POSSIBLE MOTION

I MOVE TO approve Ordinance 2017-41 on second and final reading.

City and Borough of Sitka
Finance Department

Memo

Through: Keith Brady, Administrator

To: Assembly of the City and Borough of Sitka

From: Jay Sweeney, Chief Finance and Administrative Officer

Date: November 21, 2017

Re: Approval of Ord 2017-41: SCH Electronic Health Records Project

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Issue:

Sitka Community Hospital (SCH) is requesting Assembly approval of a capital expenditure appropriation in anticipation of future approval of a Software as a Service (SaaS) contract with Cerner CommunityWorks. A budget adjustment to increase the capital expenditure appropriation for the capital portion of the multi-year project appears to be required, per the Charter.

Facts:

A. SCH Board Member Connie Sipe moved to approve the recommended amendment to the FY2018 budget to allow for the CERNER project as a sale of Software As A Service (SAAS) model as presented to the Sitka Community Hospital Board, contingent to approval by the Assembly, seconded by Mary Ann Hall. Roll call established all in favor (5/0).

B. SCH is seeking Assembly approval of a capital expenditure appropriation in anticipation of future approval of a SaaS contract with Cerner CommunityWorks.

C. The essence of the SaaS contract will be (1) ongoing monthly contractual service payments of $45,738, and, (2) additional capital expenditures for project implementation of $1,254,041 (see Attachment 3, SCH Memorandum).

D. SCH has indicated that it has sufficient existing appropriations to pay for the monthly contractual service costs in FY2018, and, for the FY2018 portion of the associated project implementation capital expenditure ($380,375, page 4 of SCH Memorandum) only.

E. Section 11.04 (3) of the Charter specifies that the capital improvements plan to be contained in the budget shall contain those improvements to be financed in the subsequent fiscal years, and, those improvements to be financed in subsequent years are to be included in the budget as well.

Discussion:

A. The technical requirements of Section 11.04 (3) imply that a supplemental budget appropriation is required for those project implementation costs which will occur in subsequent years, as they are capital expenditures and are part of the scope of the Capital Improvements Plan.

Recommendation:

Approval of Ordinance 2017-41.

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MEMORANDUM

To: Members of the Assembly,
Keith Brady, City Administrator

From: Rob Allen, CEO Sitka Community Hospital

Date: November 20, 2017

Subject: Final Approval of the Cerner Electronic Health Record Project

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Executive Summary

At its last meeting on October 26, 2017, the Hospital Board voted unanimously to recommend Assembly approval of the Hospital's Cerner Electronic Health Record ("EHR") project. This summary provides an overview of the process and the SCH request.

Following a competitive request for proposal process, Cerner CommunityWorks was selected in October, 2016 as the Hospital's first choice for its new EHR provider. The original plan for the Cerner implementation called for a capital investment of $1,582,656 for the Cerner software alone. The plan required an initial outlay of $500,000 with the balance to be paid over seven years. Monthly maintenance costs were $27,517 subject to annual increases.

Realizing how the large up-front costs would impact our cash flow while recognizing the urgent need to replace our Hospital's EHR system, SCH asked Cerner for additional options. As a result, Cerner offered a *Software as a Service* ("SaaS") contract as an alternative. A key distinction of the newly proposed agreement is that SCH will not be acquiring a software license of ownership from Cerner. Instead, SCH will make monthly payments to use the system as a technical service. The newly proposed agreement will allow SCH to begin implementation immediately upon execution of the contract without a large lump sum payment. Instead, SCH will incur a monthly subscription expense of $45,738 which will remain fixed, with no increase, for seven years. This portion of the new EHR project will be funded out of operations and can be absorbed within the SCH FY18 approved budget.

Capital costs for the project include hardware upgrades, interfaces, project management and system design. The capital costs to be paid during FY18 will be funded out of the approved SCH FY18 capital budget.

In addition, Cerner has agreed to two escape clauses in response to concerns raised by the Assembly during prior discussions about the project. One clause would allow the Hospital to terminate the Cerner agreement in the event that SCH merges with another organization. The second clause limits the liability

to the City should SCH go out of business altogether, or if there ceases to be an adequate appropriation in the future to cover the operations of the Hospital or the cost of the project.

Please see the *Fiscal Note* section of the memo for additional details on accounting treatment, FY18 appropriations and termination clauses.

Details

The procurement of an EHR solution is exempt from a requirement for competitive bidding under the City's general code because it is the procurement of a technical service. However, SCH did utilize a competitive, open, and matrix scoring-driven selection process to ensure selection of the best system at the lowest possible cost. Proposals were received from five different EHR vendors. The scoring process narrowed the selection down to three finalists, including Cerner, Athena Health, and Meditech. Cerner was determined to have the system that best suits the needs of the Hospital and its healthcare professionals. While Cerner was second of three finalists on a strict cost comparison basis, our team determined that it offers the best value to the Hospital and the community.

