HOSPITAL AUTHORITY OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

MINUTES OF THE February 26, 2021 MEETING OF THE Ad Hoc Committee of the HOSPITAL AUTHORITY BOARD OF TRUSTEES

A virtual meeting of the Ad Hoc Committee of the Board of Trustees (the "Board") of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County (the "Hospital Authority") was held on Tuesday, February 26, 2021 at 3:00 p.m.

The members of the Board present for the online meeting were Alexandria Fisher, Richard Manson, Dr. Bonnie Slovis, Pastor Frank Stevenson. Also present online were Dr. Joseph Webb, CEO, Diana Wohlfahrt, Chief Human Resources Officer, Members of BE Smith, as well as other staff members and guests.

CALL TO ORDER

Mr. Manson welcomed everyone and called the meeting to order at 3:05 p.m. requesting a motion to meet electronically. Mr. Manson moved that the items on the meeting agenda constitute essential business of this Board, meeting electronically is necessary to protect the health, safety, and welfare of Tennesseans considering the COVID-19 outbreak, and any rule conflicting with the Governor's Executive orders permitting electronic meetings shall be suspended. Pastor Stevenson duly seconded the motion which unanimously carried with aye votes from Ms. Fisher, Mr. Manson, Dr. Slovis, and Pastor Stevenson

MINUTES

Mr. Manson asked if there were any additions or edits to the February 9, 2021 HAB minutes. Ms. Fisher made a motion that the minutes be approved as submitted. Dr. Slovis duly seconded the motion which carried with the following aye votes: Ms. Fisher, Mr. Manson, and Dr. Slovis.

CEO Contract Terms and Renewal Proposal Discussion

Mr. Manson stated he had discovered from the information provided by HR Department that Dr. Webb's salary is already close to $500,000. Dr. Slovis asked for clarity. Mr. Manson continued by stating that in the document is states that if the evaluation is approved based upon the contract he already has; the current salary would be about $487,000. This was an email from HR forwarded by Janet Lester. Dr. Slovis found the email.

Mr. Manson stated that based on that information, the proposal from Pastor Stevenson during our last meeting was to start his base at $450,000 with up to a 5% cost of living bonus minus whatever is given to hospital staff, plus 5% additional bonus based on performance. Performance goals would be set out in the contract with the expectations coming from the HAB.

Mr. Manson stated that he had previously asked the basis of the proposed salary increase. He asked if it was based on the following: Revenue, Number of Beds, Private vs. Public. He stated he is unsure if this information satisfies the questions that were asked during the last meeting.

Ms. Fisher stated she would still like two pieces of information that she doesn't believe were addressed. She would like comparable CEO salaries for safety net hospitals. She would also like to see the data for comparable bed size hospitals, and where the data is from.

Ms. Diana Wohlfahrt, Chief Human Resources Officer, introduced BE Smith company that is a national group that is a recruiter for CEOs and other positions across the nation. They joined the meeting to answer questions. They provided a slide presentation that was distributed to members prior to the meeting. She introduced Mr. River Meisinger from BE Smith. Mr. Manson stated the slide presentation did not answer the questions from the committee.

Mr. Meisinger stated the data came from a reputable source, Salary.com. However, that is employer provided and cannot be segmented to just safety net hospitals. It does share the national average with both private and public. Those are total cash compensations, then the Board should decide on long term incentives or retirements. They share the national average based on net patient revenue, and the segment of NGH's location in the country. It is from the hospital sector, but not from only safety net hospitals.

Mr. Meisinger introduced Zac Ferren.

Dr. Slovis stated she did not see a slide with detail in terms of revenue. Mr. Meisinger stated the detail is in an Excel file they put into a PowerPoint format. It is not based on bed size, but only based on net patient revenue. Dr. Slovis stated that is the detail needed. She wants to know compensation by bed size.

Mr. Meisinger confirmed the data is by net patient revenue, based on $50-200 million in the southeast from Salary.com. Average CEO compensation base plus bonus or long-term equity. It includes salary and bonus or other compensation such as shares. This is the data they would base recruitment target compensations from.

