




MEMORIAL HOSPITAL

TO: CITY COUNCIL
BOARD OF TRUSTEES

FROM: HARLAN W. LOOMAS, CHAIR 

RE: Report of Ownership/Governance Strategic Planning Committee

DATE: February 24, 2000

Enclosed is the report approved by the Ownership/Governance Strategic Planning Committee this date.

1400 East Boulder Street, Colorado Springs, Colorado 80909-5599
Post Office Box 1326 80901-1326
(719) 365-5000



MEMORIAL HOSPITAL

February 24, 2000

Mayor Mary Lou Makepeace
Mayor, City of Colorado Springs
Post Office Box 1575, MC 410
Colorado Springs, Colorado 80901

Dear Mayor Makepeace:

The Memorial Hospital Ownership/Governance Strategic Planning Committee is pleased to forward our recommendations on the future ownership and governance of Memorial Hospital for consideration by you and members of City Council.

We are particularly appreciative of the assistance we received in carrying out our work:

- Members of the Memorial Hospital staff provided information we requested promptly and effectively;
- The City Attorney's Office and Kutak Rock LLP were especially helpful in providing legal insight and background information;
- Representatives of for profit and not-for-profit hospital organizations were helpful by both identifying issues the Committee needed to consider;
- The work of previous citizen groups, interviews and working sessions with representatives of hospital authorities and a review of the experience of public institutions were all useful and important parts of our work.

Memorial Hospital is an important community resource for three reasons. First, it provides high quality clinical care to citizens it serves. Second, it serves members of our community who are vulnerable and might not otherwise have access to health care; and third, it is an important part of the community's economic fabric.

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The Committee believes that for Memorial to be successful in the future City Council, the Board of Trustees and the hospital's management must observe and carry out the intent and the requirements of the legislation that created the hospital.

Our recommendations are designed to:

- 1) Highlight specific changes that must be made in how Memorial is governed, and
- 2) Define the hospital's financial relationship to the City.

The Committee feels strongly that City Council should:

- Act on the recommendations as a whole rather than as individual suggestions
- Reconvene this group to assess the degree to which these recommendations have been implemented in six months, and again in twelve months from the time the recommendations are acted upon

If these recommendations are not implemented we believe the City should lease or transfer ownership of the hospital to another entity. However, it is our present expectation that this Committee's recommendations can be implemented.

Sincerely,

Martha Barton
Tom James
William North
Bruce Shepard
Peter Susemihl
Jan Weiland
Mayor Mary Lou Makepeace, Co-Chair
Harlan Loomas, Co-Chair

Enclosures:

Introduction / Summary

The Mayor's Committee on the ownership and governance of Memorial Hospital was formed to review the hospital's Ownership and Governance. The purpose of the review was to determine the role of Memorial Hospital in the community and the most appropriate form of ownership and governance to achieve that role.

The Committee was fortunate to be able to draw on previous work (i.e. the 1993 Citizens Goals Report) as well as what was learned in working sessions with Memorial management and representatives of for-profit and not-for-profit hospital systems. These working sessions provided the Committee with the opportunity to explore the benefits and shortcomings of alternative forms of ownership and governance.

This report summarizes the committee's work. It contains:

Recommendations – that address ownership issues and changes in governance of Memorial and the Hospital's financial relationship to the City.

Rationale – that discusses changes occurring in health care and the context for the recommendations and defines criteria the Committee believes are central to considering the merits of possible ownership and governance arrangements.

The Committee offers these recommendations with the clear understanding that health care will continue to change. We believe that these recommendations provide a framework within which Memorial can continue to provide high quality health care services to people throughout our community.

Context – City Ordinances

Memorial Hospital operates under initiated ordinances that were passed by the electorate in 1949. Ordinance No. 1854 states, in part:

“The City of Colorado Springs shall continue the operation and maintenance of Memorial Hospital (1854).”