Sitka Community Hospital has no choice but to proceed with the implementation of a new EHR system. In 2014, SCH implemented a product known as *Centriq*. The Hospital's doctors, nurses and administrators are in universal agreement that the *Centriq* project was a poor implementation of a seriously flawed system. We are not alone in this conclusion. We have heard from our colleagues at other rural hospitals who have had very similar experiences with *Centriq*. In fact, the EHR market has reached the same conclusion. The company that developed *Centriq* was recently acquired by a competitor, and the version of *Centriq* that SCH is using is no longer supported by the vendor. The lack of functionality in our current system cripples the Hospital's ability to function at an efficient level, and more importantly creates serious challenges to our ability to deliver healthcare to our patients effectively and in a consistently safe manner.

If we are unable to proceed with the Cerner project, the Hospital will have no choice but to incur capital and operating expenses associated with an upgrade to the current version of *Centriq* immediately. Expenses would include a major upgrade in the Hospital's hardware infrastructure to ensure that the system would be minimally functional. In addition, the upgrade would require expenses for implementation, similar to the process that would be required to implement Cerner.

Our internal assessment estimates that this option would cost in excess of $1,000,000 for the necessary hardware upgrades, interfaces and other implementation costs, Our monthly maintenance costs for Centriq would continue and increase. These significant expenses would simply yield a supported version of our current system and one that is far inferior to Cerner. Moreover, the company that now owns *Centriq* has announced that Centriq will be phased out altogether after 2022. Once that occurs, should we fail to transition to Cerner, we would be required to undertake a new implementation of an alternative EHR provided by the company. This would likely be *Evident*, a system that was rejected in our selection process as unsuited to the Hospital's needs. The cost of this implementation, combined with the Centriq 12.0 upgrade costs, would be comparable to or exceed the cost of the project with Cerner.

Fiscal Note

Accounting Treatment
The SCH Board originally approved the Cerner Project with a total capital cost of $2,906,627 and ongoing monthly costs of $27,517 which would be subject to annual increases. The capital costs included Cerner software of $1,582,676, financial software of $70,000 and related implementation costs of hardware, data archiving, interfaces, Cerner travel costs and a 10% contingency.

As outlined above, Cerner has agreed to provide SCH with a hosted SaaS solution. This changes the structure of the deal whereby SCH would not acquire the software but would instead pay a monthly fee to utilize the software. This type of arrangement has become quite common as entities have come to rely more and more on cloud-based solutions.

Because of this shift to SaaS arrangements, the Financial Accounting Standards Board ("FASB") issued new Generally Accepted Accounting Principles ("GAAP") guidance that clarifies accounting treatment for SaaS arrangements. Under this guidance, entities that do not acquire a license of software ownership, account for the contract as a service arrangement.

As SCH will not own the Cerner software, SCH believes it appropriate to account for the monthly payments as a service arrangement to be funded out of operations. We have discussed the accounting treatment with our auditors, Elgee Rehfeld Mertz ("ERM") and they concur that our understanding of the accounting treatment of SaaS agreements in general is accurate. We have provided a copy of the existing contract to ERM and asked for a review of the specifics of our agreement. Cerner has agreed to modify the agreement for language changes that may result from our auditor review.

Impact on FY18 Appropriations
SCH is able to fund both the operating and capital costs out of existing, approved appropriations.

With a start date of February 1, 2018, the FY18 increase to operating expense will be $146,713. (See Line 10 of Attachment 2). This increase in expense is more than offset by $401,592 of positive budget variances from USAC and Health Insurance (See line 4 of Attachment 2).

As we disclosed during our FY18 budget presentation to the Assembly and which was subsequently approved, we included an increase in USAC expense in FY18 due to possible decreased federal funding for our internet service. Though we felt positive we would be able to gain approval for full funding, we felt it prudent to include the worst-case scenario in the budget. Indications are that we will receive full funding and we are just days away from that confirmation. The positive variance in our FY18 budget for USAC is $201,588.

Also, as we disclosed during our FY18 budget presentation to the Assembly and which was subsequently approved, we budgeted health insurance expense to increase by 17.5% - which was the anticipated increase at the time. Final negotiated rates, after budget approval, were 14.1%. In addition, our actual enrollment was lower than anticipated. The lower than anticipated rates and enrollment have created a positive variance in our FY18 budget of approximately $200,000.

Through October 31, 2018 these two items total approximately $134,000. As a comparison, through October 31, 2018, our actual expenses are roughly $130,000 less than budget.

As you can see on Attachment 3, the capital costs for FY18 are budgeted to be $380,785. This amount is a bit conservative because of the dollar amount and timing of contingency. Even so, the conservative total can be absorbed within the approved SCH capital budget of $464,881. To date, capital costs incurred have been minimal. This does mean that Cerner capital costs will be "substituted" for other planned capital expenditures. However, SCH has determined that the EHR replacement is a top priority.

In future years, the monthly service contract amounts will be folded into operations and capital will be funded by cash flow generated from operations including known pick-ups from Operation Urgent Care (Stroudwater) which have not been included as benefits in this analysis.

This analysis also does not include the reimbursement benefit of increased costs. As a cost-based critical access hospital, we are reimbursed by Medicare for both operating and capital costs - approximately 30% of our costs. We also receive Medicaid reimbursement as well. In fact, FY18 is a rebasing year for Medicaid purposes which means that additional costs incurred this year will be reflected in new rates that go into effect in FY20. If we wait until FY19 to begin the implementation, costs will not be reflected in rates until FY24 because Medicaid rates are rebased every four years.