Mr. Mason asked Ms. Fisher if she had additional questions to be addressed. Ms. Fisher asked if they are capable to provide information just for CEOs of safety net hospitals in the southeast. Mr. Meisinger stated he does not have data that would only be safety net hospitals. They use salary.com so that is proprietary information they are gaining from employers.

Ms. Fisher asked if their organization has the capacity to use any other sources to determine the salaries of the CEOs of safety net hospitals. Mr. Meisinger stated they have used SullivanCotter compensation tool in the past, but it would also be national and not just safety net. Mr. Meisinger stated they do not have the tool to provide only safety net compensation.

Ms. Fishers asked if any members of the Executive Team or Consultants have the ability to obtain the salaries of CEOs of safety net hospitals. Ms. Fisher stated she believes this is information that can be obtained.

Mr. Manson stated we are starting with a base of $479,000 based upon where he is right now, with the prevision the board approves the 10% increase. The conversation last time and proposed to start at $450,000 then add 5% cost of living raise or whatever Metro gets, then 5% incentive based.

Dr. Slovis stated she is concerned that if he gets a 5% cost of living raise and then eligible of up to 5% performance based it would give him 10% year over year would be a large number. If he meets all the targets to be there, we could find ourselves 5 years out he could be making a lot more money than we can probably justify to the city and to our budget.

Mr. Manson stated we got to $479,000 because of the way the contract was structured where he got a 10% raise.

Mr. Manson stated that what is being proposed now is that we reduce the 5% incentive. Dr. Slovis suggested the 5% being a bonus and not increase the salary year over year. It can be variable each year. Mr. Manson agreed that we should consider restructuring so that he would get an increase based on Metro Hospital Employee increase, then the 5% incentive wouldn't roll back into the base salary. That 5% would just be a bonus.

Dr. Slovis stated retirement benefits should be considered when discussing total compensation. BE Smith examples used total compensation including bonuses and retirement. She stated she hasn't seen enough detail to truly understand how much we are paying him.

Ms. Wohlfahrt stated there are three safety net hospitals in the state of Tennessee, Nashville, Memphis and Chattanooga. All three are safety nets but all distantly different. She stated we can get public data on those safety net hospitals, but the metrics of the gross revenue is different. She can get the data from the other safety net hospitals in Tennessee, but the size and revenue is different.

Mr. Manson asked Ms. Wohlfahrt with the base of $479,000, what is his total compensation including the funding for retirement? Dr. Slovis asked that it include any other compensation benefit. Pastor Stevenson stated there was a vote some time back to add deferred compensation to the package. Ms. Wohlfahrt confirmed that deferred compensation is separate from the $479,000 base.

Mr. Manson again asked what the total compensation is after adding in the matching of the retirement.

Mr. Manson noted there was something added to the current contract that was not in the previous contract about a maximum payment amount. Pastor Stevenson stated that originally, we did not pay his retirement match, but other CEOs were receiving it, so we went back and retroactively added it and it continues moving forward. He doesn't remember the exact number that was added. Ms. Wohlfahrt confirmed it was 30% of the base rate that is going into a deferred compensation plan.

Ms. Wohlfahrt stated his evaluation was due July 1,2020, but we had to wait for audit results. The next fiscal year ending June 30, 2021, he will be due another review which potentially get him to the $479,000 if he receives the maximum amount of increase.

Mr. Manson confirmed that we are evaluating the contract that begins at the expiration of the current contract.

Mr. Manson clarified that this committee will only make a recommendation. The HAB will make a decision of approval.

Ms. Wohlfahrt stated that if he gets to the $426,000 rate, he would get $127,800 in retirement for the entire year. That is the 30% retirement compensation.

Mr. Manson verified that the total compensation includes retirement and stated under the current arrangement it would be at $553,000.

Mr. Manson confirmed to Dr. Slovis that the 10% increase was in the current contract. The contract we are working on is to follow the expiration of this one.

