COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE ON COMMERCE

AND ECONOMIC DEVELOPMENT

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Room 696, City Hall
Philadelphia, Pennsylvania
Thursday, February 12, 2004
1:15 p.m.

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RESOLUTION 040046 - Resolution authorizing the Committee on Commerce and Economic Development to hold hearings to investigate the proposed closure of Medical College of Pennsylvania (MCP) by Tenet Healthcare...

PRESENT:

COUNCILMAN W. WILSON GOODE, Chair
COUNCILMAN MICHAEL A. NUTTER, Vice Chair
COUNCILWOMAN JANNIE BLACKWELL
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN FRANK RIZZO
REPRESENTATIVE KATHY MANDERINO
REPRESENTATIVE JAMES ROEBUCK

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I N D E X

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN GOODE: Good afternoon. This is the public hearing of the Commerce and Economic Development Committee on Resolution No. 040046. My name is W. Wilson Goode, Jr. I'm Chair of the Committee. To my right is Councilman Michael Nutter, Vice Chair and primary sponsor of this resolution. Joining us also, who is a member of the Committee, is Councilman Frank Rizzo.

At this time, I will ask the Clerk to please read the title of the resolution.

THE CLERK: Resolution 040046, authorizing the Committee on Commerce and Economic Development to hold hearings to investigate the proposed closure of the Medical College of Pennsylvania by Tenet Healthcare Corporation and the devastating impact that such a closure would have on the patients and employees of MCP, the East Falls Community, and the City of Philadelphia; and further authorizing the Committee in furtherance of such investigation to issue subpoenas as may be necessary to compel the attendance of witnesses and the production of

documents to the full extent authorized under Section 2-401 of the Home Rule Charter.

COUNCILMAN GOODE: At this time, I will ask Councilman Nutter to please call his first witness.

COUNCILMAN NUTTER: Thank you, Mr. Chairman. I have a Thomas Morgan. Mr. Morgan had indicated an interest in testifying.

(No response.)

COUNCILMAN NUTTER: Maybe he will attend later.

Dr. Stephen Klasko and Mr. James Archibald.

(No response.)

COUNCILMAN NUTTER: Mr. Phillip Schaengold.

Good afternoon. As you all know, this is a continuation of the hearing from last week and the week before, so all of the same rules will be in effect.

Why don't you gentlemen identify yourselves for the record, and then I'd like to talk about some of the information requests from previous hearings.

MR. SCHAENGOLD: My name is Phillip Schaengold, I'm Vice President of Operations for Tenet.

MR. LEONARD: Tom Leonard, representing Tenet here, along with my partner Richard Limberg (ph).

If I may, Mr. Vice Chairman, I handed up to the Chairman and to the Vice Chairman of this Committee a binder of documents that we believe contains all of the documents that have been requested that were not produced last week, including detailed financial information.

I also, behind the first tab, handed in a letter addressed to Councilman Goode that attempts to answer all of the outstanding questions from last week's hearing.

COUNCILMAN NUTTER: Mr. Leonard, is this the letter dated February 12, 2004?

MR. LEONARD: Yes, it is.

COUNCILMAN NUTTER: "RE: City Council hearings or MCP closure"?

MR. LEONARD: Yes, sir.

Councilman, I also note that per

your request there's a new table of contents that is stamped appropriately.

COUNCILMAN NUTTER: Well, I did want to ask you about that. When you handed the binder up a little while ago to the Chairman, I have one binder that has a -- I think what you refer to as appropriately identifying first sheet. It then has a table of contents that starts with title and then 1 and is numbered appropriately. When you handed up these items last week, you indicated that there was some confidential information in at least one of the binders but it was not identified. And you and I had a conversation, and I believe you've now identified those items.

What I'd like to better understand, though, is this binder starts with Tab 38. The other binder seems to start with Tab 1. Do these binders go together?

MR. LEONARD: They do. And the table of contents goes from one through the end marked as to which documents are confidential in the first binder 1 through 37

or 38 and then picking up with the new things that have been produced. So this table of contents here is for both binders, marked per your request.

COUNCILMAN NUTTER: Okay. I might shift the table to the other book so I don't get confused.

Let's talk about -- at the end of last week's hearing, there were a fair amount of back and forth about financials and financial statements and financial documents. The discussion I think started around the issue of how much information we would have. And I think in Tab 44, the discussion started with these one-page financial reports, and then we had more extensive discussion.

Without going into a significant amount of detail, tell me now about Tabs 45 and 46. What are these?

MR. SCHAENGOLD: Tab 44, as you stated, Councilman Nutter, does contain the one-page summary for each year, for MCP's fiscal years beginning with 1999.

COUNCILMAN NUTTER: Okay.

MR. SCHAENGOLD: Tab 45 contains detailed information by specific cost centers for each year that this summary page represents.

And Tab 46 is the entire financial set of documents for Fiscal Year '03 by every cost center and department within the hospital. That shows you the kind of detail that eventually rolls into Tab 46 and eventually rolls into the one-page Board report that is in -- I'm sorry, 45, and then rolls into 44.

COUNCILMAN NUTTER: So somehow, I guess, very carefully someone can take the about two inches of material in Tab 46 and drill it down to a one-pager in Tab 44.

MR. SCHAENGOLD: It would go 46 and then it would drilled into 45 which eventually then becomes a one-pager which is in 44.

COUNCILMAN NUTTER: Okay. Let me ask this then, again, to get a clearer picture.

First, let me say I appreciate the response to the information request from last

week.

Second, is it now possible -- you've given the Committee on Tab -- from Tab 44 it appears five years of the one sheet.

MR. SCHAENGOLD: Correct.

COUNCILMAN NUTTER: And then one year of 2003 with the more detailed information.

MR. SCHAENGOLD: No, 45 has more detailed information for every year. And it's only Tab 46 has the entire 2003.

COUNCILMAN NUTTER: Okay. So if I go actually to the end of Tab 45, I'm actually starting with Fiscal Year '99 and moving backward to 2003?

MR. SCHAENGOLD: That is correct.

COUNCILMAN NUTTER: Then I guess what I would lastly ask you is, could you replicate Tab 46 for the other years? Is it possible to recapture?

MR. SCHAENGOLD: I'm not sure because the company changed fiscal years. We will certainly try to recapture as much of this detail as possible, but I'm not sure we

can replicate it.

COUNCILMAN NUTTER: Or if I can at least have -- you've given '03. If I could at least get '02 and '01 with a Tab-46-like detail, is that possible?

MR. LEONARD: We'll be glad to try to do that, Councilman. I've gone through this. I think you'll find when you look at the eight or nine pages for each year which summarize --

COUNCILMAN NUTTER: From Tab 45?

MR. LEONARD: From Tab 45. The detail in Tab 46, the level of detail for each department, each aspect of what goes on in that department, it might be of some interest to the people in the department, but I think you'll find the Tab 45 reports to be pretty thorough.

COUNCILMAN NUTTER: Okay.

MR. LEONARD: But we will try to comply with your request if after you look at it and you still want that level of detail.

COUNCILMAN NUTTER: Let me ask this question, because I want to respect the -- we

made a request and you have honored the request, although you have a bit of a request on the transmittal. Obviously, some other people other than certainly myself or the Chair or any Member of this Committee may want to further examine some of these documents and information. What I need to better understand, I guess, is -- you've made a request for some amount of confidentiality, which I understand. On the other hand, I can't use the information without some further level of analysis of that information.

Is the primary request that this not become a -- I think as we understand the term -- a public document?

MR. LEONARD: Yes. If we analogize to a court proceeding, the confidentiality designation does not preclude the Court from sharing the documents with its law clerks and the people that are part of its operation, and we wouldn't expect that the confidentiality designation would preclude you from sharing it with Members of the Committee. We would not want it to become a public document because it

does contain information that our competitors would be interested in.

COUNCILMAN NUTTER: Okay. Well, I understand that. You mentioned that last week. And I guess at this point, one of the things that I didn't particularly understand is why would a competitor be that interested at a certain level in the financial details of a hospital that you propose to close? I mean, what could they possibly do with the information or have any particular impact on the five remaining hospitals? If all the information is pertinent to that particular institution, it gives a picture, tells a story of ultimately its potential demise, what's the issue?

MR. LEONARD: There are standard practices at Tenet and other hospitals that relate to protecting certain data that those institutions generate. We produced the information to this Committee, but we would not produce it unless there was an understanding that it was confidential, that it was under seal. And if we wanted to debate

and set forth the reasons for that in a typical courtroom setting, we would do that after we cleared the courtroom.

COUNCILMAN NUTTER: Okay. I hear what you're saying and I do understand it. We will probably need to have some further discussion about that. Let me assure you that I don't think any member of the Committee asked for the information just for the purpose of trying to burn out your copy machines or because we don't have enough documents to look at. But many of us are interested in the future. And in this particular situation, one of the ways to understand the future is to try to figure out the past. And if there are a series of events that led to the decision that was made, and if we are going to have any possible future at this site, we at least need to know and understand better what happened during the time that Tenet has been operating the hospital. But I understand the request. I've heard the request, and we can have further discussion about it subsequent.

Let me ask this question. In the

course of the week, have there been any conversations or discussions related to the ongoing activities either at the hospital or potential future activities at the hospital that you can share with us in terms of its present status as well as any potential or future reuse?

MR. SCHAENGOLD: We've had conversations with a couple of other parties about potential opportunities for that site, but they are very preliminary and those parties have requested to remain anonymous. But so far, there has not been any serious inquiry about the use of the MCP campus by any party.

COUNCILMAN RIZZO: Point of information.

COUNCILMAN GOODE: The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: Those developments, that interest has just developed since the beginning of these hearings? Because the last time you testified, I recollect, that there was no interest.

MR. SCHAENGOLD: That is correct. An individual has brought forward an idea on behalf of a party, and that party has not yet gone through its own process to actually put forward a concrete proposal. So it is so preliminary, they have requested that that information not be shared with anyone because we may never see a specific proposal out of this entity.

COUNCILMAN RIZZO: I hope these hearings motivated that. Thank you.

COUNCILMAN NUTTER: I just have a couple other questions for the moment. I've talked with the Chair. The Drexel University personnel who I called on before are now here. The intention was to have them up first. And so what I'd like to do is, after a couple of questions, shift our arrangement. Unlike in the past, you actually get to take a break and we'll have them up and then I'd like to have you back.

Has Tenet begun discussions, again from my previous experience, with the City Avenue Hospital?

You have at least one individual that I became very familiar with in the acquisition and disposition component or department of company. I think it's Mr. Fisk or Frisk.

MR. SCHAENGOLD: Richard Fisk, yes.

COUNCILMAN NUTTER: Is he still in that capacity with the company?

MR. SCHAENGOLD: No. He retired at the end of 2003.

COUNCILMAN NUTTER: Has there been any discussion -- has there been a replacement named for him?

MR. SCHAENGOLD: There is a Department of Acquisition headed up by a gentleman by the name Paul O'Neill, and he has advised me that there has been no contact by any party interested in MCP as an acute care facility.

COUNCILMAN NUTTER: I understand.

Again, in the City Avenue situation, I believe the consultant that was brought in at that time to initially try to turn the hospital around -- and again that did not work

out. There were a variety of discussions at that time about potential reuses. And that same consultant worked with the community and with the organization to try to come up with a variety of ideas.

Has the consultant that you engaged -- is it TRG? Has Tenet had any discussions with your consultant who made the report back in December with regard to any possible reuse of the facility, again, similar to the process that we utilized in the City Avenue scenario?

MR. SCHAENGOLD: We have not had any conversations with TRG about other uses for that site.