Termination Clauses

The termination clauses that SCH negotiated with Cerner to protect the City's investment in the event of a change in circumstances are as follows: Clause 1 allows SCH to terminate its agreement at any time after 36 months from the initiation of the contract should SCH merge with or be sold to another organization, regardless of the EHR platform the new organization chooses to transition to. Clause 2 allows SCH to terminate its agreement with Cerner at any time following the initiation of the contract if SCH goes out of business, OR in the case of a lapse in future municipal appropriations, provided that SCH pay for all products and services provided through the end of the City fiscal year prior to the lapse of appropriation.

Recommendation

SCH medical providers, Administration and Board of Directors have selected Cerner CommunityWorks as the EHR system of choice following a competitive, open and scores-based selection process. SCH has negotiated an agreement that will not require any large up-front cash payments to Cerner and both the FY18 operating and capital costs can be absorbed through already approved appropriations for FY18. At the behest of the Assembly, SCH has negotiated two significant limitations on long- term risk to the City. The alternative to implementing Cerner at this time will result in a significantly worse product at similar cost. We therefore recommend that the Assembly affirm the unanimous recommendation of the Board of Directors by adopting a resolution authorizing SCH to enter into a contract with Cerner contingent upon final contract language acceptable to the Hospital's commercial attorney and the City Attorney.

Sitka Community Hospital
Cerner Implementation
Financial Summary
October, 2017

As noted in the narratives included in the Board package, Cerner has agreed to provide their Community Works Electronic Health package to SCH under a "Software as a Service" (SAAS) agreement.

How does this change the previously presented and approved project from a financial perspective?

Project Components	Originally Approved	Revised Agreement
System/Software/Implementation	1,582,676	-
Multiview ERP Software/Implementation	70,000	70,000
Cerner Implementation & Travel	202,380	132,470
Project Management - Implementation	403,000	403,000
Equipment	100,000	100,000
Capstone Legacy Data Archive	133,571	133,571
E.H.R. System Interfaces	150,000	150,000
Contingency	265,000	265,000
Total	2,906,627	1,254,041
Monthly Operating Costs	27,517	45,738

As outlined on the following pages, SCH could fund the FY18 Cerner projects costs from already approved operating and capital budgets through line-item reallocation with a start date of February, 2018 or later.

Ongoing operating costs would then be built into operations going forward and capital for FY19 would be funded by cash flow from operations including known pick-ups from Operation Urgent Care which have not been included as benefits in this analysis.

The project contingency was calculated as 10% of the original project cost. We left the contingency in place as the original amount. Since the monthly fee is all inclusive, it reduces the liklihood of a surprise with software costs. We could drop the contingency to 100,000 which would be 10% of the remaining capital budget.

Cerner Implementation FY18 Impact	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
1. FY18 Budgeted Expenses	2,465,198	2,416,526	2,372,748	2,299,931	2,226,448	2,280,288	2,263,774	2,105,591	2,264,259	2,242,484	2,269,665	2,284,501	27,491,413
Budget Assumption Adjustments													
2. USAC	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(16,799)	(201,588)
3. Health Insurance	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(16,667)	(200,004)
4. Total Budget Assumption Adjustments	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(33,466)	(401,592)
5. FY18 Budgeted Expenses - Revised	2,431,732	2,383,060	2,339,282	2,266,465	2,192,982	2,246,822	2,230,308	2,072,125	2,230,793	2,209,018	2,236,199	2,251,035	27,089,821
6. Actual Higher (lower) than Revised Budget	(77,670)	(85,429)	(21,426)	183,107									(1,418)
7. FY18 Projection (Actual YTD + Revised Budget)	2,354,062	2,297,631	2,317,856	2,449,572	2,192,982	2,246,822	2,230,308	2,072,125	2,230,793	2,209,018	2,236,199	2,251,035	27,088,403
Change to Expense for Cerner													
8. Support Included in FY18 Budget								(11,000)	(11,000)	(11,000)	(11,000)	(38,517)	(82,517)
9. Cerner Operational Agreement								45,738	45,738	45,738	45,738	45,738	228,690
10. Total Increase in Expense for Cerner	-	-	-	-	-	-	-	34,738	34,738	34,738	34,738	7,221	146,173
11. FY18 Projected Expense with Cerner	2,354,062	2,297,631	2,317,856	2,449,572	2,192,982	2,246,822	2,230,308	2,106,863	2,265,531	2,243,756	2,270,937	2,258,256	27,234,576
12. FY18 Approved Expense Budget	2,465,198	2,416,526	2,372,748	2,299,931	2,226,448	2,280,288	2,263,774	2,105,591	2,264,259	2,242,484	2,269,665	2,284,501	27,491,413
13. FY18 Budget Surplus after Cerner	111,136	118,895	54,892	(149,641)	33,466	33,466	33,466	(1,272)	(1,272)	(1,272)	(1,272)	26,245	256,837

