certified beds available. Staff is working on certifying the entire facility. He noted that it is important to know that when the new facility was constructed, an oxygen room was not included so we cannot deliver oxygen at the required rate that many Medicare patients need. There was such a room in the former facility. If we are to take more Medicare patients an oxygen room needs to be built. In addition, the biggest expenditure costs have been in agency fees. A problem has been discovered that is going to reduce those costs. Personnel costs are really set by the County Board as far as benefits, IMRF and merit amount. An outside organization may have the opportunity to offer different plans, but we need to be careful because of the unions. All the issues need to be addressed openly. He stated he continues to be very proud of Valley-Hi.

COMMITTEE OF THE WHOLE

Mr. Labaj stated from his perspective in working with Valley-Hi on basically risk management, insurance and security matters we get asked on a daily basis to address simple management issues that have not been addressed by the facility in a long time. There appears to be a management governance issue at the facility that needs to be resolved. A private firm to serve in same manner could provide more of the industry standards to the operation of the facility.

Ms. Hill suggested that staff be directed to come back with more complete proposals for options 2 and 3 with concrete numbers to consider when more members are present. Mr. Kennedy agreed with coming back with concrete numbers and supported option 3. Ms. Chmiel, Mr. Shea and Mr. Hammerand also agreed.

Ms. Barnes and Mr. Munaretto left the meeting at 11:55 a.m.

Ms. Peschke stated that she is concern with the "consultant" option in that the County would hire an administrator that may or may not "mesh" with the consultant. If option 3 was done all parties would be on the same page. She noted that both firms presenting today appeared very confident. She also noted in the past it has taken some time for the County to select an administrator. She felt #3 or a hybrid therefore would be best.

Ms. Draffkorn stated she like the second presentation which appeared to be a blend.

Vice-Chairman Jung, stated it was the consensus of the Board to direct staff to come back to the Board with more detailed information on all options. Mr. Austin stated he would ask Mr. Scavatto to provide a proposal for option 2. He stated he would also bring more discussion to the Valley-Hi Committee meeting on Thursday, September 13, 2007.

MOTION TO RISE:

The Committee of the Whole adjourned at 12:03 p.m. on a motion by Ms. Hill, seconded by Ms. Wheeler, with all members present voting aye on a voice vote.

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