FISCAL REVIEW COMMITTEE

MINUTES

August 14, 2015
10:00 a.m.
House Committee Room 3
State Capitol Building

I. CALL TO ORDER

Mr. Daryl Purpera, Chairman of the Fiscal Review Committee (FRC), called the meeting to order at 10:10 a.m., and a quorum was present with the following members in attendance:

MEMBERS PRESENT:

Mr. Daryl G. Purpera, CPA, CFE, Louisiana Legislative Auditor (LLA)

Mr. Ron Henson, First Assistant State Treasurer,
Designee for the Honorable John Kennedy, State Treasurer

Mr. Rick McGimsey, Assistant Attorney General,
Designee for the Honorable James "Buddy" Caldwell, Attorney General

II. APPROVAL OF MINUTES

Mr. McGimsey made a motion to approve the minutes of the September 25, 2014, meeting. Mr. Henson seconded the motion, and with no objections, the minutes were approved.

III. STATUS OF CURRENT FISCAL ADMINISTRATORS

Mr. Purpera stated that the fiscal administrators for the Town of Richwood and Madison Parish Hospital Service District would be invited to a future meeting to provide updates.

Mr. McGimsey stated that over the past year there have been fiscal administrators working in the Town of Gibsland, Town of Jonesboro, Town of Richwood, and the Madison Parish Hospital Service District (MPHSD). Within the past few months, the fiscal administrators for the Town of Gibsland and the Town of Jonesboro have been released by the courts, and the final accounting has been accepted, returning the administration to the Mayor-Council. The Town of Richwood is still under the receivership of Mr. Jonald Walker but is moving along well.

Mr. McGimsey said that Mike Vallen, an attorney with the Attorney General's office, has been assisting the fiscal administrators in any legal matters. Mr. McGimsey expects the Town of Richwood to be returned to its Mayor-Council by the end of the year. MPHSD has been under fiscal administration for more than a year, and the main issue is the overpayment claims by the federal government, and those issues are still being resolved through negotiations.

Mr. Purpera stated that he stays in contact with Mr. Don Frutiger, the fiscal administrator for MPHSD, and had heard positive progress and will invite him to the next meeting.

IV. MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1 D/B/A MOREHOUSE GENERAL HOSPITAL

Mr. Purpera stated they want discuss the stresses facing Morehouse General Hospital (MGH). Mr. Michael Battle, LLA Advisory Services manager, explained the fiscal condition of MGH based on his monitoring of the previous five months. He met with CFO Jim Albritton, and Mr. Mike Wooden, chairman of the Board of Commissioners, and conducted site visits to review MGH's situation. Mr. Battle provided a handout that outlined the issues of concern including the deficit balance in Unrestricted Net Position and expenditures exceeding revenue. The USDA denied MGH's request that USDA subordinate to a $2,800,000 bank loan to implement a financial turnaround plan. Mr. Battle stated that MGH had appealed this decision citing some improvements made since implementing suggestions from Tatum, a consulting firm that evaluated MGH and proposed operational changes to improve MGH's financial performance. MGH has also issued Request for Proposals (RFP) for leasing and management of the hospital.

Mr. Battle stated the cash flow projections provided by the CFO for July 1, 2015 – June 30, 2016, did not include payment of current and delinquent pension liabilities and past due accounts payable older than 31 days, which would result in a negative ending cash balance of more than $1M. The pension liabilities include nonpayment of MGH's employer contributions since November 2013, but the CFO intends to pay it when they have the money. After contacting the IRS, Mr. Battle questions if MGH is participating in the pension plan, since it is not regularly contributing. Mr. Battle said this is not fiscally responsible. Mr. Henson asked if legal action could be taken by employees when they realize their retirement plans are not funded.

Mr. Battle said that the payroll taxes have been paid and the four different bond liabilities do not show that payments are delinquent. Mr. Purpera pointed out that if all the liabilities are accounted for in the cash flow projection, MGH shows a negative cash flow and realistically has that today because it is not paying all of its obligations. Mr. Battle said MGH cannot continue losing $200,000 per month and hope to catch up.