COUNCILMAN NUTTER: Would the company consider bringing someone on -- I don't know TRG from any other company, so I'm not trying to get them any business. But obviously, you thought enough of them to have their assistance previously. Would the company consider bringing someone on to help in this process of potential reuse of the site either in the healthcare capacity or something similar to that for the moment to provide some

third-party advice and direction both to the surrounding community, City Council, Governor's Office, and working with all the other parties? Would the company consider bringing someone to assist in that process?

MR. SCHAENGOLD: I believe that we would be very glad to work with the City, the community, the State, in making sure that whatever decisions are made to dispose of this property are done in an appropriate manner. The decision as to what resources would be used would be made by the department in our corporate offices that would be responsible for this. But I would certainly bring that to their attention.

COUNCILMAN NUTTER: Is that the acquisition disposition group?

MR. SCHAENGOLD: Correct.

COUNCILMAN NUTTER: Lastly, at least for me for the moment, there had been discussions, I believe, at the first hearing with regard to the Delaware Valley Healthcare Council and their obvious City-wide role in watching what's going on with the various

hospitals in town. Have there been any further discussions -- I think at one point you were at the table at the same time the gentleman representing that organization, possibly the first hearing. Has there been any further discussions with that organization about the MCP site in terms of continued healthcare utilization?

MR. SCHAENGOLD: No, there have not been any further discussions with them.

COUNCILMAN NUTTER: Any particular reason?

MR. SCHAENGOLD: No. No reason for it. There were just no particular reason to have that kind of discussion. They are, in a sense, an umbrella organization for all the hospitals in the region, and we just simply have not had that conversation.

COUNCILMAN NUTTER: Well, Mr. Schaengold, I'd ask you if you would have that kind of conversation. I understand that they're an umbrella organization for all of the hospitals, but they are, again, a good organization to talk to, given their general

perspective and kind of a broader, larger, global understanding of what's going on in healthcare here in the City of Philadelphia.

If we're going to move this process to a point of understanding where the company has made a decision, it may, in fact, be irreversible. You have other hearings and meetings in this same building where those decisions will get made, not necessarily in this room, but you have a court process to deal with and a wide variety of other issues, the State Department of Health and all of that. But I guess what I'm suggesting to you, and I want to say this with every amount of respect and sincerity, but seriousness, Tenet has five hospitals in this market, plus MCP. You've made a decision about MCP. We're naturally trying to do everything we can to reverse that decision or make something better come from it. But I guess I would call on you in a corporate neighbor capacity that if the organization cares about this market and if it cares about its reputation in this City and in conjunction with the Commonwealth, I can only

implore you to try to do as much outreach as possible to a variety of people around, not just for the purpose of having meetings to have meetings, but in a serious fashion to talk with people who also care about this market who operate in this market, and try to figure out how to make this situation better than it presently is. And I know you have a lot of competing time pressures and interests, but I would only suggest to you that spending some time, after fulfilling voluminous information and data request -- but I'm sure you're not making the copies personally -- as the CEO having the responsibility for this system, I would ask that you reach out, whether it's to the City, the State, Delaware Valley Healthcare Council, other entities, and put yourself in a position to be able to say, "Look, we know you didn't like this particular decision, but we have these ideas. And what it will take is these four steps to make something like this happen," and get engaged with us in a process of providing to the greatest extent possible, whether it's an

acute care hospital or not, some level of healthcare service that is responsive to the needs of the people in the East Falls and North Philadelphia and broader communities. That's what I have to ask you and call on you to do that through the resources that you have available to you.

MR. SCHAENGOLD: I appreciate that. And, in fact, I will tell you that we have begun reaching out. I've met with the leadership of the Chamber. I've made it known to the community that Tenet does want to be part of the process of trying to identify what is the appropriate manner in which to provide a healthcare safety net in this community. We will reach out, as per your suggestion, and we are prepared to work with others to try to figure out how best do we all provide an accessible and affordable healthcare system here in Philadelphia.

COUNCILMAN NUTTER: All right. I'd appreciate that. I mean, you've put a date out. I don't know what's going to happen with that date one way or the other, but it's a

time pressure situation. And I think what we need to hear and then certainly see by action is the company believes that there is a sense of urgency about dealing with this particular situation and not just let it happen and then what happens after that just kind of happens. I truly believe that if you walk away from this situation and just put up the boards and make sure that the facility is secure in some way, shape, or form, it will have a detrimental effect on the company and its reputation here in Philadelphia. And I think it just increases the burden that those responsible for operating those hospitals and yourself as the senior person here in Philadelphia will have to carry. So I'm just suggesting that to you.

MR. SCHAENGOLD: Thank you.

COUNCILMAN NUTTER: Mr. Chairman, unless there are any other questions for the moment, I'd like to have Drexel University.

COUNCILMAN GOODE: Thank you, gentlemen. We had intended to call you third. So right now we'll ask if Dr. Klasko or Mr.

Archibald is present? If so, if they will please approach the witness table.

And for the record, let me add that we've been joined by Representative Kathy Manderino and Representative James Roebuck and Councilwoman Blondell Reynolds Brown, a member of the Committee.

Good afternoon, gentlemen. Would you please identify yourselves for the record and start with some abbreviated testimony, if possible.

MR. ARCHIBALD: I'm Jim Archibald, the Senior Vice President for Health Services at Drexel College of Medicine.

DR. KLASKO: My name is Steve Klasko, I'm the Dean of Drexel University College of Medicine, and I'm a practicing OB/GYN in the East Falls community associated with MCP.

COUNCILMAN GOODE: Please proceed with your testimony.

DR. KLASKO: I actually was asked to become Vice Dean for the MCP campus in October of 2001. And it would be worth giving a

little bit of background in that, obviously, after the Allegheny situation, there were two campuses, and throughout the history of MCP and Hahnemann since the merger there have been either more or less Chairs and activity at one campus or the other.

In October of 2001, there was a feeling that the balance had shifted toward Hahnemann. As the No. 2 person in the university and as someone who had dedicated his career to women's healthy, I volunteered to go over and become the Vice Dean of MCP.

COUNCILMAN NUTTER: Mr. Klasko, I'm sorry. I apologize for interrupting, but sometimes it happens. I didn't completely understand the comment that you just made about the balance shifting to Hahnemann. What does that mean? What are you talking about?

DR. KLASKO: At one point in time when Allegheny was there, almost all the Chairs were at MCP.

COUNCILMAN NUTTER: Chairs of departments?

DR. KLASKO: Yes. So it's a

two-campus system. So at one period of time, a Chair of a department is either going to exist at MCP or at Hahnemann. So in 2001, it was felt just the way that things had worked out, there were more administrative resources at Hahnemann than MCP. So in 2002, I went over and brought over a team to have the first Dean's Office at MCP. So this was the first time there was actually a Dean at the MCP campus.

We proceeded to work toward differentiating that campus. And, Mr. Nutter, I think you've seen some of the materials around that. The goal was to make certain things take the traditional strengths of MCP, women's health, trauma, emergency medicine, and differentiate some services, predominately around neuroscience, predominately around diabetes, predominately around minimal invasive surgery. So that the goal was that for the first time, the MCP campus would have services that didn't exist at the other campus instead of them just being duplicative.

In many ways, that was very

successful. We created the largest robotics program in the City at MCP. It still exists there. We recruited someone from Jefferson to come over and run that. Tenet supplied the minimally invasive surgery rooms and the robot to make that happen.

COUNCILMAN NUTTER: When was that?

MR. KLASKO: That was in the 2002 time frame.

We developed the technologically most advance neurosurgery system that was culminated, obviously, with the bringing in of the gamma knife. But it's not just the gamma knife. We have what we call an intra-operative MRI, probably the most advanced system for bringing in those kinds of brain cancer cases. We developed the neurosurgery practice network that was literally geared toward MCP but that brought in patients from Chestnut Hill Hospital and others. And then we brought in the university's only endocrinology team since Allegheny and created a diabetes center at MCP.

So literally, the goal was to take the traditional strengths that existed at MCP, women's health, emergency medicine, trauma, and it had these differentiated services. The university invested significant amounts of resources, including the outpatient space in that site that, by the way, those projects are still going on, or were still going on as of the time of the announcement. There was almost a million dollars committed from the university in capital expense in improvements literally toward the end of 2003 of which some of that was literally going on as we were told that MCP was closing.

So the university was incredibly committed, and I am and was personally committed to growing MCP as a very important part of the Drexel campus.

When I got asked to become Dean in July, I came there, frankly, with a very MCP-centric mindset.

COUNCILMAN NUTTER: July of?

DR. KLASKO: July of this year, July of 2004 -- 2003, I'm sorry.

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN NUTTER: What happened in 2001? I thought you said --

DR. KLASKO: In October of 2001, we decided to bring a Dean's Office over at MCP. I started in January of 2002.

In February of 2002, we put out a plan for growing the academic, research, and clinical missions at MCP, and we started to enact that plan. In the cases I brought up between 2002 and 2003, those two years, they were indeed successful. We were successful in securing the funding to get the minimally invasive surgery suites and the robot. We brought in the faculty. We brought in new neurosurgery faculty. We brought in new internal medicine faculty. We brought in new family practice faculty. And we basically set out a business plan in 2002 to move the academic research and clinical missions of the university forward and make MCP a more vibrant campus.

I think from that perspective, I think we were actually very successful. We took the Henry Avenue Medical Practice which

had been owned by Tenet -- Tenet had a physician service. Tenet decided to divest itself of its physicians. The Henry Avenue practice which was associated with MCP was about to go to another system, and we took them over as full-time faculty and that injected some more primary care into MCP.

So, again, from a teaching point of view, from a clinical point of view, from a number of cases done point of view, from the way that our residents were taught point of view, we felt that we were moving along very successfully in that area. Obviously, there were some challenges and there was some significant hospital challenges.

COUNCILMAN NUTTER: Let me stop you right there for a second. I have to say that -- and, I mean, I think week to week, at least, my memory is fairly decent. What I remember hearing last week, at least, from Tenet and Mr. Schaengold was that in the course of the past year or so the hospital has been almost falling apart, services leaving, this going, that going, the other things

going, doctors fleeing the place in droves. This week I'm hearing a story that sounds like the place is busting at the seams because there's so much going on.

I mean, I haven't even started trying to be funny. I'm having trouble --

DR. KLASKO: I will tell you that the overall influx of Drexel physicians was greater than the outflux. I think that Mr. Schaengold was responding to some specific concerns that were, as I recall the testimony last week, some specific concerns that were raised by one of his employees around some specific services. And what he said was that physicians coming and leaving are not something that the hospital has any control over and that in some specific areas physicians decided to leave. That's what I heard him say.

I will, again, tell you that there was an overall influx of Drexel University physicians into MCP between the years 2002 through 2003 up to the current time, or at least up until the announcement. And I'll be

happy to share that.

COUNCILMAN NUTTER: Well, if that were the case -- and at the moment I'm not disputing you -- how does that square with the threat, at least at the time, that trauma services, for instance, at MCP and possibly at Hahnemann, I believe, in the late -- or I'm sorry, early summer I think is my recollection of 2003, I was faced with the prospect that the trauma center at MCP was going to close. That's my recollection.

DR. KLASKO: That was a decision made by Tenet. The university has basically been very consistent in saying to run from the university's perspective -- and I just want to sort of make this clear. I know you know this, but we are a clinical, research, and academic mission that does not own a hospital. From those three missions, running a group of physicians, having two trauma centers seven miles apart --

COUNCILMAN NUTTER: Right. And their story is they run acute care hospitals and they're not in charge of the doctors; that

you are. You can't run a trauma center if you don't have doctors.

MR. KLASKO: What we have been consistent with is that running two trauma centers seven miles apart was inefficient. It could be done. It was inefficient. It would require increased capital. We had been on record as saying we would like to have one and actually would have preferred that one to be at MCP. That was the university's position. As it turns out, we had two. And we had two throughout 2002. At the point that they stopped trauma services at Hahnemann, then we literally only did have one and that was at MCP. And then when the nurses' strike happened, they stopped trauma services at MCP. So that's the chronology. The reality is the university has been consistent that the most efficient way to run a trauma service is to have one Level 1 for the university, and our preference at the time was to do that at MCP. And that's truly what was happening up until the nurses' strike when the hospital decided to close trauma at MCP also.