Sitka Community Hospital
Cerner Implementation **Capital Costs**
February, 2018

	Software License	Multiview Capital	Capstone Legacy System	Eqpmnt	Interfaces	Project Mgmt	Cerner Team Travel	Contingency	Total Capital	Total Annually
02/01/18	0	5,833				31,000			36,833	
03/01/18	0	5,833	10,000	15,000		31,000		20,385	82,218	
04/01/18	0	5,833			30,000	31,000		20,385	87,218	
05/01/18	0	5,833				31,000	5,080	20,385	62,298	
06/01/18	0	5,833		25,000	30,000	31,000		20,385	112,218	**380,785**
07/01/18	0	5,833				31,000	24,500	20,385	81,718	
08/01/18	0	5,833		15,000	30,000	31,000		20,385	102,218	
09/01/18	0	5,833				31,000	23,380	20,385	80,598	
10/01/18	0	5,833			30,000	31,000		20,385	87,218	
11/01/18	0	5,833		25,000		31,000		20,385	82,218	
12/01/18	0	5,833				31,000		20,385	57,218	
01/01/19	0	5,833			30,000	31,000	21,960	20,385	109,178	
02/01/19	0		123,571			31,000		20,385	174,956	
03/01/19	0			20,000			21,960	20,385	62,345	
04/01/19	0						26,990		26,990	
05/01/19	0								-	
06/01/19	0						8,600		8,600	**873,256**
	-	***70,000***	***133,571***	***100,000***	***150,000***	***403,000***	***132,470***	***265,000***	***1,254,041***	***1,254,041***

FY18	0	29,167	10,000	40,000	60,000	155,000	5,080	81,538	380,785
FY19	0	40,833	123,571	60,000	90,000	248,000	127,390	183,462	873,256

Note: Accounting Treatment for Proj Mgmt and Cerner Travel will be evaluated as incurred (operating vs capital).

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Timeline for EHR Project

- May 2014
  - Go live of current system, Healthland Centriq
  - Problems with system from the start including data integrity, system flow, and billing.
- December 2014
  - Cash crises at SCH. CBS expands SCH Line of Credit from $500,000 to $1,500,000. Line drawn down immediately.
  - Subsequent analysis shows major billing issues contributed to cash flow crises. Bills could not be processed in a timely matter due to problems with Centriq.
  - During and after implementation process the relationship with Healthland deteriorated so as to be basically non-functional.
- Summer 2015
  - New CEO, Rob Allen, (hired end of January 2015) consistently heard about the non-functionality of Centriq from every department that used it as part of daily business. Providers, in particular, expressed grave concerns about the system and their lack of trust in it and patient's being at risk. Every department had to develop numerous work arounds and system checks. There are documented episodes of close calls with patient care.
  - A consultant was hired to review the system. It was conducted by Joe Wivoda of Rural Health Innovations.
- Operation Reboot
  - A committee and plan developed from the consultant's report to improve the functionality of Centriq and revamp the relationship with Healthland and re-engage staff and Healthland in the process.

- Part of this project included renegotiating the balance due to Healthland of around $450,000 for the initial implementation. The decision was made to hold this payment until progress was made on getting the system to work better and proper support of Centriq by Healthland.
- As a result of the project, there were slight improvements to the functionality of Centriq, better support was obtained from Healthland, the amount owed and a payback schedule was negotiated, and a new position of Provider Facilitator was created to increase the support to the providers.
- Work was also started on upgrading to Centriq version 12. This would require a major upgrade of hardware and a new implementation process to correct database issues from the original flawed implementation. It would be a major expense of dollars and staff time and resources.
- Fall 2015
    - SCH conducts two site visits to similar CAHs in Texas to see Centriq Version 12 in use. This team is interdepartmental and includes a Provider. Recommendation from the site visit report is to move away from Centriq. That the expense and changes necessary to improve the functionality of Centriq would still result in a system that would not meet our needs.
- November 2015
    - CPSI announces it is buying Healthland
    - Healthland indicates to SCH that there is a seven-year commitment to support the latest versions of Centriq with the expectations that customers will migrate to Evident, CPSI's platform, during that time.
    - Site visit by EHR team to Petersburg to review Evident in use at Petersburg Medical Center. Review was not positive. Similar issues related to functionality as present in Centriq.
    - Based upon the site visits and the CPSI announcement, the Project Urgent care committee recommends that SCH take the

opportunity to explore the EHR market and put out an RFP for a new system.

- June 2016
  - RFPs are sent out.
  - RFP's are due June 24, 2016
    - Proposals are received from:
      - Athenahealth
      - Cerner
      - Evident
      - McKesson
      - Meditech
    - After review by committee top three
      - Athenahealth
      - Cerner
      - Meditech
    - All three finalists visited SCH to give full demonstrations of their system. Over XXX staff participated in the demonstrations and provided feedback to the review committee. Athenahealth was top choice followed closely by Cerner and then Meditech.
    - A site visit to Lost Rivers Hospital in Arco, Idaho took place by the review committee to see Athenahealth operating. It was not a positive experience. It became apparent that while Athenahealth has an excellent clinic system, its hospital system and financial package were not ready nor complete enough to meet SCH's needs
    - A site visit was then conducted at Morton General Hospital in Morton, Washington to review their Cerner installation. Notably, Morton had recently converted from Centriq to the Cerner CommunityWorks platform. This was a positive visit. Morton staff provided excellent feedback on Cerner and on the implementation process

they underwent. Based upon this site visit, Cerner became the number one choice.