Mr. Henson asked if MGH has an active collection program for the $6.6M in patient receivables. Mr. Battle responded that the Tatum plan states that MGH's collections were somewhat healthy, but traditionally it is difficult to collect these revenues in hospitals. LLA's advisory staff always recommends that any local government unit aggressively collect money owed to it.

Mr. Richard Hoffpauir, USDA Community Programs director, said that USDA has part of the bond indebtedness, and his counterpart, Jared Hicks, oversees MGH's rural business debt. He has worked with MGH for several years and seen several attempts and plans such as the Tatum plan but they were not always implemented. He said this is a typical rural hospital with a difficult time recruiting doctors, a high Medicare and Medicaid area, and because of the general demographics, it has a difficult time collecting accounts receivables.

Mr. Hoffpauir is very concerned about the $12M USDA investment through guaranteed or direct loans, which were initially 40-year loans, and the rural business loans, which were 20-year loans. The funds have been used to make long-term improvements in the facilities, but the problem is getting a sustainable and financially-viable plan. Doctor recruitment has always been a large issue. The Tatum report addresses many concerns including the $2.8M waiver of very valuable security. The USDA national office does not want to see MGH close because it is very needed in the community, but it must have financial sustainability and the right management operating the facility, whether through an RFP or state-guided operator. Currently MGH is not in default on USDA bond payments but is behind on rural bonds and looking at the hospital's financial situation, he believes that it will not be able to continue for much longer.

Mr. McGimsey said the RFPs could take time and questioned if there is enough time, or if the USDA will work with MGH if it sees positive movement in the right direction. Mr. Hoffpauir agreed to work with MGH.

Mr. Purpera said that MGH is vitally important to the area it provides care for, as well as a concern to the legislators who serve those districts, which is the reason for bringing MGH before the committee.

Mr. Wooden said he did not disagree with anything said previously and knows the problems have been present since he began serving on the board seven years ago. He explained the many problems and obstacles that have contributed to its dire situation, including the paper mill closure, aged doctors, difficulty recruiting and hiring new doctors, and the necessity to shorten time of patients' stay based on insurance payments. The board has implemented a number of recommendations from the Tatum report. They restructured the management staff and added a millage on the ballot in November. Mr. Wooden said he believes the best way for the hospital to survive is to lease it out long term and has had some interest from larger institutions that have their own human resources and billing departments to save costs. Plan B would be a management company, thus the RFPs issued, and have had several interested responses.

Mr. Wooden said the hospital gets less than 40 cents on the dollar for what it bills and writes off $200,000 - $400,000 a month in past debts; it is difficult to continue. Mr. Albritton said it averages 12 patients per day and about 50-days past due on payable, with $3.6M net accounts receivable at the end of June 2015. He provided the breakdown of Medicare, Medicaid, and private pay patients, pointing out the highest is from Medicare.

Mr. Purpera asked for more information on the RFPs issued as well as the search for a lessee. Mr. Wooden responded that they prefer the lease route but, if that does not work, then plan B is to hire a management company to run the hospital.

Mr. Purpera said the pension issue is probably concerning to the employees and asked if there is a legal obligation to fund the pension. Mr. Albritton responded that it is similar to a defined contribution plan where whatever is deposited into the plan is available. The hospital fully funds it for the employees when it has available funds. According to the attorneys, the hospital is not required to fund it on a monthly basis, even though it would like to, but it is a legal obligation of the hospital. He admitted that the hospital has been behind since October 2013 and has been making some payments but erratically.

Mr. Purpera asked when an employee leaves if the funds are available for them. Mr. Albritton said whatever funds have been deposited to the employee's account through October 2013. Mr. Purpera asked if any lawsuits have been filed by employees. Mr. Albritton responded no, and explained that they are also on a seven-year vesting plan, so the employees have no earnings until about the third year. The employees are not in Social Security so it has to be a qualified plan.