COUNCILMAN GOODE: Dr. Klasko, do you have written testimony?

DR. KLASKO: No.

COUNCILMAN GOODE: What is the purpose of your testimony today?

DR. KLASKO: I'm here to answer any questions that you have.

COUNCILMAN GOODE: Thank you.

Please proceed, Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Mr. Chairman.

Your last statement was that with regard the proposed closure last year of trauma services at MCP, that was a Tenet decision. My recollection of any the meetings or discussions I had was that Tenet did not want to close trauma services at MCP. And as a matter of fact, they were faced with the prospect of, one, no doctors to run the service and, two, a request, if not a demand, by the medical school for additional payments to keep trauma services at MCP.

So those are the conversations and discussions that I participated in, and it was

solely focused around a proposed closure of trauma services at MCP.

Subsequently, my colleague who just joined us here at the table, Councilman Clarke, was then faced with the proposed closure of trauma services at Hahnemann at the same time that I was being told that trauma services were going to then stay open at MCP, and the story had just shifted down the street to my colleague. And quite honestly, I think what happened is someone didn't think that Councilman Clarke and I would ever have a conversation about this because one was being played off of the another.

We finally did have a joint meeting to try to get it straightened out. Again, at the same time that the medical school or Drexel was in the middle of trying to get us to approve a major financing for the school, which is ultimately -- at least from my perspective, Councilman can certainly speak for himself -- is what got us to the bottom of the issue with regard to the trauma center. And quite frankly, I don't believe that but

for the prospect of not having the financing, one or both those of trauma services possibly would have been closed. So there's been a whole lot of information floating around in this ping pong of who's responsible for what, part of which is why -- there are many reasons why, but one of the reasons why we're here today is to try to get a straight answer on this stuff, because the one group says, "Well, we just own the hospitals, we don't control the docs."

Then we're hearing, "Well, we don't run the hospitals, we only deal with the doctors. And whatever they do at the hospital, that's kind of their business and the stuff just rolls down on us."

Now, you're only going to be able to spin us in so many circles after a while. At least for myself, even I get it after a while. It may take me a little while, but I'll get there.

So what is the story? How does this work?

Before you get to that, though, I

need to kind of go back to the start of this. When did you learn of the proposed closure of MCP?

DR. KLASKO: About 12 hours or so before it was in the newspaper. The day before.

COUNCILMAN NUTTER: Give me a time frame.

MR. KLASKO: December 17th, I think. Whatever that date was that it was in the newspaper in the morning, it was the day before.

COUNCILMAN NUTTER: And you had no previous information or no indication that this might be going on all the while that you're building up services, sending docs, doing robots, gamma knife, all the other activities going on? You're just happy as a clam?

DR. KLASKO: Not happy as a clam. We knew that the hospital was having some financial issues. I'm a member of the hospital's Board, and what we were doing was trying to do everything we could to increase

the volume so that those financial troubles would go away. Those financial problems had not existed until just several months prior to the time of the closure. In FY '03, it had been a relatively stable financial situation, that is Mr. Schaengold has testified. After some of the outlier changes and that kind of thing, the hospital's financial picture went down significantly and we were doing what we can do --

COUNCILMAN GOODE: Dr. Klasko, in what capacity were you informed, and who were you informed by in terms of the closure?

DR. KLASKO: I was informed by Mr. Schaengold with Mr. Archibald in a weekly meeting that we normally have on Wednesdays. And as part of that weekly meeting, he started off by saying -- obviously a good part of our weekly meetings were about MCP, and he notified us that they would be announcing next day a closure plan for MCP.

COUNCILMAN GOODE: The first question -- I'm not sure you answered it -- was, in what capacity were you informed?

DR. KLASKO: I was the Dean and he was the head of Pennsylvania region for Tenet.

COUNCILMAN GOODE: So did you have to be informed as the Dean?

DR. KLASKO: Did I have to be informed the day before?

COUNCILMAN GOODE: Yes.

DR. KLASKO: I guess not. I guess I could have read about it in the newspaper.

COUNCILMAN GOODE: Several other people here did. I just want to ask a question in what capacity?

DR. KLASKO: I think we were meeting and talking about MCP issues. They were on the agenda. And Mr. Schaengold made it clear that he has some significant SEC regulations, but instead of sitting there and talking about what we were going to do to build MCP -- because while this might sound strange to you, I just had a faculty meeting two nights before about what we were going to do to help build volume at MCP. So Mr. Schaengold said, "Instead of talking about these issues, I need to inform you of this."

COUNCILMAN GOODE: Notwithstanding all that -- I don't mean to interrupt, but we want to make this as effective as it can be.

With regard to those SEC restrictions, with regard to any other restrictions that were applied to the situation, who could and could not be informed, in the context of what Councilman Nutter was asking you earlier about the relationship in trying to find out how this thing really works between Tenet and Drexel, I'm asking, why you were informed 12 hours before it became public, why you were part of that informal meeting?

DR. KLASKO: Part of a formal meeting.

COUNCILMAN GOODE: Why do you think you were informed in an informal capacity at a formal meeting, weekly meeting, whatever it was?

The purpose of meeting was not to discuss closing of MCP, is that correct?

DR. KLASKO: A good part of the agenda was to talk about what we were going to

do about MCP. My answer is, I believe as a courtesy Mr. Schaengold asked us, "I need you to keep this confidential. We're under significant SEC regulations. It's not useful to spend an hour talking about MCP issues because tomorrow at some point" --

COUNCILMAN GOODE: He was not legally informing you?

DR. KLASKO: Right.

COUNCILMAN GOODE: Do you know if it was legal for him to inform you?

DR. KLASKO: I don't know.

COUNCILMAN GOODE: Thank you, Councilman Nutter.

The Chair recognizes Councilwoman Blondell Reynolds Brown.

COUNCILWOMAN BROWN: Good afternoon, gentlemen. A clarification question: Which Board are you a member of?

MR. KLASKO: I'm a member of the MCP Hospital Board, ex officio as the Dean of the medical school.

COUNCILWOMAN BROWN: And as a member of the Board, you were given 24 hours notice

of the closing of the hospital?

DR. KLASKO: No. I believe the Board was notified the morning that it was in the newspaper. I didn't go to that meeting, but I think there was a 7:00 a.m. meeting for the Board that I wasn't able to attend on that Thursday morning.

And, again, just to make it clear, we were notified the afternoon or whatever before.

COUNCILWOMAN BROWN: Help me remember. The ultimate decision then was made where and by whom? If it was not the Board that you sit on or the leadership of the Board you sit on --

DR. KLASKO: We weren't part of any decision-making. I think that's been clear. Both as a Board member as the Dean of the medical school, both of those were, "This is some information. We are going to announce that we are closing or we are announcing the closure of MCP Hospital." It was not a discussion. We were never part of the decision-making of the decision to close.

That was clearly outside of our purview, both as a Board member and as the Dean of Drexel.

COUNCILWOMAN BROWN: So in your view, the decision to close the hospital was made by whom and where?

DR. KLASKO: Well, the decision was clearly made by Tenet. I mean, that's not in my view, the decision was made by Tenet. My understanding, both from talking to Mr. Schaengold and listening to his testimony, is that decision was made in a meeting in December in someplace other than Philadelphia. I forget what he said, Dallas or Atlanta or whatever.

COUNCILWOMAN BROWN: So as a layperson what appears to be a very unusual configuration of the relationships between these institutions, let's fast forward this. What is the ultimate impact, negative and/or positive, favorable or unfavorable, to Drexel University?

DR. KLASKO: Well, it's a huge negative impact. I mean, it's 153-year-old organization which houses our Institute of

Women's Health, it houses 130-some faculty, it was one of our primary clinical sites, it is part of the heart and soul of what has become Drexel University of College of Medicine. And that's why we fought so hard to try to create programs -- recognizing the financial reality, try to create programs that would allow that hospital to prosper in the post-outlier era.

I mean, I spent half my time talking to alumni and alumnae who literally cry. I gave a talk for the New York OB/GYN Society three days ago, and there were five people there. It's a big part of the fabric of women's health in this country, the history is, and my career has been women's health.

So if you ask me what's the negative impact, it's got a large negative impact to Drexel and to the women's health community and the hospital community and to the university community.

COUNCILWOMAN BROWN: And what's the potential favorable impact, if any, given, again, this what appears to me a very unusual configuration of relationships that I'm still

trying to follow?

DR. KLASKO: I can't think of any favorable impact of losing one of our primary campuses and losing 240 residency slots in the middle of a recruitment year and having to move students out. I'm not sure what you're trying to get at, but there's nothing positive. As a dean, I have to project to my faculty, students, residents, and staff that we will move on and we will have a bright future. And we will move on and we will have a bright future, but there's absolutely nothing positive about losing one of your main campuses with not a whole lot of notice.

COUNCILWOMAN BROWN: Thank you for your testimony.

Thank you, Mr. Chairman.

COUNCILMAN GOODE: Let me note for the record that Councilman Juan Ramos and Councilman Darrell Clarke, members of the Committee are in attendance, as well as State Senator Vincent Hughes.

The Chair recognizes State Representative Manderino.

REPRESENTATIVE MANDERINO: Thank you, Mr. Chairman. And thank you, gentlemen, for being here.

Dr. Klasko, I want to ask this question in your capacity on the Board of Governors. And I preface it by saying I think it may be a more appropriate question for Tenet and Mr. Schaengold. And he was dismissed before I got to ask it, but I don't want to miss the opportunity if I then find I was at the right church but in the wrong pew in terms of who understood and knew what.

But you did mention in your capacity of the Board of Governors you were having weekly meetings about what to do about MCP, how to improve it --

DR. KLASKO: No, I'm sorry. What I said is Mr. Archibald and Mr. Schaengold and I have weekly meetings around common interests of the university and Tenet, not in my role as Board of Governors; in my role as Dean. And obviously, one of those weekly issue were programs around MCP, just like there were also programs at Hahnemann. So it had nothing to

do with the Board of Governors.

REPRESENTATIVE MANDERINO: Okay. With regard to the programs around MCP, do you have any information -- if not, I'll just wait. I understand that you deal with staffing of physicians. Was all other staffing of how the hospital is staffed done by Tenet?

DR. KLASKO: How the -- the only staff that we were responsible for were the staff around the doctors' offices and that kind of thing, and some of those people worked at MCP. So that's the answer. But as far as staffing for any of the hospital-related functions, that was all done by Tenet.

REPRESENTATIVE MANDERINO: So if I want to know about the staffing or lack thereof of a social work department, for example, that would go after signing folks up for medical assistance so there wasn't such a large bill for uninsured and uncompensated care, that would be a question you would not know about?

DR. KLASKO: That would be a hundred

percent the hospital.

REPRESENTATIVE MANDERINO: You did say that you practiced at MCP, did I hear that correctly?

DR. KLASKO: Yes.

REPRESENTATIVE MANDERINO: Since when? Give me the front date, the front-end date.

DR. KLASKO: I came to the university in June of 2000 to run the clinical practice group. And at the time I came, I was practicing more. And since I've become Dean, I'm practicing less. But I started out practicing -- I chose -- because I had actually done some work with MCP in my women's health role, I chose to practice at MCP and practiced at the Center for Women's Health with Katherine Sharif (ph). Later on I moved over to the Manayunk practice but still did whatever few cases I had over at MCP Hospital.

REPRESENTATIVE MANDERINO: So you were not part of the hospital staff prior to 2000?

DR. KLASKO: No, I was at a

different system.