- March 2017
  - SCH Board approves moving forward with Cerner as the Hospital's new EHR.
  - Due to cash flow concerns, SCH administration does not include the Cerner project in the FY2018 budget that is presented to Assembly. Administration wanted to wait for additional information and planned on bringing it forward later in the fiscal year as a special project with a budget adjustment by the Assembly.
- August 2017
  - Healthland discontinues support of the version of Centriq SCH is using. Healthland recommendation is SCH update to version 12 or to Evident.
- Summer/Fall 2017
  - SCH continues to negotiate with Cerner on payment schedule and exit strategies to answer concerns raised by SCH Board, city staff, and Assembly members.
  - Transition is made from owning a license to Software as a Service model with a payment schedule that is easier to SCH to cash flow.
  - October 2017
  - SCH board approves to Cerner project with the new model of SaaS and monthly payments.

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Answers to Questions on EHR Procurement Process

1. *The process changed from a procurement of a product to a lease mid-stream. How was compliance to the procurement rules realized. Do we need to restart with a clean process of bidding?*
    a. The procurement of an EHR solution is exempt from a requirement for competitive bidding under the City's general code because it is the procurement of a technical service. However, SCH did utilize a competitive, open, and matrix scoring-driven selection process to ensure selection of the best system at the lowest possible cost. The RFP did not specify a particular ownership or payment model. Due to budget concerns raised at both the Assembly and Board level the contract provisions were reworked to allow the cost to be spread over a longer period through a SaaS agreement. The initial qualifications and preset scoring method based selection of Cerner is still valid.
2. *Provide a specific list of who bid, and who did not and why they did not.*
    a. RFP sent to
        i. Allscripts
        ii. Athenahealth
        iii. Cerner
        iv. Epic
        v. Evident
        vi. McKesson
        vii. Meditech
        viii. Versasuite
    b. Proposals received from
        i. Athenahealth
        ii. Cerner
        iii. Evident
        iv. McKesson
        v. Meditech

c. We did not inquire as to why companies chose not to submit a proposal.

3. *Please provide a copy of the evaluation matrix of the responders to the process.*
    a. See attachment A
4. *Provide a list of the different providers of Cerner and EPIC and line out the DETAILED cost evaluation to compare the bidders over the period of at least 10 years.*
    a. See attachment A
    b. Our comparative analysis only went out 5 years.
5. *If we do not act soon, when and what costs are incurred with the existing system.*
    a. Upgrade to Version 12
        i. $450,000 hardware/software upgrades
        ii. $500,000 implementation
        iii. $300,000 yearly ongoing support
    b. Implement Athenahealth in Mountainside Clinic
    c. CPSI ends support of Healthland completely in 2023.
        i. New EHR needed
6. *Between Cerner and EPIC which ones can be implemented faster?*
    a. EPIC did not submit a proposal.
    b. The industry standard for an implementation is 10 to 12 months no matter what the system chosen. Speed of implementation was not a scored factor, the thoroughness of the process proposed for implementation was much more important.
    c. SCH has retained a technology consultant over the past 3 years. He is currently reviewing the draft Cerner contract with our legal counsel. Joe Wivoda is Senior Director, Healthcare of ACS Group. Joe Wivoda's comment, *"Implementation times are highly dependent on the ability of the hospital to support the process and the vendor/implementation partner. Cerner has developed a small hospital version that requires a minimal amount of implementation, but there still needs to be involvement in building order sets, tables, and other items that are unique to you. My experience with Epic implementations are that the implementation is very strictly scheduled with heavy financial penalties if the client misses a milestone. There is still a large amount of build required with Epic as*

well. I expect that Cerner could be implemented quicker based on my experience."

7. *Which system has more experience transitioning from the existing system?*
    a. Unknown.
    b. Joe Wivoda's comment, "I am not familiar with any statistics that exist on this. I suspect Cerner has done more conversions of Healthland, particularly in the last two years. They have certainly been targeting that market."
8. *What are the per patient fees compared with each bidder, both new patient and re-occurring.*
    a. This is not a metric that is used to evaluate EHR systems. No one charges per patient fees that we are aware of in the industry. None of the respondents offered it as an alternative.
9. *Show separately for comparison of the bidders the costs for: Data conversion of existing data, data conversion of other systems to Cerner or EPIC, project management, travel, training, Any other costs associated with this process.*
    a. See Attachment A, Initial Cost to Implement comparison
    b. All five respondents had different methods of handling the implementation costs. The initial cost to implement and the total cost after five years of ownership gave the best indications of the cost of ownership overall, including implementation and ongoing. The detail is available in each of the proposals, just not in an easy way to compare line items. Each proposal was well over 100 pages and are available for review by the Board or Assembly members.
10. *Define and compare the termination costs of each bidder.*
    a. Termination costs were not requested as part of the RFP. They are usually negotiated as part of the final contract for services.
11. *Define how the costs of the lease system can be expensed back to Medicare & Medicaid versus a software purchase.*
    a. Converting to a SaaS agreement does not change the impact of Medicare reimbursement. As a critical access hospital, we are generally reimbursed 101% of our costs – operating and capital. As a result, we will pick up approximately 30% of both the capital and operating costs related to the implementation. This "pick-up" will be

included in the cost report settlement in the first-year costs are incurred and then factored into our interim payment rates in years going forward.