Mr. McGimsey asked how much per month should the employer contribution be to the pension plan. Mr. Albritton said on average $80,000 per month and approximately $1.2M in arrears. Mr. McGimsey said the danger would be that the federal government would determine MGH to not be a qualified applicant and default it to Social Security and create an obligation at that point. Mr. Albritton said he is not aware of any such happening. Mr. Wooden said that it is the board's intention that all the hospital's indebtedness, including the pension plan, would be covered through either the lease or RFP.

Mr. Albritton said the $2.8M USDA loan was requested to just carry MGH through the process of RFPs or finding a lessee, and the hospital would only use the funds as necessary. MGH employees are disrupted because they are not sure what will happen.

Mr. Wes Shofto, Bond counsel for MGH, explained the commitment letter from First NBC agreeing to a loan on an as-needed basis with a three year basis with the approval of the Bond Commission. But a resolution would be necessary from the USDA that it would subordinate its position on tax revenues. MGH currently has an $8M tax millage. Mr. Shofto further explained the necessary subordination for position by USDA for this interim loan, and pointed out DNR and Biz Capitol have agreed to subordinate already.

Mr. Purpera asked why action was not taken prior to this since the financial situation was evident and if the hospital board is now unified with management. Mr. Shofto introduced several board members present and explained the slow process to get the Tatum report so they would have a starting point and are now in a position to show progress. The CEO was terminated effective September 1, 2015; they sent out the RFPs; and the budgetary loan brought all this to the forefront because the USDA, and they assume the Fiscal Review Committee, want some oversight of the hospital. Mr. Shofto believes it would be destructive to be too aggressive right now and best to get the budgetary loan to get through the RFP process. Mr. Albritton is interim CEO, pending RFPs. Mr. Purpera said the USDA would have preferred sooner action to better ensure debt repayment.

Mr. Henson commended the hospital's accounts receivable improvement since last year and asked if the millage tax was expected to pass in November. Mr. Wooden said they hired a new marketing person in the past month and formed a marketing committee composed of people from throughout the community. The previous election went very well, and he believes the community will support the millage. Under the current administration, MGH has improved quality and cleanliness, and hired a few minority doctors who could relate to the community, so MGH has a better image.

Senator Walsworth commented that the board has a very good cross section of leaders from Morehouse Parish and has a united front. He agrees that the CFO should take over as CEO because of fiscal problems, and the reputation of the hospital is good, and he feels confident that community members will rally behind it because they want and need a local hospital to meet their health care needs.

Mr. Purpera explained the responsibility of the committee is that whenever a governmental entity fails on a bonded debt or if there is a reasonable expectation that the entity will not meet its financial obligations, the committee must consider if it is in the best interest of the public for the entity to be run by a fiscal administrator. He does not believe it is at that point for MGH today, but the USDA can take into account that MGH's situation is going to be monitored closely as it goes through the RFP and management lease agreement process. The board should continue working together with the interim CEO and making strides toward improved fiscal stability. His auditors are available for any assistance. If MGH does not make progress in the next 90 days, then this committee could move forward with appointing a fiscal administrator to speed up the progress.

Mr. McGimsey asked that the committee be informed by MGH of the progress and results of the RFPs and management proposals.

Mr. Hoffpauir said that the USDA has not been privy to any of the RFPs or the lease agreements. The USDA has some procedural requirements that will limit some of what can be done through a lease or management agreement. So he asked to be involved to ensure the hospital meets their regulatory requirements. Mr. Albritton said they will communicate with the USDA as they receive formal responses, as well as for the RFPs issued.

Mr. Purpera mentioned concern from citizens and Senator Thompson. His office will continue to monitor MGH and appreciates the hospital's good working relationship with his auditors, but progress is necessary by October. The pension issue is important especially for the employees.

V. OTHER BUSINESS

No other business was discussed.

VI. ADJOURNMENT

Mr. Henson made a motion to adjourn, Mr. McGimsey seconded, and with no objection the meeting of the Fiscal Review Committee adjourned at 11:14 a.m.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE, Legislative Auditor
Chairman

3/28/16
Date