Dr. Slovis asked if the 10% salary increase for the current contract was approved. Mr. Manson confirmed it was already in the current contract. Dr. Slovis read "if the board completes his evaluation for this current year ending June 2021, and approves a 10% increase in his salary…" it would be $479,000 on July 1, 2021. Mr. Manson confirmed that is already in contract that it is approved, assuming the evaluation goes high. Dr. Slovis confirmed that whenever we give him the salary increase, his deferred compensation will increase since it is a percent of his base salary.

Mr. Manson stated the proposed contract given to the committee suggested a $500,000 base, which would have an additional 30% for deferred compensation. The committee has not agreed to this contract; it was given as a suggestion. That would give a $21,000 increase in his base.

Dr. Slovis stated it is prudent to ensure we do not have something baked in that gives him 10% per year plus deferred compensation in the future. Mr. Manson agreed.

Dr. Slovis suggested matching the cost of living increase from Metro instead of automatically using 5% for increase.

Mr. Manson stated that we were behind for CEO compensation, but we are on target now if you consider his total compensation. We want to compensate people exactly what they are worth.

Mr. Manson gave an overview of the current suggestion.

- Starting where he is for current compensation base salary
- He will receive a raise based on whatever Metro gives, added to base salary
- In addition, he will be able to generate up to 5% of his compensation as incentive payment, not increase to base. It will not increase deferred compensation.
- Deferred Compensation only tied to base salary.

Ms. Fisher agreed with the current suggestion. She only added that we need to consider the length of contract. Current contract was 3 years, and Dr. Webb proposed 5 year.

Dr. Slovis stated she would also like to discuss the metrics for the incentive pay. She stated she would like to discuss the list and quantify the items in some way. Mr. Manson agreed and stated some items should be weighted higher than others.

Discussion regarding term of contract. Mr. Manson stated that the lease with Meharry is about to expire. There has been a discussion of a potential new location. He stated the proposed term was to allow us to get through whatever transition needed through the current lease expiration. Mr. Manson stated that if we approve 5 years it would be in effect until 2026. The current lease with Meharry expires in October, 2027. Mr. Manson asked for the Committee's thoughts.

Mr. Manson stated there is a provision that says we can terminate the CEO for convenience, with a 6 month pay out. Ms. Wohlfahrt confirmed.

Ms. Fisher stated her inclination is towards keeping the terms similar to the current contract, which is a 3-year contract. She stated 5 years is such a long time for both sides. She doesn't feel we should be locked in with certain metrics or terms when the hospital is going to be changing rapidly over a significant period of time. She invited other thoughts from the committee.

Mr. Manson stated that if we want to get to 5 years, maybe we could do 3+1+1 contract. That gives two 1-year options. It is up to the committee to make a suggestion.

Dr. Slovis agreed with Ms. Fisher and recommends a 3-year term. Pastor Stevenson also agreed with a 3-year term.

Mr. Manson asked Pastor Stevenson to explain the cost of living raise with Metro. Pastor Stevenson confirmed the information was correct.

Mr. Manson gave a recap of suggestion updates.

- Anticipate base to be $479,000 at the end of this contract period. It is suggested this number forms the base for the new contract.
- New contract for 3 years, fixed.
- Cost of living raise at the same rate as Metro's annual raise.
- Additional 5% incentive bonus payment that will be weighted based upon criteria that will be set in the contract.

Dr. Slovis noted a document that has the criteria for bonus listed. The document refers to 2018 and she doesn't see a current criteria list. The list included PSA and reaccreditation. Dr. Slovis stated she does not believe reaccreditation should be under incentives. It is something required to run the hospital. She stated Press Ganey Scores, expenses, revenues are fine, but reaccreditation should be a given to keep the job.

Mr. Manson asked for the most important things to grow the hospital that need to be incentivized, to determine the 5% bonus. Dr. Slovis stated decreasing expenses and increasing revenue, including patient volume. Maintain certification for PCMH. She suggested that each year as something is achieved the target should become something else. She stated it should be reevaluated each year with Dr. Webb's input. Mr. Manson suggested that the incentive items be reviewed, and value weighted each year in the evaluation process. Dr. Slovis stated the metrics can change from year to year.