REPRESENTATIVE MANDERINO: Then I will save my questions with regard to the social work department, et cetera, for Tenet.

I just want to ask one follow-up question that, again, I either didn't hear right or didn't understand your clarification to Councilman Nutter when he was trying to kind of figure out about -- I think this was Councilman Nutter -- about the trauma center. But I had written down Drexel preferred trauma centers at MCP and they ended up at Hahnemann because of the strike or something around the strike. Could you walk me through that in a little bit more detail as to how you want a trauma center at MCP but how it ended up at Hahnemann and what impact the strike had or what impact other factors had?

DR. KLASKO: Sure. Over the period probably beginning in mid-2002, we were having increased difficulty recruiting trauma surgeons. And that's a Philadelphia and State problem, as you well know. And it's due to decreased reimbursement, increased

malpractice. The issue for us, because we had two trauma centers seven miles apart, we have to have twice as many surgeons, twice as many of everything, with really the total number of patients that were actually seen were probably what would be one busy trauma service. The issue became somewhat of a crisis as we were losing people, physicians, and having a very difficult time recruiting and we were having to bring other physicians. We had been pretty consistent about saying that from the university's point of view, in order to provide a great Level 1 quality clinical and educational experience, we should probably concentrate those needs at one trauma center. I had lobbied for about a year and a half that that trauma center be at MCP.

What we finally got to was that the university would support a trauma center at MCP and that Hahnemann was absolutely free to also have a trauma center but that that wouldn't be necessarily university employees. And in essence, that is what's happened with Hahnemann's trauma center.

At about that same time that we finally came up with a solution that made since, the nurses' strike began. And Tenet made the decision that based on the nurses' strike that they would not be able to keep the Level 1 trauma center open. So the end result of this was that for that period of time, there were no trauma centers open.

We continued to employ trauma surgeons at MCP that just weren't basically doing trauma. In fact, at one period of time, the only trauma surgeons that we had were MCP trauma surgeons.

I hope that gives you sort of the time frame. The university basically realized that for the number of trauma surgeons they were able to attract to this area, they could only be responsible for one trauma unit. And we had made the choice, our chairs and myself, that it would be MCP. Tenet recognized that they needed a trauma unit at Hahnemann and proceeded to go and create a trauma service that was not universally run.

REPRESENTATIVE MANDERINO: Again, if

I understood the prior testimony, a trauma center is often the intake area for the need for other highly specialized functions within a hospital, whether it's neurosurgery or other kinds of surgery, et cetera. And, again, either I'm not following the time frame or it just seems inconsistent, because the testimony I remembered from last week was that those more highly specialized and more likely income producing functions were already being systematically shifted from MCP to Hahnemann in a two-year time frame prior to the strike and the announced closing.

DR. KLASKO: And I think that testimony was patently incorrect, and I'd be happy to share with the Committee some of the numbers. We created a plan in 2002 to grow neurosurgery, to grow minimally invasive surgery, to grow diabetes and to grow our current strengths like women's health and emergency medicine.

Neurosurgery volumes went up significantly. Minimally invasive surgery volumes went up significantly. We formed the

largest robotics program in the City. We started a neurosurgery practice network with three different hospitals, including Chestnut Hill and Montgomery, that funneled all their neurosurgic cases into MCP. In fact, the university's entire neurosurgery service, as far as brain cancer and spine, were at MCP. We brought in probably one of the most visible doctors in the City named Dr. Fred Simeone who we recruited to leave Jefferson, I recruited to come to MCP, not to come Hahnemann, to come to MCP. And that was in the 2002-2003 time frame. We recruited the leading minimally invasive surgery doctor in this City to come to MCP, not to come to Hahnemann, to come to MCP. We literally moved from having in 2001 almost no services in the university that were differentiated at MCP, in order words, that weren't duplicated at Hahnemann to having three or four services, that literally the core of the service was at MCP.

It actually created a much bigger problem for us when Tenet announced the closure because now I don't know what I'm

going to do with my robotics program, I don't know what I'm going to do with Dr. Simeone, I don't know what I'm going to do with some of these networks. We have plans and we will move all those people, but the very fact that it's so complicated for us is because we created all these high volume differentiated services at MCP.

REPRESENTATIVE MANDERINO: But of the three differentiated services that you mentioned, to me, neurosurgery, minimally invasive surgery, women's health, diabetes, my layman's mind says minimally invasive surgery, women's health and diabetes are non-trauma related entities, rather boutique services, which I'm not disputing and I appreciate your point that they may have been factors that would have brought money into the hospital in terms of in the plus column instead of the negative column. At this point, I was asking the question only with regard to your pronouncement there was every intent to make the only trauma center at MCP. And then the other surgical and entities that were kind of

like what I, at least in my layman's mind, understood to be what you need in the hospital to deal with the people who come in through the trauma center, that was the stuff that was disappearing?

DR. KLASKO: I started my testimony by saying we did those things as an add-on to the traditional services. The reality is that 60 percent of the admissions that we had to MCP for Drexel University physicians was through the emergency room. We did a great job on that. The problem with that, and there's been plenty of testimony of that, that those admissions were predominately low reimbursement, under-served patients that neither the hospital nor we could even come close to breaking even. So the goal was to take those traditional things that we always did well -- we didn't stop doing them. The things we always did well like surgery and trauma and internal medicine and pulmonary and infectious disease where we have great programs, and then add some -- I'm not sure I'd call women's health boutique -- but add

some differentiated services that would bring some different kinds of patients into the hospital that might be able to allow us to care for that community and that under-served community with the current rules we existed in and then bring some different payer mix to try to basically balance that out. And from the university's perspective, that was beginning to be successful.

REPRESENTATIVE MANDERINO: One of the reasons I started off asking about a social work department -- and I was going to let it go, but you just brought it back around with the last comment, which I have heard many times from Tenet and now from you, with regard to what paid well or what paid at all. And the whole time I just couldn't help comparing a hospital system, for example, like Temple. And I keep hearing what a devastatingly poor community East Falls is. And I know East Falls, and it's a very mixed income, from very high to very low, community. And the demographics of the East Falls community has to be better off than the demographics of the

Temple Hospital community. But what I do know that is different -- and Mr. Schaengold said last week, Well, Philadelphia used to have a county general type hospital, and I know they have those in other states. And that's not for better or for worse how we do uncompensated care in Pennsylvania, make one county hospital that everybody with no insurance goes to. And if it was my ideal world, we wouldn't need a county general anyway because nobody would we uninsured. But we are where we are with the system we have, and the way Pennsylvania deals with that system is they have a very generous, more than most other states, medical assistance program in which people can spend down, hospitals can get people qualified and hospitals can get their bills paid. And one of the reasons that Temple, despite the demographics of where they live -- and I know they're struggling like every other hospital, but they're not announcing their closure and they have a very aggressive social work department that makes sure they get people signed up and goes after

the money and gets medical assistance to provide the reimbursements. And at least from what I'm understanding, MCP didn't do that. I don't know if they did that before Tenet. I don't know if they did that with AHERF. I don't know if they did that before AHERF. But I'm told that they didn't do it as a Tenet MCP facility. And so all of this stuff about all the money MCP was losing to make us believe that no one else could have made that a going concern rings sour to me.

(Applause.)

COUNCILMAN GOODE: The Chair recognizes Representative Roebuck.

REPRESENTATIVE ROEBUCK: Thank you, Mr. Chairman.

I wanted to get some clarity on the testimony about duplicate services. You talked about trauma. Could you give me an idea of all of the duplicate services that were eliminated at MCP or shifted to Hahnemann?

DR. KLASKO: There actually were no services that were eliminated at MCP that I

know of and moved to Hahnemann. There were services like neurosurgery, which was the other way, where we decided to put them at MCP. In almost every other situation, we had parallel services at Hahnemann and MCP.

Now, in reality, in certain areas they were stronger at Hahnemann, in certain areas they were at stronger MCP. But in every area that I can think of, we had physicians, residents, and students at both campuses.

It's a difficult way to run a medical school, but it was one of the things that differentiated us, and we're a very large medical school. So it worked.

REPRESENTATIVE ROEBUCK: So the testimony that was given previously, I believe, at the last session which suggested that things like orthopedics and pathology were moved out of MCP is not true?

DR. KLASKO: That is not true. We can talk about each of those. Orthopedics is a situation where a doctor left and went to a different system. We brought in another physician to basically do the orthopedics;

that physician left. And at the time -- literally at the time from June to December of 2003, we were negotiating with a few large orthopedic groups to come over to MCP. We were still doing orthopedics at MCP. I'll be happy to share the statistics of the number of the admissions that we had in orthopedics in 2002 and 2003, but clearly orthopedics was one of those specialties where we were not successful at MCP. There was no systematic decision to not be successful, we just weren't successful.

I can tell you that between June and December of 2003, I had several meetings with large orthopedic groups about coming to MCP and trying to work out a deal where they would leave where they were and come to MCP, just like I did with Dr. Simeone and just like I did with Dr. Curcillo. I was not as successful, frankly, yet -- and I think I might have been. But I was not as successful with orthopedics as I was with surgery or neurosurgery.

REPRESENTATIVE ROEBUCK: Are you

telling me that someone left and you got someone to replace them?

DR. KLASKO: Yes. And then that person left. That person also left. And by the end of 2003, we were down to a very core group of orthopedists, but we were still able to see orthopedic patients in the emergency room. We were still able to take care of orthopedic patients. It was -- I mean, of all the things that we can talk about, orthopedics was the one thing that was the least doing well at MCP. There was nothing systematic about it. It was something that I actually view as my failure of not being able to get a better orthopedic group yet into MCP. But that was something that we were spending a good deal of time -- I was spending a good deal of time trying to get somebody to come in and come to MCP.

REPRESENTATIVE ROEBUCK: And the same is true of pathology, the same is true of OB/GYN? None of those services disappeared, they were all still intact operating at the same level they had been all along?

DR. KLASKO: OB/GYN, I think there was some testimony last time. Obstetrics got moved out of MCP in 1996 so that Allegheny could build the Women's Health Hospital on City Avenue. I remember that just from being an OB/GYN. That was a very big thing.

When I got here in 2000, there were almost no OB/GYN services at MCP. I actually set up my practice at the Center for Women's Health at MCP. We recruited someone from Methodist Hospital to come and be the Chief of GYN at MCP Hospital. It was very difficult for that individual because there's not any obstetrics there. And I don't want to get into all the mechanics, but it's very difficult to run a practice of OB/GYN where you're doing GYN in one place and obstetrics in another place. So we brought this person in. The university gave this person significant support. He did not make it and moved over, I believe, to one of the other hospitals.

Then we brought a young woman in who is still currently at the Manayunk office.

But the reality is that gynecology was not one of the things that was very busy at MCP. That's true.

Now, the Center for Women's Health, there is predominately an internal medicine run center for women's health. The person that runs it, Katherine Sharif, who I appointed as the Director for the Center of Women's Health, literally runs that from a very internal medicine model. That's what she believes in. But GYN is something that I also would have liked to have more of, and we're trying to work out something with some of folks at Chestnut Hill Hospital, we're trying to do something between MCP and Roxborough. Again, all these things were happening in 2003.

In any physician group in any university at any time, there are things that are moving in, there are things that are moving out. There are four medical schools here in a real short span of blocks, and at any period of time, I'm talking to people from Jefferson, Temple, and Penn. And I find out

that my faculty are talking to Jefferson, Temple, and Penn and as well as leaving the State and all of those kinds of things. So the reality is that, yes, we were inconsistently successful in being able to attract all specialties to MCP. I mean, that's probably the most objective way of putting it. But we continued up until the end of 2003 to be trying to bring those specialties.

REPRESENTATIVE ROEBUCK: Just a final observation, there is a distinction in my mind between physicians talking to Penn or Jefferson or Temple and doctors shifting from MCP to Hahnemann. That seems to be, to me, a very clear distinction in that.