Another 1949 electoral ordinance set up the Memorial Board of Trustees and defined their responsibilities. Ordinance No. 1856 states, in part, that subject to the general supervision and control of the City Council and the City Manager,

“...the supervision of the management of Memorial Hospital shall be vested in said Board, and ...it shall exercise complete control over the operation, expenditures, personnel and employee matters, betterments, improvements, repairs, equipment, fiscal and other policies of the hospital; and said Board generally shall be empowered and authorized to do all things, not in conflict with the City Charter, for the operation, maintenance and development of Memorial Hospital...”

The Committee believes City Council, the Board of Trustees and management must effectively act on this responsibility.

One of the significant concerns of the Committee involved the potential obligation of the City's general fund to provide revenue to Memorial if Memorial ever needed it. A review of initiated ordinance 1854 (An Ordinance Providing for the Operation of Memorial Hospital by the City of Colorado Springs, and Requiring the City Council Annually to Levy a Tax and Appropriate the Proceeds Therefrom for the Use of Said Hospital) passed by the citizens in 1949, and the Taxpayers Bill of Rights passed by the citizens of the City in 1991 and the State in 1992, required further analysis. In light of both electoral provisions, any tax levy by the City for the benefit of Memorial Hospital should be levied separately from the City's tax levy for the benefit of the general fund. The two separate tax levies would better enable the Hospital to calculate the revenue under TABOR tests for enterprises without adding to the general fund's revenue that is capped by a formula set forth in TABOR. It should be further noted that the City is only obligated under the 1949 ordinance to levy a tax for the benefit of the Hospital when “...there is a deficit in all expenses incurred in conducting, maintaining and improving the hospital...including payment of bonds and interest thereon, repairs, upkeep, betterments, equipment, supplies, depreciation, insurance, employees' salaries and all other expenses incident to the operation and maintenance of the hospital.”

Recommendations

The Committee has five recommendations. These recommendations need to be viewed as components of a single approach and acted on as a package. We believe they should be acted on expeditiously and purposefully with a formal review of the extent to which they have been implemented scheduled in twelve months.

I. The City of Colorado Springs should presently retain ownership of Memorial Hospital subject to its ability to successfully implement these recommendations. If these recommendations cannot be implemented within twelve months the City should consider lease or transfer of ownership of the hospital to another entity.

The Committee reviewed ownership alternatives that included:

- a) the sale of all or part of the hospital to a for-profit or not-for-profit entity;
- b) leasing the hospital to a profit or not-for-profit entity;
- c) creating a City-controlled entity or hospital authority to assume responsibility for health care and hospital operations;
- d) employing a management company to operate the hospital; and/or
- e) joint ventures with existing community or outside organizations.

The Committee believes that local ownership and control should be maintained through immediate improvements in governance and if these changes are not made, then the hospital should be leased or sold to another entity.

Each of the alternative ownership structures studied would remove local control of the hospital either in part or in total and would transfer the financial benefits of the hospital from the people of this community.

Throughout its deliberations the Committee reaffirmed the principle that Memorial Hospital should benefit the citizens of this community rather than corporate shareholders or other entities.

II. City Council Should Strengthen Memorial's Governance and Operations

To implement this Recommendation City Council should:

- a) develop written criteria for members of the Board of Trustees
- b) actively seek out community leaders and candidates who meet the criteria and are willing to serve
- c) ensure that Board members are committed to health care and the hospital's work and free of competing or conflicting interests.
- d) City Council members and city employees should not serve on the hospital Board because their city responsibilities may on occasion be at variance with the hospital's interests.

In addition, it is critically important that the Board and management of Memorial Hospital take all actions necessary to approve and implement a Strategic Plan as well as the recommendations set forth in this document within twelve months of acceptance of the Committee's findings and recommendations.

III. City Council's Should Exercise Limited Oversight of the Hospital

The review of the By-laws and the appointment of Board members provide City Council with necessary oversight of Memorial and ensure its continuing responsiveness to the needs of the community.

There should be an annual meeting among the Board of Trustees, City Council and City Manager to fulfill the City's oversight responsibilities.

IV. The Memorial Hospital Board of Trustees and City Council Should Reach an Agreement Regarding the Provision of a Financial Return to the City

Memorial Hospital provides significant benefits to the City. First, it provides high quality health care services to patients and others it serves; second it serves people who might not otherwise have access to health care; and third it represents a significant part of the Colorado Springs and regional economy.