b. Converting to a SaaS agreement actually enhances the reimbursement from Medicaid. Medicaid's rate setting process is very different than Medicare in that rates are "re-based" once every four years. FY18 is a re-basing year for SCH. Therefore, the cost structure for FY18 will be used to set rates for FY20-23. To the degree that we add costs in FY18, we will begin to enjoy an increased reimbursement in FY20. However, if the project implementation begins in FY19, we will miss a four-year window of increased reimbursement as our cost structure will not be used again to rebase rates until FY22 for rates paid beginning in FY24.
c. The enhancement of reimbursement for shifting costs from capital to operating is that the only change to rates during the four-year period of FY20-23 will be for inflation. Medicaid applies a more favorable inflation factor to operating costs than it does to capital costs.
d. Due to the complexity of the Medicaid rate setting process and to add an element of conservatism to our financial models, we did not attempt to quantify the reimbursement impact during the spring of 2017 when we completed the original financial analysis for this project nor did we do so for the revised SaaS assessment.

12. With the new accounting rules, how will this be treated.

a. As outlined above, Cerner has agreed to provide SCH with a hosted SaaS solution. This changes the structure of the deal whereby SCH would not acquire the software but would instead pay a monthly fee to utilize the software. This type of arrangement has become quite common as entities have come to rely more and more on cloud-based solutions.
b. Because of this shift to SaaS arrangements, the Financial Accounting Standards Board ("FASB") issued new Generally Accepted Accounting Principles ("GAAP") guidance that clarifies accounting treatment for SaaS arrangements. Under this guidance, entities that do not acquire

a license of software ownership, account for the contract as a service arrangement.

c. Because SCH is a component unit of the CBS, we follow guidance issued by the Governmental Accounting Standards Board ("GASB"). The GASB has not yet issued guidance for SaaS accounting treatment, though there is a project underway for them to do so and details on that project can be found at this link: http://gasb.org/jsp/GASB/GASBContent_C/ProjectPage&cid=1176169011066
d. Though the GASB has not issued guidance on accounting for SaaS agreements, the guidance that they have issued with regard to leases and internally generated software do not require treatment of SaaS agreements as capital leases or internally generated software.
e. Therefore, it has been our opinion after researching the accounting literature that our SaaS agreement would be appropriately accounted for as a service contract.
f. We have shared the current draft contract with our auditors who concur that in the absence of more definitive language from the GASB, it would seem reasonable to apply the provisions called out in the FASB guidance until GASB issues its own guidance. They did encourage us to request modified language in the contract to definitely indicate that no "license" is being acquired to further help clarify that there is no intent for ownership vesting with the hospital in any of the software elements provided by the vendor.

SITKA COMMUNITY HOSPITAL

209 Moller Avenue
Sitka, Alaska 99835
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Minutes: HOSPITAL BOARD MEETING
Regular Session: October 26th, 2017
Hospital Classroom

Board Attendance: Bryan Bertacchi, Mary Ann Hall, Robert Hattle, Connie Sipe and Dr. David Lam
Liaison Attendance: Mike Scarcelli, Kimberly Bakkes and Dr. Richard Wein.

Staff & Others: Rob Allen, Dr. Roger Golub, Kay Turner Cynthia Brandt, Steve Hartford, Patrick Williams, Cynthia Dennis, Iris Nash, Troy Jorden, Denise Den Herder, Robert Woolsey, Dan Etulain, Sharon Sullivan, Hope Barret, Vicki Akin, Debora Mendoza, Jackie Barnes, Svetlana Perry and Beth Kindig.

1) **Convene/Roll Call**: Bryan Bertacchi, Sitka Community Hospital (SCH) President called the meeting to order at 6:00 pm in the SCH classroom. Roll call established five Board members in attendance.

2) **Correspondence/Agenda Changes**: Agenda item C would be moved to 7A.

3) **Persons to Be Heard:** Hope Barrett and Iris Nash spoke in support of a midwifery program at SCH.

4) **Guest Speakers**: None

5) **Agenda:** Items on the agenda were approve the minutes of the regular Hospital Board meeting of September 28th, 2017. **Dr. David Lam moved to approve the September 28th, 2017 Board minutes, seconded by Mary Ann Hall. Motion passed, (5/0).**

6) **Unfinished Business:**

   A. **CERNER:** Steve Hartford and Cynthia Brandt reported on CERNER. CERNER was the best solution for Sitka Community Hospital. The history and reasons why CERNER was the best choice and how SCH Budget would be impacted were summarized. It was explicated the site visit to CERNER had been very good. CERNER would be a service not a product. If there was no longer an appropriation going forward the agreement with CERNER could be terminated. Dr. Roger Golub stated CERNER had a well-defined implementation plan to get small hospitals help to get up and running. It would take 12 months after the contract was signed for CERNER to be fully implemented at SCH. Mr. Hartford would speak with Brian Hanson, City of Sitka's Attorney regarding the CERNER contract.

   Connie Sipe moved to approve the recommended amendment to the FY2018 budget to allow for the CERNER project as a sale of Software As A Service (SAAS) model as presented to the Sitka Community Hospital Board, contingent to approval by the Assembly, seconded by Ms. Hall. Roll call established all in favor (5/0), approved.