If you're talking about all these doctors having gone someplace else, then that's one thing. But if you're talking about a merely shifting to another hospital within the same system, that's something different.

DR. KLASKO: And I will be happy to get to the Committee sort of a summary of the influx or efflux of doctors. I dispute the

fact that there was an ongoing shift from MCP to Hahnemann. Did some people go from MCP to Hahnemann? Yes, they did. The example that I've given in the testimony about cardiology is a perfect example. Our primary cardiology group was and is at MCP. The reality is the numbers that went down at MCP were because of one private cardiologist that had nothing to do with Drexel or Tenet who chose to stop, basically stop sending his patients to MCP, started sending his patients to Hahnemann. Since that time, he has stopped sending his patients to Hahnemann. And if you look at this person's history, every year and a half, he sends his patients someplace else.

Welcome to medicine in Philadelphia. That is what it is. But no cardiologist left us. And it was bad for us because our cardiologists were seeing less patients and it wasn't a good thing and we were in the process of trying to get new referrals through Roxborough and other ways into MCP.

REPRESENTATIVE ROEBUCK: Thank you.

COUNCILMAN GOODE: Thank you,

Representative.

You could please forward that information, Doctor, to the Committee through the Chair.

And the Chair recognizes Senator Hughes.

SENATOR HUGHES: Thank you, Mr. Chairman.

Dr. Klasko, I'm learning a lot about how you were trying to make things come together here, and I think a lot of us are learning about how all of this plays itself out, not just at MCP and Hahnemann, but in the larger healthcare reality here in the City. And part of my questioning goes to the larger issues. I have a gut feeling that we're dealing, if you will, an iceberg here and there's a little bit on the top but the monster in this iceberg is underneath the water here, and that relates to the larger situation. So I've got a couple questions, and I'll do my best to be brief.

What is Drexel University and the Drexel University College of Medicine prepared

to do to contribute to providing high quality healthcare for that community?

MR. ARCHIBALD: We're prepared to work with whoever ends up owning facility. If the facility is to be maintained as an acute hospital, we are prepared to work with whoever that body happens to be. But we're not in the hospital business.

SENATOR HUGHES: But hospitals are relevant to your College of Medicine.

MR. ARCHIBALD: Absolutely. And we prefer that somebody comes forward who's in the hospital business that wants to manage the hospital, and we'll respond to that when that occurs.

SENATOR HUGHES: What does all of this mean to the financial viability of the College of Medicine? What is your financial status right now?

MR. ARCHIBALD: With the closing of MCP over approximately an 18-month period of time, it will cost us approximately $35 million in lost revenue. When you lose 35 million in revenue, you have to downsize your

operation to the same level.

SENATOR HUGHES: What does that mean -- so I can understand the location and the geographics, you have the facility up on Queen Lane, right?

MR. ARCHIBALD: It has no effect at all on the Queen Lane facility. That's where we teach our students for the first two years of their education. And it may ultimately affect our ability to do some research up there, but it doesn't affect at all the Queen Lane facility.

SENATOR HUGHES: I heard someone say -- it may have been Mr. Stamatakis, it may not have been Mr. Stamatakis, but it may have and it could be through a couple different parties -- that there was a three-year commitment around the College of Medicine and the teaching facilities and all that other kind of stuff. And I may be slightly off here, so bear with me. But three years is about the length of time that it takes to send someone through the educational process, is that correct?

DR. KLASKO: Let just sort of give you the background for that. The first two years --

SENATOR HUGHES: So that means the students that would already be in there, they're there, but what does that mean for recreating new students to come in and all of that other kind of stuff?

DR. KLASKO: We take 250 medical students a year. That's thousand students.

SENATOR HUGHES: When do they make their commitment to come?

DR. KLASKO: They're making their commitment now for this coming summer.

SENATOR HUGHES: Are you seeing a drop in --

DR. KLASKO: We are not seeing a drop in applications and we're not seeing a drop in quality of applications.

Let me just sort of to get us all on the same level. The first two years are spent at Queen Lane, and they are basic science years. The third and fourth years are in essence an apprenticeship. It's learning the

clinical practice of medicine, and they have to be done at hospitals. You hardly need hospitals at all for the first two years of a medical student's career.

Of our students, their third and fourth year, only 45 percent of their experience is at Tenet hospitals, at MCP or Hahnemann. So 55 percent of our students go to other hospitals in Pennsylvania. That's one of the differentiating things about our medical school. That includes Allegheny General in Pittsburgh, that includes Easton Hospital, that includes York Hospital. There are lots of hospitals. Of those 45 percent that have their clinical experience at Hahnemann and MCP, about a third of those were at MCP. So that's the clinical student problem we have.

Now, the answer to what this means to us as far as recruiting is, that as long as we can find another place for them to do the clinical part of their apprenticeship that has the same kind of qualifications from an education point of view as MCP did, then we

can keep our student numbers where they were.

So our decision of exactly how many students that we will accept, what we're hoping to and planning to accept the same number of students that we had previously. But we will need to have other hospital partners to do that with.

SENATOR HUGHES: Help me with the understanding of the -- you said there was a $35 million hole or $35 million loss?

MR. ARCHIBALD: We currently on the clinical side at MCP, along with our reimbursement for teaching, recover approximately $35 million a year of our operation comes from that. If all of that goes away, I have to reduce my expenses by $35 million.

SENATOR HUGHES: And how would you do that?

MR. ARCHIBALD: Well, with the combination of laying some folks off, of reducing the size of the faculty. We're principally a labor intensive business, so I don't have a lot of other alternatives.

SENATOR HUGHES: Just so I can see the picture in my mind -- and I'm trying to work with you. Reducing the size of your staff, reducing the size, I think I heard you say that, where would those reductions occur?

MR. ARCHIBALD: I'm going to reduce the size of my faculty and I'm going to reduce the size of my administrative staff.

SENATOR HUGHES: And so that would occur at what location would they be reduced?

MR. ARCHIBALD: It would occur principally at MCP.

SENATOR HUGHES: Any place else?

DR. KLASKO: I guess --

SENATOR HUGHES: What I'm trying to get to is, at some point we're going to have to put a deal, City, State, Feds are going to have put a deal to support somebody else coming in and taking over. I need to know what Drexel University, if it's financially viable, what Drexel University's prepared to contribute to that. And obviously you don't know until we see what the deals is. But what are you prepared to help the folks in East

Falls and that surrounding area to have a strong viable -- you know, we spend a lot of dollars from the State over the last five, six, seven years to the institution to help this thing go. What are you prepared to give back?

DR. KLASKO: We're committed to taking care of the needs of that community. We are doing that as we speak.

I think it's important to know that we have not today moved hardly any people out of that site. We have neurology services, we have full internal medicine services. I mean, the hospital is obviously down significantly. And we have residents there that are literally sitting on their hands because there's not a whole lot to do. And if tomorrow, waving a magic wand, there's a hospital operator that chose to make that into a viable entity, nothing changes for us. We'd be happy to make that a campus if it had the right metrics to it.

So the reality for us is that we want to and are committed to care for that

community. And even if that hospital isn't there, we will continue to run our primary care practices in that area and work on some of the women's health issues and the other issues that have been strong for us in that area.

SENATOR HUGHES: My last question. It's probably more related to Mr. Schaengold and the whole Tenet situation, but I'll kind of lay it across the table.

With their precarious national financial situation -- I think we all know this. How does that impact from a larger perspective the ability -- I mean, this Committee is responsible commerce and economic vitality of the City and what-have-you and these strong paying jobs that come out of your industry at all ends. How does that relate to your capacity to do what you do?

I'm suspecting this is, as I said, the tip of iceberg here. I'm suspecting that not too far from now we'll hear about other closings. That's my suspicion. It may be gut, but it's borne out by a lot of data.

DR. KLASKO: From my perspective, I'm incredibly proud of what Drexel University College of Medicine has been able to do the in last five year. There are a lot of external barriers. There is the malpractice barrier. I think Tenet's financial situation is now another hurdle. So there are lots.

One good thing about this entity, it started with Hahnemann and MCP and then became Allegheny. One of the good things about this entity is it's been incredibly resilient as a university entity. And my commitment and Mr. Archibald's commitment is to make sure that the three missions that we are involved in, one of which is the clinical mission for the East Falls community, remains strong despite all those issues. I'm a dean. I can't sit and worry about whether or not Tenet's asset to debt ratio is good today. That's Mr. Schaengold's problem. But I do need to know that my students has a good hospital partner.

SENATOR HUGHES: It sounds like you need to spend more time on that, given how you found out about this.

DR. KLASKO: I do have a Wharton MBA, but I still can't worry about that. I have to make sure that given the cards that we're dealt with, we're taking care of our patients, we're doing research, and we're educating our students and residents and that I'm being a good dean to our faculty and staff.

And this has been incredibly, incredibly trying situation for us. I mean, we are clearly one of the victims here as far as whatever happened that ended up in the closure of MCP. We will move on and be strong.

SENATOR HUGHES: Thank you very much.

I would just say, Mr. Chairman, the larger issue here, and given the specific responsibility of this Committee, there is clearly a larger issue here with respect to the economic vitality of this City as it relates to this particular industry. The precariousness with Tenet situation, with how it relates to the healthcare reality in City

-- and I commend this Committee for continuing to do that. But I think we need to have more in addition to this, not necessarily more hearings at this point, but more conversation about this. I think we're at the tip of the iceberg here, and I think there's a lot more that's potentially coming down the line a couple years from now; if not, sooner than that. So I thank you for your attention.

COUNCILMAN GOODE: Thank you, Senator.

For the record, Dr. Klasko, you are forwarding to this Committee an accounting for resources that you had at MCP last year and the resources you have at MCP as of this date?

DR. KLASKO: Or as of the date that the closure was announced.

COUNCILMAN GOODE: Well, how about as of 2002 as of the announcement of the closure and as of the date of this hearing? Can that be done?

DR. KLASKO: Sure.

COUNCILMAN GOODE: Thank you.

Councilman Nutter, do you have

further questions of this panel?

COUNCILMAN NUTTER: Yes, I do. Thank you, Mr. Chairman.

Dr. Klasko, let's go back. You talked about all of the additional services that were starting up or being provided in the 2001, 2002, 2003 time frame, a trend that was clearly going upward. I took down a note you made mention of a business plan in 2002. Is this a business plan that you had developed?

DR. KLASKO: It was basically a business plan for the growth of services at MCP.

COUNCILMAN NUTTER: And did you share this with the Tenet management or the management of the Hospital?

DR. KLASKO: Yes, we did.

COUNCILMAN NUTTER: And who developed this business plan?

DR. KLASKO: Myself and my team.

COUNCILMAN NUTTER: This is in your capacity as dean of the medical school?

DR. KLASKO: At that time I was vice dean for the MCP campus. And The other thing that

the university did is it wasn't just bringing over a dean for the campus, it brought over four senior individuals and operations and business development to actually -- our core business development team actually existed at MCP, not at Hahnemann at that period of time in 2002.

COUNCILMAN NUTTER: And what did your business plan show in terms of these enhanced services and their anticipated impact on the operations and revenues of MCP?

DR. KLASKO: Well, you might not like this answer, but the reality is that what we do is we would evaluate that from the point of view of our mission and then hand that over to the hospital to see if it made sense for them to do. They would do an analysis of what it meant for their revenues and decide whether or not did they wanted to invest in that. So I didn't do the analysis of what it would mean for hospital revenues because I wasn't privy who how Tenet billed or calculated their hospital revenues.

COUNCILMAN NUTTER: Was the business

plan accepted?

DR. KLASKO: In many cases it was. And again, each one of these had different components to it. So the neurosurgery business plan was, the minimally invasive surgery plan was, the gynecology business plan was, the diabetes business plan was.