Ms. Wohlfahrt stated she can create something from a metrics standpoint to measure the 5% bonus, with the Board giving each item weight. It can be added to his contract.

Ms. Wohlfahrt mentioned that even though 3-year contracts have been the standard, Dr. Webb asked for a 5-year contract because of the potential to move. She asked the committee to consider the cost of recruiting a new CEO and the timeline it would take as they review the length of contract being considered. Mr. Manson stated the committee has locked on a 3-year term and all the factors were taken into consideration.

Dr. Slovis asked BE Smith the normal length of contract. Mr. Meisinger stated the most common terms he has seen is year-to-year rolling contracts, 3-year, and 5-year. He stated we are very much in line with industry standard.

Mr. Manson asked the consensus of the committee. Dr. Slovis agreed for a 3-year contract. Ms. Fisher confirmed that she believes 3-year term is reasonable. Pastor Stevenson agreed and confirmed he prefers a 3-year contract.

Mr. Manson asked the committee to verify the recommendation of the committee as follows:

- Term of contract 3-years
- Compensation – starting salary will be based on current ending salary at the end of the current contract period. This amount forms the base of the contract.
- The 30% deferred compensation be continued through the new contract as it is currently in place.
- Insurance, vacation time and current benefits to be continued through the new contract.
- Additional compensation awarded based on Metro's salary increase as given to NGH employees across the board.
- Entitled to additional 5% incentive payment, determined by metrics to be developed and discussed with the CEO. This will weigh the goals that will be measured for him to receive the 5%. Ms. Wohlfahrt will create the spreadsheet for the metrics based on the HAB approved goals once received. This item to be negotiated annually to meet the needs of the hospital and determined by HAB.

Discussion on how to meet and discuss the criteria for the 5% incentive metrics. Dr. Slovis stated some items will be "yes/no" and others will be "meet/exceeds/reach". Some items will have continuous variables. She stated an incentive compensation is complicated and requires more expertise to construct.

Ms. Fisher agreed to the recommendation as stated.

Ms. Fisher moved that the committee make a recommendation to the HAB for Dr. Webb's future contract with the hospital to be a 3-year term, based current based salary, annual percentage cost of living increase in line with Metro's annual percentage cost of living, optional 5% bonus available based on performance metrics achieved reviewed annually what those metrics are. Other compensation terms not discussed specifically herein will continue from his prior contract.

Dr. Slovis duly seconded the motion which carried with the following aye votes: Ms. Fisher, Mr. Manson, and Dr. Slovis. Pastor Stevenson fell off the call and was unable to vote.

Ms. Wohlfahrt mentioned that Dr. Webb was requesting an increase in monthly car allowance by $200. Mr. Manson asked for discussion regarding the request for an additional $200 car allowance. Dr. Slovis and Mr. Manson asked Ms. Wohlfahrt for the current car allowance amount. Ms. Wohlfahrt stated it is currently $1,200 per month. Mr. Manson verified that the request is to move from $1,200 to $1,400 per month.

Dr. Slovis asked if he must use the car for his duties as CEO, or only for commuting. Mr. Manson stated he believes the car is used for business purposes. Ms. Fisher stated that she believes any increase in travel cost is covered by the annual percentage cost of living adjustment.

Mr. Manson moved to increase the CEO's car allowance by $200 per month. There was no second. Motion failed.

Mr. Manson reminded all that this is a recommendation the committee is making to the HAB. It is not final. The HAB can change what is recommended in any way they want. This recommendation is part of the report to the full HAB.

Mr. Manson asked if anyone would make a motion to adjourn. Dr. Slovis made a motion to adjourn. Ms. Fisher duly seconded the motion which carried with the following aye votes: Ms. Fisher, Mr. Manson, and Dr. Slovis.

ADJOURNMENT
There being no further business the meeting adjourned at 4:19 p.m.

Respectfully Submitted by:

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Richard Manson

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