   B. **Service Changes:**

      1) **Surgery Program:** SCH Administration was now in full support of a 24/7 surgery coverage service. The SCH Budget with 24/7 surgery services had been analyzed and

the surgery schedule budget was summarized. An analysis of the surgery operation team would be completed. The goal was to hire one full-time surgeon and one-part time surgeon and grow the surgery program. Rob Allen stated that everything SCH focused attention and worked to make better at SCH had seen good positive results, for example Home Health services and Long-Term Care Services.

Recess 7:05-7:15

Ms. Sipe moved SCH Board amend the approved Budget plan of changing surgery from 24/7 to scheduled 9-5 and put back to 24/7 surgery services and that SCH staff is authorized to continue that model until SCH exceed the appropriations for this year in which case the Board and SCH staff would need to go back to the Assembly for change in the Budget, seconded by Ms. Hall. Roll call established all in favor (5/0).

2) **OB Services:** Dr. Golub and Dr. Kimberly Bakkes summarized the model that SCH and SEARCH could use for OB services. The OB letter from SEARHC was discussed and it was decided that the Board wanted a definitive agreement between SCH and SEARHC.

Ms. Sipe moved SCH Board accepts SCH staff recommendation to continue OB services until June 30th, 2018 with the understanding that that could have up to an additional 700K impact that is not covered by the Budget that was approved by the Assembly and therefore the Board asks the staff to prepare the definitive number and arrange to go back to the Assembly for approval, seconded by Ms. Hall. Motion passed, (5/0).

Public Comment: Sharon Sullivan, RN, said a Birth Center would cost around 600K to get up and running and suggested SCH use OB Budget funds, if OB services were cut, to cover the cost.

Ms. Sipe moved that the Board direct Mr. Allen, SCH Medical Staff and Dr. David Lam work with SEARHC to get an agreement that is definitive on collaboration of OB Services with SEARHC and to be as far along the process as can be by Tuesday, Dec. 5th, seconded by Ms. Hall. Motion passed, (5/0).

Public Comment: Sharon Sullivan, RN, said there were 15 names on the due date list. Funding would be for a small amount of births and asked the Board to consider midwifery and financially supporting the program. **Debora Mendoza, RN**, stated SEARCH required OB nurses to work different areas in the hospital and that she has had a fantastic experience at SCH. OB was not a money-making business but said SCH would lose out if there were not OB services. **Beth Kindig** was very hopeful and asked the Board to consider developing a midwifery program and that there would be community support. **Jackie Barnes, PA-C**, did not think there was enough information to make a decision and suggested to word the motion that the Board is gathering information to make an informed decision and not so the Board can plan for OB closure. **Svetlana Perry** was in support of planned C-Section services and modern medicine including epidural and was not in support of a midwifery program replacing OB services. **Vicki Akin, OB Coordinator**, said the motion was not helping her staff and wanted administration to move forward and that the number of births were getting smaller. She suggested the OB Budget money could be used to build the OB program.

C. **RFP:** There was a level of uncertainty with SCH staff causing low staff morale, staff recruitment issues and staff planning difficulties. The RFP also potentially inhibited CEO recruitment. Mr. Allen said he would extend his contract for an additional 6 months, ending October of 2018. He asked the Board to consider a formal request to the Assembly to postpone or slow down the RFP process. An extension to his contract would offer SCH an easier transition to new management. Mr. Allen summarized the status of the hospital and SCH projects.

There had been no substantial responses from the RFQ. Virginia Mason and Providence were both interested in helping SCH with potential affiliation scenarios. Mr. Bertacchi said after reading the Charter and the Code, he did not see a process to sell SCH without a public vote. The RFQ had given a clear answer there is nobody else that wanted to step into the management role and it was up to the Board to manage the SCH. AK Regional had come for a site visit and were interested to see what services AK Regional could offer SCH. AK Regional had composed an affiliation agreement.

Ms. Sipe move that a subcommittee of the Board review the proposed affiliation agreements from AK regional and Virginia Mason and the Board Chair contact Providence to see if they would like to propose an affiliation agreement in the next couple of weeks, seconded by Ms. Hall. Roll call established all in favor, (5/0) approved.

7) **Staff Reports**

A. **Finance Report-August and September Financials:** Ms. Brandt summarized the Sept SCH financial report. Both reports are attached to the minutes of this packet. Tiffany Martin had taken a very active roll in the Audit and current projects were working on the cost report and Project: Urgent Care. An interim controller would be starting at SCH mid-November and had given a 6-month commitment. A short-term resource, Ken Smith, had been assisting with Heathland report changes.

B. **CEO/Administrative Team Report:** The Long-Term Care state surveyors had been on site and SCH would be getting a formal report in 10 days. This report would be shared with the Board. The Life Safety inspection had occurred earlier in the week and went very well. Project: Urgent Care material was provided to the Board for review and information. SCH would be given a verbal report on Project: Urgent Care to the Assembly in November.