COUNCILMAN NUTTER: And when you say they were accepted and were they then followed?

DR. KLASKO: Yes. The investment was made and, as with any business plans, some of them were successful and some of them were not as successful due to some external factors that we hadn't predicted when we made the original business plan.

COUNCILMAN NUTTER: Like what?

DR. KLASKO: I think one example would be in gynecology. We brought in, again, a young physician, a gynecologist from South Philadelphia, who came up to MCP and he kept his office in South Philadelphia. And he had presented to us that he would be able to move those patients to MCP. The reality was that

he wasn't able to. So he was able to take care of the MCP patients that needed to be taken care of, but we weren't able to increase the volume as we had hoped by bringing new patients into the MCP system.

So that was one example where it was mildly successful, but from this person's perspective, his practice without being able to do obstetrics, was not going to be able to continue to be viable at the MCP campus without this new volume and without being able to do obstetrics.

COUNCILMAN NUTTER: Well, that person, whoever they are, can't be the only OB/GYN that might want to have patients come to MCP.

DR. KLASKO: That's true. And we were constantly recruiting OB/GYNs. As I said, we brought in a young woman who practiced. We had looked at a proposal to bring in a large group from the Chestnut Hill area bring that to MCP, and That particular proposal was not accepted.

COUNCILMAN NUTTER: Accepted by

whom?

DR. KLASKO: Tenet.

COUNCILMAN NUTTER: Why?

DR. KLASKO: I'm not sure. It just wasn't. I mean, we would give business plans -- again, what I want to say is that during that period of time from 2002 to 2003, almost every plan that we move forward with Tenet, they evaluated and they agreed to. I'd say about 70 or 80 percent of them, that was the case. The other 20 percent, they would say, "We don't think this makes sense for us." Didn't always have an answer.

COUNCILMAN GOODE: The Chair recognizes Councilman Rizzo.

COUNCILMAN RIZZO: You're telling me a decision was made to hire a physician that had a practice in South Philadelphia and someone believed, really, truly believed that they were going to be able to get people to come from South Philadelphia to the Northwest section of the City? That's really how that happened?

DR. KLASKO: Doctors believe that

their patients will do anything to see them. And this individual felt that was the case. We, frankly, had the same kind of skepticism that you did. But it gets back to the point that was made. We weren't going to leave any stone unturned. The reality is, for a year we had a really good gynecologist there. And if he was willing to take that chance, then that was fine.

COUNCILMAN RIZZO: But who actually made that decision?

DR. KLASKO: He did.

COUNCILMAN RIZZO: He isn't --

DR. KLASKO: He decided to --

COUNCILMAN RIZZO: But if any doctor just decides he wants to come and just set up shop at a hospital, I don't -- who actually said that this is a good idea at the hospital end?

DR. KLASKO: In 2002, we went out, I went out, my team went out and said the MCP campus is the happening campus. And We talked about how we would work with doctors to help them achieve their goals. And that got us

people like Dr. Simeone, Dr. Curcillo that got a lot of young physicians that aren't as visible as people like Dr. Simeone and Dr. Crissillo. We went out there and sold MCP. I don't know how else to put it. And We sold it in just about every area. This particular physician liked what we were doing, what Drexel was doing in OB-GYN, knew of me and said, "Hey, maybe I'll come out to MCP."

I had, "Well, you're in South Philly."

And he said "Let me start. I'll keep my office in South Philadelphia, and do cases at MCP." And many of his patients DID come, believe it or not, A lot of his patients.

COUNCILMAN RIZZO: Until they had the baby.

DR. KLASKO: We don't do obstetrics. He did obstetrics at Hahnemann and gynecology at MCP.

As an OB/GYN, I would not practice in a place where I had patients in labor in one place and surgery in the other place.

Somebody could call me and say "The baby is about to delivery," I'd have to get in a car and travel --

COUNCILMAN RIZZO: In an effort to keep this short, it seems to me -- no disrespect -- that was a bad decision on your part to think it would work.

DR. KLASKO: It wasn't a bad decision on our part. The physician wanted to come to MCP.

COUNCILMAN RIZZO: That doesn't make any sense to me. If you know something is not going to work, somebody should have said to them, "This isn't going to work. You're a great guy. Go some place else."

Thank you, Mr. Chairman.

COUNCILMAN GOODE: Councilman Nutter.

COUNCILMAN NUTTER: Dr. Klasko, you get approval from the doctor from South Philadelphia, but then you said that you couldn't get approval on the Chestnut Hill practice, which I think is a little closer. Why?

DR. KLASKO: Well, because every one of these --

COUNCILMAN NUTTER: Let me go back to Councilman Rizzo's question. Who made the decision to say no on the Chestnut Hill practice?

DR. KLASKO: On that one, the things that the doctors needed in order to make it work, Tenet could not do. Some of these are timing issues. At the same period of time that we were building new ORs and increasing neurosurgery and increasing minimally invasive surgery and we've made commitments to people, then you bring in another group that says, "I will come here if you promise me three rooms, three days a week." And it might be something like that where they said, "Right now, we can't promise you three rooms, three days a week."

For example, in the Dr. Simeone's case, when we negotiated with him, he said, "I'm going to bring a thousand cases and I will need X amount of rooms, X amount of days per week." We literally had to spend hundreds of hours to

make sure everybody else would be taken care of while we accommodated him. So for that period of time, if somebody else wanted to move their whole practice, it was difficult to do. That goes on every place, in every hospital in a period of growth.

COUNCILMAN NUTTER: Well, let's go back. You said you were informed about the decision the day before. Now, you laid out, and you tried to be as responsive as you could, that you submitted a business plan, you've hired people to work there, you're committed to MCP, you're the dean of the medical school. You're seemingly living, breathing, dying this place.

You responded to Councilman Goode by saying that as a part of a formal or informal meeting -- it sounds like a routine weekly meeting. And I guess maybe fortunately for you it happened to be on Wednesday. It sounds like if your routine meeting or weekly meeting was on Friday, you would have gotten the newspaper version of the announcement.

How is it possible that the dean of

the medical school has a business plan for the hospital -- you're on the Board of Governors of MCP, you make decisions or at least recommendations, some are accepted some are not, in terms of services and practices at the hospital. Your goal is to grow the hospital. How is it possible that you would only get a day's before notice, or not have other information available at your disposal, either as a member of the Board of Managers or in your capacity as dean to not know that this is imminent? How is that possible?

DR. KLASKO: The way that it had been presented to us is that the decision would be made external to Philadelphia and that literally up until very close to the time of the announcement, we were encouraged by, at least the signals we were getting from the CEO, that whoever makes the decisions was leaning toward investing in the hospital.

COUNCILMAN NUTTER: But going into this, you're under the impression that the hospital is not only going to stay open, but more investment is going to be made; that's

your testimony?

DR. KLASKO: As Mr. Schaengold said, there was a business plan put forward by the CEO of the hospital to invest significantly in the hospital.

COUNCILMAN NUTTER: What was your participation in the consultant study in the fall of last year?

DR. KLASKO: They interviewed me.

COUNCILMAN NUTTER: They interviewed you. How long was the interview?

DR. KLASKO: About an hour and a half.

COUNCILMAN NUTTER: Did they talk to anyone on your staff? You had an hour-and-a-half interview about the financial condition and proposed future of MCP hospital?

DR. KLASKO: Mr. Schaengold said that they were going to bring in an external consulting group to help determine what would be necessary to move MCP toward a more optimistic future. We made our entire staff and entire faculty open for those interviews. They asked to interview me for an hour and a

half. I was not part of the choosing of the group. I was not part of the discussions about the consulting arrangement. I actually never saw the actual report.

COUNCILMAN NUTTER: You've never seen the report?

DR. KLASKO: No. Not the final report.

COUNCILMAN NUTTER: Up to and including today you have not seen the report?

I'll be glad to give you a copy. I have a copy of the report.

What I'd like to ask you for, though, is actually an exchange of information. I'd like to have a copy of your business plan from 2002 and any other business plans that you've developed since 2002 for MCP.

What I don't understand -- and I guess I'm still somewhat perplexed -- you had an hour and a half with the consultant. You were informed that a decision would be made external to Philadelphia about the hospital. You're the dean of the medical school and

you're on the Board of Managers of MCP. What is the nature of the agreement between Tenet and Drexel, and what rights or responsibilities or input do you get to have over the hospital that you care a great deal about, that you have to send medical students to get their training and ensure that they have a place to go?

How many med students are up there, or were up there?

DR. KLASKO: At any given time about 45 or so.

COUNCILMAN NUTTER: 45 going through?

DR. KLASKO: MCP.

COUNCILMAN NUTTER: What is the nature of the agreement and who is responsible for what? And how can a facility be closed without your input or any amount of notice? How is that possible?

MR. ARCHIBALD: The affiliation agreement -- they operate the hospitals. There's a requirement --

COUNCILMAN NUTTER: You can't operate a hospital without any doctors, and

you've got the doctors.

MR. ARCHIBALD: Understood. There's a requirement, a notice requirement of approximately two years in the affiliation agreement. Obviously, they didn't keep that. They gave us a couple hours' notice. That agreement requires them, if they don't give us adequate notice, that they have to cover certain of the wind-down costs that we're going to incur because we did not get the notice in time.

COUNCILMAN NUTTER: Let's talk about that, because I think Senator Hughes was in that area and I'd like to go back to that area.

Now, you're saying that there are only 45 students up there? I thought there were many more than that.

DR. KLASKO: There are more than that that go through MCP throughout their career. The easiest way to look at it is for clerkships for third year, which is where the predominance of the clinical activity is, There are 250 students that need clerkships. That's,

you know, medicine, surgery, OB/GYN. Forty-five percent of them are at Tenet hospitals; Hahnemann, MCP.

COUNCILMAN NUTTER: What's the total number of clerkships?

DR. KLASKO: There are 250 students that need clerkships; 45 percent of them are at Tenet hospitals, so we're down to 60.

COUNCILMAN NUTTER: No --

DR. KLASKO: We're down to 125 or something. Of those 125, about a third or so at any one time are at MCP. So that's where I came up with that 45 number.

COUNCILMAN NUTTER: So let's talk about, you didn't get your two years' notice. Maybe you got about 12 hours. What happens to all these medical school students? What are the wind-down costs? Who pays for them and what happens to their education?

DR. KLASKO: I'll talk about the education piece and then Mr. Archibald can talk about the finances.

On the education piece, once it became clear -- and this actually became clear

once the hospital census went down as part of the nurses' strike -- that the educational quality for our students would not be up to the Drexel par, we started to move some of the students out to other hospitals in the State. We are currently looking at how we handle the post-July numbers. We have all students placed up through and including June 30th in other hospitals throughout the State. Other affiliates have come forward and said, "Gosh, we know you're in a crisis, Drexel. We used to take three students, now we'll take six."

COUNCILMAN NUTTER: Who covers the cost of the relocation of these students?

DR. KLASKO: Tenet does. We cover the cost and then Tenet reimburses us because of the two-year notice.

COUNCILMAN NUTTER: What's the dollar value of that?

MR. ARCHIBALD: We haven't determined what the dollar value of that is.

COUNCILMAN NUTTER: Ballpark. You made the relocations. You know where they are. You must have some idea of what the cost

is.

DR. KLASKO: Right now as of this moment, most of those folks from now through July have been able to be outplaced in other places that we have in the system.

COUNCILMAN NUTTER: What happens post-July?

DR. KLASKO: We don't know yet. That's what we're working on now.

The reality is, there might be housing costs. There might be food costs. There might be airplane costs for the students. And literally, that's part of that affiliation agreement.

COUNCILMAN NUTTER: What do you mean by, that's part of the affiliation agreement?

DR. KLASKO: If I have to send a student to California to do a rotation because MCP closed without giving me two years' notice, then whatever the direct cost to that student would be or to us would be covered.