At the same time Memorial has obligations to the City government of which it is a part. These obligations include the responsibility to work closely with city agencies, other providers, community-based organizations and other community groups to meet the health care needs of people throughout the community.

To meet these obligations the Memorial Board of Trustees and City Council should reach an agreement for Memorial to provide a financial return to the City if financially feasible after needs of the hospital and directives from City Council have been met.

Currently, City Council has given Memorial Hospital two directives: treat all patients regardless of ability to pay and to operate without taxpayer subsidy. City Council should evaluate these directives to determine whether they should still be followed or changed.

V. The City and/or Memorial Hospital Should Develop a Strategic Plan for Philanthropy

A strategic plan for philanthropy to meet health-related needs of the community is an important part of Memorial's overall outreach to the community. The plan should be developed by the Board of Trustees and approved by the City Council.

Rationale

Memorial Hospital has been an effective and successful organization serving citizens of this community. Over the last twenty-five years the hospital has developed an increasingly wide range of services to patients and citizens throughout our community. The hospital has made significant contributions to the well being of the Colorado Springs community.

The Committee recognizes those contributions and also recognizes the absolute need for the hospital to change. The dramatic changes occurring in health care mean that what has worked in the past will not work in the future. These changes include:

Patient and public expectations – more citizens expect to play a stronger role in their health care as well as wider choices in how and where they are treated. Therapies that include complementary medicine and greater convenience are examples of these changing patient expectations.

Payment systems – traditional cost-plus reimbursement systems have given way to fixed price reimbursement, capitated payment mechanisms and managed care contracts. Individually and collectively these have led to reductions in payments to Memorial and hospitals across the country.

Technologies, nanotechnologies, genomes, and pharmacological advances are examples of breakthroughs that will significantly change how and where health care is provided.

These and other changes mean Memorial will need to:

Shift its emphasis from reacting to opportunities to developing and aggressively implementing a strategic plan that proactively responds to patient and community needs.

Maintain effective clinical services in the hospital and develop additional health services that go beyond the traditional hospital.

Develop a realistic strategic financial plan and financial forecasts that reflect the realities of a changing health care environment.

Develop collaborative relationships with physicians, other health care providers, community based organizations, business, schools, churches and city agencies to help citizens maintain their health and obtain needed care.

This work will require effective governance mechanisms and strong management committed to meeting the changing needs of a growing dynamic community.

The Committee's central assumption is that Memorial, like other health care organizations, faces significant challenges. However, it is in a favored situation because it is part of a dynamic and growing community and has the opportunity to strengthen governance and operations to meet these challenges. The recommendations are designed to ensure Memorial's future as an innovative community health system that responds to the changing needs of people it serves.

The Committee developed the following key findings as a framework for its recommendations. These findings reflect values we believe are important to the citizens of this community and the future of the hospital; the Committee's recommendations are designed to enable Memorial Hospital to act on these principles.

Hospital Quality Care and Service

Memorial Hospital must have an ownership and governance structure that enables it to provide high quality care to hospital patients

Community Health

Memorial's ownership and governance arrangements must enable and encourage it to develop non-hospital community based health care services to help people maintain and improve their health

Local Benefits

Memorial Hospital is a community resource. The beneficiaries of what Memorial accomplishes should be for the citizens of the community.

Public Accountability

Memorial should have an ownership and governance structure that ensures it remains publicly accountable.

Care for the Poor

The ownership and governance arrangements should ensure that Memorial continues to care for patients and people it serves regardless of their ability to pay

Stewardship and Financial Stability

Colorado Springs had been fortunate in that for the last twenty-five years Memorial has effectively responded to changes in health care financial systems. The ownership and governance structure needs to ensure the

hospital's ability to respond to inevitable continuing change in health care financing.

Financial Impact on the City

Present ordinances enable City Council to approve mill levies that would benefit Memorial without affecting budget or operations of City government itself. Such levies would provide funds directly to Memorial without affecting the City budget itself.

Strong Effective Governance

Memorial must have strong governance mechanisms and Board members who understand and act on their moral, legal and fiduciary responsibilities to serve the hospital.