C. **Medical Staff Report & Recommendations:** The Board was notified that tele-cardiologist Dr. Drew Baldwin was given temporary privileges. **Ms. Sipe moved to accept the presented list of providers to re-credential and pass from probationary status to full status as approved and recommended by the medical staff, seconded by Ms. Hall. All in favor, (5-0).**

D. **Quality Committee Report**: The committee continued to make good progress on policies.

E. **Home Health Report**: There had been a Home Health Advisory Board meeting. Ms. Sipe was unable to attend but provided a report that Home Health had a little hiccup having lost a CNA.

F. **Foundation Report**: Dr. Wein reported there was a major review of the By Laws and they were completed. A final and updated version would be provided by Foundation President, Cynthia Dennis. There was a pass through of 17K from the Foundation to the Sitka Community Playground fund.

8) **Board & Liaison Reports:** Dr. Wein stated, "I heart SCH"!

9) **Executive Session:**

10) **Adjourn:** Mr. Bertacchi declared the meeting adjourned. Seeing no objection, the meeting ended at 9:46 pm.

Minutes recorded and summarized by Denise DenHerder

APPROVED: _____ Date: _____
Board Secretary

Next Meeting scheduled for Dec. 4th, 2017

VendorScoringMatrix-SH.xlsx Edit Start conversation Close ...

	A	B	C	D	E	F	G	H
1								
2	Score Weight				10	10	10	30
3					33%	33%	33%	100%
4	Vendors	Initial Cost	Annual Cost	5 Yr. TCO	Proposal	On-Site Demo	Staff Survey	Score
5	athenahealth	$58,120	$628,439	$3,200,315	1	1	1	100.0
6	Cerner	$1,647,599	$360,816	$3,090,863	2	1	1	83.3
7	Evident	$972,638	$159,406	$1,610,262	5	1	1	73.3
8	McKesson	$2,822,485	$219,576	$3,700,789	4	1	1	75.0
9	Meditech	$3,366,474	$625,000	$5,866,474	3	1	1	77.8
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12								
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Proposal	Vendors ranked on proposal scoring
On-Site Demo	Vendors ranked on performance in On-site demo
Staff Survey	Vendors ranked by all staff attending on-site demo via

Overall Selection Matrix | Proposal Review Matrix | Average of Proposal Reviews

VendorScoringMatrix-SH.xlsx Edit Start conversation Close ...

	A	B	C	D	E	F	G	H	I
1									
2	Score Weight	12.5	15	15	5	10	10	67.5	
3		19%	22%	22%	7%	15%	15%	100%	
4	Vendors	Support/ Training/ Implementation	Data Analysis	Software Quality	Vendor Profile	IT	Software Functionality	Score	Rank
5	athenahealth	3	4	2	5	4	4	31.7	
6	Cerner	4	3	3	4	3	3	31.2	
7	Evident	4	2	3	3	2	4	36.7	
8	McKesson	3	3	3	2	3	3	34.6	
9	Meditech	3	3	3	3	3	2	35.8	
10									
11									
12		Support/ Training/ Implementation				IT			
13		Training	Implementation			Security Features			
14		Testing				Interfaces			
15						On-Premises/Cloud			
16	Vendor Profile		Software Functionality					Data Analysis	
17	Product Information		CPOE					Reporting	
18	Licensing		E-Prescribe					Data storage infrastructure	
19	Meaningful Use/Certification		Reporting Capabilities					Data mining features	
20	Contract Terms		eMAR						
21			Patient Portal						
22			GL/ Accounts Payable & Receivable						
23									

Overall Selection Matrix **Proposal Review Matrix** Average of Proposal Reviews

Sponsor: Administration

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2017-41

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA ADJUSTING THE FY18 SITKA COMMUNITY HOSPITAL BUDGET (ELECTRONIC HEALTH RECORDS PROJECT)

BE IT ENACTED by the Assembly of the City and Borough of Sitka, Alaska as follows:

1. **CLASSIFICATION.** This ordinance is not of a permanent nature and is not intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

2. **SEVERABILITY.** If any provision of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and application thereof to any person and circumstances shall not be affected thereby.

3. **PURPOSE.** The purpose of this ordinance is to adjust the FY18 budgets for known changes.

4. **ENACTMENT.** The Assembly of the City and Borough of Sitka hereby adjusts the FY18 budget for known changes. In accordance with Section 11.10(a) of the Charter of the City and Borough of Sitka, Alaska, the budget for the fiscal period beginning July 1, 2017 and ending June 30, 2018 is hereby adjusted as follows:

FISCAL YEAR 2018 EXPENDITURE BUDGETS
SITKA COMMUNITY HOSPITAL
CAPITAL BUDGET
The Sitka Community Hospital Capital Budget for FY2018 is hereby increased by the amount of $1,254,041 for capital costs related to the implementation of the Electronic Health Records (EHR) System. As a capital appropriation, this appropriation will not lapse until either the EHR System is implemented, or, the project is terminated.

EXPLANATION

In order to comply with the provisions of Section 11.04 (3) of the Charter, a supplemental budget ordinance passing a capital appropriation for implementation expenditures related to the EHR is required.

5. EFFECTIVE DATE. This ordinance shall become effective on the day after the date of its passage.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 26th Day of December, 2017.

ATTEST: **Matthew Hunter, Mayor**

Melissa Henshaw, CMC
Acting Municipal Clerk

1st reading 12/12/17
2nd reading 12/26/17