COUNCILMAN NUTTER: By whom?

MR. ARCHIBALD: Tenet.

COUNCILMAN NUTTER: Tenet is going

to pay the cost of basically helping that student to finish their education, and if you have to send them, fly them around the country to do it, they're going to pay for it?

MR. ARCHIBALD: That's what the affiliation agreement calls for.

COUNCILMAN NUTTER: You made reference to some wind-down costs. What would you estimate these wind-down costs to be?

MR. ARCHIBALD: Wind-down costs through June 30th, '04, should be approximately $20 million.

COUNCILMAN NUTTER: So you'll take in $20 million of expense and then charge it back to Tenet --

MR. ARCHIBALD: Yes.

COUNCILMAN NUTTER: -- for the closure.

MR. ARCHIBALD: It's for salaries, fringes, and malpractice. That's what the agreement requires Tenet to pay us back, for salaries, fringes, and malpractice associated with the closure because they did not give us two years' notice.

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN NUTTER: That's through June 30th, 2004?

MR. ARCHIBALD: That's correct.

COUNCILMAN NUTTER: Is this on a fiscal year basis? Is it a two-year period from December 17th --

MR. ARCHIBALD: We have to honor all of our contractual agreements with our faculty and our staff. And that will obligate Tenet to honor whatever costs through June 30, '05, that we incur associated with individuals who are currently working at MCP. We are reimbursed for our direct salary, fringes, and malpractice. It's a reimbursement for cost because they did not give us due notice.

COUNCILMAN NUTTER: I understand that. The $20 million through June 30, 2004, is that primarily covering the period from December 18, 2003 through June 30, 2004?

MR. ARCHIBALD: Yes.

COUNCILMAN NUTTER: What would you estimate the cost to be from July 1, 2004 through June 30, 2005?

MR. ARCHIBALD: Hopefully, it's a

reimbursement for cost. When somebody decides to leave and get a job, when they get the job, it's no longer our cost. We don't get reimbursed for it. If nobody got a job through June 30th of '05, I would expect that to cost somewhere in the range of another $30 million.

COUNCILMAN NUTTER: So it's 30 on top of the 20?

MR. ARCHIBALD: Yes.

COUNCILMAN NUTTER: So you're in the neighborhood of about $50 million in wind-down costs as a result of a precipitous closure of the hospital and a violation of a two-year notice agreement?

MR. ARCHIBALD: Yes.

COUNCILMAN NUTTER: Dr. Klasko, when you were informed of the closure, what steps did Drexel take in response to that?

DR. KLASKO: Well, I couldn't talk to anybody that day. So that was very difficult.

COUNCILMAN NUTTER: I understand that.

DR. KLASKO: Starting the next day, we went into a -- I guess I call it a SWAT team approach. I met with all our faculty and all our staff and all our residents and all our students and did what anyone would do if half of their body had just been cut off. We looked at what would have to happen for each of those areas. We created a student team, a resident team.

I want to give you one example because you asked me. We lost in the middle of recruiting 240 of our 580 resident slots because they were assigned to MCP. So I've had to go through every single program and decide how many residents in the middle of a recruiting year I'm going to recruit. In medicine, for example, we had 160 residents. As of today we have 102. That was between December 18th and now. That's just residents.

Students, we had to look at all the student rotations.

Faculty, obviously, I was meeting almost on a daily basis with the faculty because they wanted to know what it meant to

them, they wanted to know what it meant to their patients, they wanted to know what was happening with the hospital, so what you would do in a similar situation if half of what you did immediately went away.

COUNCILMAN NUTTER: Was there a presentation or a slide show that afternoon laying out Drexel's next steps in this situation?

DR. KLASKO: We had a faculty meeting -- and I don't remember if it was exactly that afternoon and I don't remember exactly what I presented. But we did, obviously, have a meeting with the faculty at some point within a couple days of that, and we did basically talk about the areas that I just mentioned; students, residents, faculty. I don't remember a slide show. I might have had one.

COUNCILMAN NUTTER: I guess what I was trying to understand is that either on the 17th or the 18th, it's my understanding that there was a presentation with regard to Drexel's next steps, and I was trying to

understand how such a presentation could be put together if you were only notified on the 17th or even on the 18th. It takes a little while to put a slide show presentation together of next steps. I know there are very smart people out at Drexel, but how do you do that?

DR. KLASKO: The only thing I can think -- and this might make me not seem quite as smart to you -- but on the 16th or 15th, two days before, I did a slide show on what we hoped to do over the next year toward growing the business. So that did take me a while to put together, and that was consistent with the business plan that the CEO of the hospital had sent to Atlanta.

And frankly, when I did meet with the staff after the announcement, I had to explain to them, as I'm probably going to have to explain to you, how I could give a slide show about what we're going to do next year and then three days later have the hospital close. That is the reality. No, we did not have well laid out steps by the 18th, 19th or

20th or, frankly, in some cases even today of exactly what we're going to do with the hospital closure.

COUNCILMAN NUTTER: What happened with the financing of the properties with regard to Hahnemann and MCP last year? Did that go through?

MR. ARCHIBALD: That did not go through. That was a Drexel financing?

COUNCILMAN NUTTER: Yes.

MR. ARCHIBALD: No, it did not go through.

COUNCILMAN NUTTER: Why is that?

MR. ARCHIBALD: At the time, some of the underlying assumptions were no longer playing out. A lot of assumptions about what was going to occur and those things were not --

COUNCILMAN NUTTER: When was the decision made not to pursue the financing?

MR. ARCHIBALD: I'm not exactly certain when that was made, but I think it was probably somewhere in the October time frame.

Some of those items occurred

pursuant to that financing, but they happened differently. Interest rates move around, and some of the terms for getting that transaction carried forward required us to acquire some insurance on the bonds. That was a $6 million cost to us. It didn't make sense to have to pay and insure $6 million when we could go out in the marketplace and acquire some of those assets that we were acquiring. Many of the things that were going to be paid for by the bond proceeds were dealt with financially differently than a bond.

COUNCILMAN NUTTER: Well, ultimately it's your decision. All I can tell you is that it was very aggressively pursued by the highest level Drexel representatives, including the Chair of the medical school, very aggressively pursued, helping to ensure that Councilman Clarke and I put that bill forward and got it approved before we left, my recollection is, on our summer recess. So it's a little surprising to hear that after all of that pursuit and agitation and anxiety about that particular financing, it was ultimately decided in October

that you wouldn't pursue it.

MR. ARCHIBALD: I think that they had never --

COUNCILMAN NUTTER: I was just wondering whether some people were starting to read the tea leaves a little bit.

MR. ARCHIBALD: It was about the economics of the transaction. And paying $6 million for having the bonds insured meant that we could -- it was less expensive to go out and get a mortgage.

COUNCILMAN NUTTER: Dr. Klasko, can you forward to us through the Chair a copy of the -- I think you referred to it as an affiliation agreement, between Drexel University and Tenet?

MR. ARCHIBALD: There's a confidentiality clause in there and we have to work it out with Tenet when they come back. So there is a confidentiality clause in there. And I'm not a lawyer, but I think we have to honor the terms of the agreement unless both parties are willing to pass it up.

COUNCILMAN GOODE: Is that a two-way

confidentiality clause? Does it go both ways or can Tenet release you?

MR. ARCHIBALD: Tenet has to release us.

COUNCILMAN GOODE: So we can just ask Tenet.

MR. ARCHIBALD: That's correct.

COUNCILMAN NUTTER: Thank you, Mr. Chairman.

That agreement dates back to 1998?

MR. ARCHIBALD: Yes.

COUNCILMAN NUTTER: If it's not confidential, what rights do you have?

We've talked about the two-year notice issue. You put forward ideas and proposals, at least in the MCP case, maybe others, that you think will make the hospital work or work better. Someone says no. What is your right under the agreement to somehow influence or exercise your judgment on how to make healthcare service better? And if you have no rights, again, how do you make this partnership work?

MR. ARCHIBALD: The affiliation

agreement doesn't speak per se to the rights of either party with respect to making capital investments. They make proposals to us. We make proposals to them. Their proposals require them to make a capital investment and our proposals also obligate us to make investments in the people that we're hiring. They may want to enter into a different line of business and we say no. They're not the only ones that say no. We say no. They say no. So whatever their internal processes are, we're not privy to.

COUNCILMAN NUTTER: We're trying to say no to this. Everybody is saying no.

(Applause.)

COUNCILMAN NUTTER: If everybody has a right to say no, then that's --

MR. ARCHIBALD: We're not in front of their committees and they're not in front of our committees.

COUNCILMAN NUTTER: Senator Hughes asked you earlier about what I referred to as the ripple effect of this. Could you put a number on the anticipated layoffs as a result

of the loss of $35 million in revenue? How many people will you have to lay off?

MR. ARCHIBALD: It's expected that we'll be laying off approximately 115 faculty and -- I am sorry. I think it's 131 faculty, and staff of approximately 110.

COUNCILMAN NUTTER: 131 faculty and 110 staff as a result of the proposed closure of this hospital?

MR. ARCHIBALD: That's correct.

COUNCILMAN NUTTER: And what happens to all of those people? Do they just get laid off? Do they get a severance package?

MR. ARCHIBALD: There are established policies, and whatever the policy is, based on your length of time and service, we're going to honor the policy.

COUNCILMAN NUTTER: Has Drexel taken any steps to try to participate in any alternative plans, a turnaround plan?

Again, Senator Hughes asked what are you prepared to do to try to save the hospital? I mean, Drexel is certainly not without allies. It is not without friends in

fairly high places. What discussions and conversations has Drexel had -- if as Dr. Klasko said, kind of half of your body gets taken away, I think self preservation being one of the fundamental laws of existence, I think you pretty much try to do anything you can to save yourself at that point. So what has Drexel been doing since the morning of December 18th to try to either prevent the closure or turn the situation around just for your own safety and security?

MR. ARCHIBALD: I have an affiliation agreement, and they put me on notice that they are shutting it down. Our operational time has been what to do with the students, the residents during the shutdown period. We're prepared to respond to anybody who decides that they want to operate the hospital as a hospital. We still have all of our employees and all of our faculty.

COUNCILMAN NUTTER: Mr. Archibald, I'm asking proactive. You're talking about reactive.

MR. ARCHIBALD: If other things have

occurred at Drexel with respect to whoever these connections are that you're referring to, we're not privy to that.

COUNCILMAN NUTTER: I understand that. I'm asking what outreach have you done, who have you talked to? If half of your operation is being so devastated -- and I understand your first responsibility is to the students, to get them wherever you need to get them and you call up people and say, "You only took three before, but we're in desperate straits, but will you take six," and all of that. But doesn't this action also have a potentially serious impact on your ability to run an accredited medical school?

DR. KLASKO: The answer is that our ability to run an accredited medical school is not in doubt. We will be able to run an accredited medical school. That doesn't mean that we're not passionate or don't want to do something for that site.

When you talk about Drexel, half the people that you brought up here in the beginning part of this City Council hearing

are my faculty. Dr. Wagner is my Chair of emergency medicine. He's been out every day trying to find principle.

(Applause.)

COUNCILMAN NUTTER: Exactly. You make my point. The point is he's a doctor desperately trying to figure out how to turn the situation around. But he's one individual; you are an entire institution in West Philadelphia, highly respected, great reputation, have a great Board. You've got a medical school. You've got a university. You have friends that you can talk to to work with us about this situation. So I'm not exactly excited when people say, "Well", under the affiliation agreement, we've got to do this. We've got to do that." It's like a person gets shot in the head and they're trying to figure out are their shoes shined. I think you might want to check on the head wound a little bit.

What are you doing in a proactive fashion to say, "Hey, we've got a problem, We're dealing with our students, We're going to put them in upstate Pennsylvania or down in

Virginia or whatever the case may be. But we also want to lend our support to trying to help this particular situation." Because you had a lot of friends working with you when this started back in 1998. My recollection is you were approached to take over the medical school, a certain amount money was put forward or offered or suggested, It was rejected. And then another meeting was held and then another amount of money was put on the table because you had the juice and the will to make other things happen. And then a deal was constructed and, as they say, then life went on and the rest is history.

I'm asking you to join us. Don't be distracted from taking care of your students. You have an obligation to them. But work with us, the people who are getting the trickle down effect here, 200 people on your campus and a thousand up at that place and the devastation to healthcare in that particular community, and use some of the power and authority that you have to force this situation to a point where everyone is

actually working together, not just taking care of their own backyard.

(Applause.)

DR. KLASKO: Councilman, I will expend as much energy I can individually to help make that happen. I think the issue is, an organization is the sum of its parts and the individuals that have been working hard to look at what can we do for emergency services for that area, which include the Dr. Wagners and the Dr. Needs (ph), are part of my organization, and I'm proud of that. And my job is to spend not only 20 hours a day being reactive and proactive for the medical school, but looking at ways that we can make sure that both the community is taken care and that something positive happens to that site.

We're not a hospital operator, but I invited myself to the meeting that Governor Rendell and Senator Specter had with some of the different CEOs of different hospitals because I wanted to be there and I wanted to be a part of it. We are not dispassionate and we are not at all sort of standing on the

sidelines. We are absolutely ready, willing, and able to help something happen at that site.

COUNCILMAN GOODE: Dr. Klasko, Councilman Rizzo has some follow-up questions, but I have a couple very quick ones.

Under the affiliation agreement, you say you're entitled until June 30th of this year to approximately $20 million in reimbursement?

MR. ARCHIBALD: That's correct.

COUNCILMAN GOODE: And you expect to get that from Tenet?

MR. ARCHIBALD: I expect to get that from Tenet.

COUNCILMAN GOODE: Why do you have that expectation?

MR. ARCHIBALD: Because that's what the affiliation agreement requires them to do.

Is that the only reason you have that expectation?

MR. ARCHIBALD: Yes.

So you have no agreement with Tenet --

2/12/04 - COMMERCE - RES. 040046

MR. ARCHIBALD: It's in the affiliation agreement.

It's within the affiliation agreement?

MR. ARCHIBALD: Right.

Beyond the affiliation agreement, do have any other agreement in writing or informally about how much Tenet will reimburse you?

MR. ARCHIBALD: No.

Thank you.

Councilman Rizzo.

COUNCILMAN RIZZO: That exactly was my question. Great minds think alike.

You've gotten no signal from Tenet that they are going to honor what you believe the affiliation agreement means?

I heard another number of $50 million. Maybe you can restate that. The wind-down charges, is that brought in? Does that $30 million have anything to do with the affiliation agreement, or is that another agreement, the wind-down.

MR. ARCHIBALD: No. Everything I've

spoken about with respect to reimbursement is pursuant to the terms of affiliation agreement.

COUNCILMAN RIZZO: So you're not talking $20 million, you're talking $50 million?

MR. ARCHIBALD: In the worst case scenario, it would be approximately $50 million. They reimburse us for direct incurred cost. If I don't incur the cost, they don't reimburse me.

But you have not --

MR. ARCHIBALD: I don't know at what rate these people would go out and find other jobs.

DR. KLASKO: If every one of our faculty found another job right after they were non-reappointed, they would owe us nothing for faculty.

COUNCILMAN RIZZO: Is that likely or unlikely.

I think it's unlikely that it will be none and it's unlikely that it will be all. I think the place was announced that it was going to close on December 18th. We have other systems literally talking to our faculty

on a daily basis.

COUNCILMAN RIZZO: It's hard for me to sit here and listen to both of you say that you believe that Tenet is going to pay you $20 million and no one has a face-to-face with Tenet yet and said, "Are you going to honor this affiliation agreement?"

I just can't imagine that you're just accepting a piece of paper that you don't know whether it's going to be challenged or you don't know whether it's going to be argued.

MR. ARCHIBALD: You say it's a piece of paper. It's a 20-year agreement. We made that commitment a long time ago. They're our partner for 20 years.

COUNCILMAN RIZZO: I'd be curious today -- and I hope that the Chair will ask Tenet the question -- if they're going to honor the affiliation agreement, because I've never heard of such an assumption in my life.

Thank you.

Thank you, Mr. Chairman.

(Applause.)

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN GOODE: Councilman Nutter.

COUNCILMAN NUTTER: Mr. Archibald, in that same area, when you spend the money that you're going to spend and then get the anticipated reimbursement, whose money are you spending up front? Is that Drexel money? Is that Commonwealth of Pennsylvania money? Is it federal government money?

MR. ARCHIBALD: It's effect money. It's our money that we're spending.

COUNCILMAN NUTTER: Effect? I know that's an acronym for something.

MR. ARCHIBALD: Okay. It's Drexel's College of Medicine money.

COUNCILMAN NUTTER: It's your own money?

MR. ARCHIBALD: It's our own money.

COUNCILMAN NUTTER: Generated by the university?

MR. ARCHIBALD: Yes.

COUNCILMAN NUTTER: So if you make the outlay and for whatever reason -- and I'm sure we'll get to that when the Tenet panel comes back

up -- if you make the outlay and somehow you don't get the reimbursement, who's on the hook?

MR. ARCHIBALD: We are.

COUNCILMAN NUTTER: Okay.

MR. ARCHIBALD: We've been on the hook since December the 18th.

COUNCILMAN NUTTER: I'm assuming you've had the appropriate discussions about being on the hook.

MR. ARCHIBALD: They're keenly aware of the terms of the affiliation agreement.

COUNCILMAN NUTTER: Let me ask one last question about the whole doctor issue.

Now, help us again to understand. There are doctors who, I guess, are your faculty?

DR. KLASKO: Yes.

COUNCILMAN NUTTER: And they're in private practice?

DR. KLASKO: At MCP. And it's true at Hahnemann also, there are the medical staff. The medical staff of the hospital is made up of doctors that are employed by Drexel University.

COUNCILMAN NUTTER: Stop right there. The medical staff of the hospital

which is owned by Tenet is on the payroll of Drexel?

DR. KLASKO: No, no. The medical staff of any hospital is made up of doctors. And some are single doctors and some are parts of big groups. The medical staff of MCP is made up of some physicians that are a part of Drexel University physicians.

COUNCILMAN NUTTER: That's where I'm confused. What does Drexel University physicians mean?

DR. KLASKO: They're our full-time employed university physicians, our professors, our full-time professors.

COUNCILMAN NUTTER: So they work for Drexel?

DR. KLASKO: They work for Drexel.

COUNCILMAN NUTTER: I think that's what I said a second ago.

DR. KLASKO: Right. But not all of them. There are other physicians that are associated with Philadelphia College of Osteopathy, and then there are other physicians that are private physicians, two or three-person

practices, five-person practices, 10-person practices. They're what we call volunteer faculty. In essence, they have a clinical associate professor title, don't get paid at all by us. We have nothing to do with their clinical practices. But in order to be part of the medical staff at MCP --

COUNCILMAN NUTTER: In order to be able to make admissions?

DR. KLASKO: Yes. You have to have a faculty appointment. That has no economic value.

COUNCILMAN NUTTER: How many doctors are we talking about?

And give me a breakdown in terms of who's on the Drexel payroll, who's doing the private practice thing and whatever the other categories are.

DR. KLASKO: I think the MCP medical staff is about 200. And I believe that about 130 or so were Drexel University physicians.

COUNCILMAN NUTTER: 130?

DR. KLASKO: Yes.

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN NUTTER: Were Drexel physicians?

DR. KLASKO: 150 were probably Drexel physicians.

COUNCILMAN NUTTER: 150. Now, the testimony last week was that the doctors somehow would wake up one morning and decide, I don't want to work at MCP anymore because now I want to work at Hahnemann or St. Chris or somewhere else in the system; is that correct? Can they do that?

DR. KLASKO: Yes. Doctors can decide tomorrow that I was operating at MCP and now I've gone and talked to Roxborough or Chestnut Hill, and starting next week I'm going to start doing my operations at Chestnut Hill. Yes, they can do that. They have to get staff privileges. Many of the physicians have staff privileges at other hospitals, especially the private doctors.

COUNCILMAN NUTTER: I understand that. You've got 200 doctors at MCP, 150 of whom are paid by Drexel?

DR. KLASKO: Correct.

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN NUTTER: If one of those doctors says, I don't want to be at MCP anymore, I want to be at Hahnemann, do they have to ask anyone's permission?

DR. KLASKO: Absolutely.

COUNCILMAN NUTTER: Whose permission do they have to get?

DR. KLASKO: They'll have to ask their chairs.

COUNCILMAN NUTTER: Chair of their department?

DR. KLASKO: Chair of whatever their department was.

COUNCILMAN NUTTER: And suppose the chair said no?

DR. KLASKO: Then they would either stay at MCP or leave Drexel and go someplace else.

COUNCILMAN NUTTER: Suppose you said, "I don't think that's good for MCP for Dr. So-and-so to leave," do they still get to go?

DR. KLASKO: If the chair wanted them to go, is that what you're asking? If the chair said, "Yeah, I want them to go

someplace else"?

COUNCILMAN NUTTER: Yes. And you said no.

DR. KLASKO: In my current role, I would win because I'm the dean. In my former role, which was to be the MCP campus cheerleader and dean, we would have a discussion and it would go to the dean.

COUNCILMAN NUTTER: So the flow of the doctors back and forth is controlled, to some extent, by the Chairs of the departments and ultimately by the Dean?

DR. KLASKO: Right. I'll be happy to give you the actual statistics. The amount of people that leave MCP and go to Hahnemann or vice versa over that two-year period was relatively small. Very small.

The reality is that a lot of the numbers that would go down in an individual department had nothing to do with the doctors that were faculty there. It had to do with referring physicians who would decide, "You know what, I was sending you to MCP, but either I'm mad at MCP or I'm mad at you or I got a better

deal sending to some group down over at Abington," and that's where we do lose significant amounts of patients. That's where we often do that. Then it's our job, it's the doctors' job, to go and get new referral sources.

COUNCILMAN NUTTER: Let me ask you this question. This could actually be my last question for you -- That's actually not true.

What was your evaluation, in your professional capacity as Dean of the medical school, of the overall management in operations of MCP?

DR. KLASKO: I think that I would call it, from my perception, average. I don't think it was exceptionally creative. But I think that generally the people that were there running that hospital understood the nuts and bolts of running a hospital. I've been at places where there was significantly more creative management than at MCP.

COUNCILMAN NUTTER: And do you think, given a wide variety of circumstances, whether we're talking about patient mix and all of the other factors and reimbursements and all of these

issues that have been discussed, do you think a hospital like MCP can make it with, in your perspective, average management?

DR. KLASKO: In my perspective, I don't think anybody over the last seven years has proven than MCP can make it with any kind of management. I think that the reality is that the metrics of that hospital as they currently exist, from what I understand, even before Allegheny, just weren't very positive. There was a period of time where Tenet was able to make it, and that was mostly financial.

COUNCILMAN NUTTER: Let me try to understand this. From what vantage point do you feel, I guess, confident to make that kind of statement?

You became the Vice Dean in January '02.

DR. KLASKO: Yes.

COUNCILMAN NUTTER: And Dean in the summer of '03?

DR. KLASKO: Yes.

COUNCILMAN NUTTER: Where were you prior to being Vice Dean in January of '02?

2/12/04 - COMMERCE - RES. 040046

DR. KLASKO: I was the Senior Associate Dean for Clinical Affairs at Drexel University.

COUNCILMAN NUTTER: How long were you in that capacity?

DR. KLASKO: Since July of 2000.

COUNCILMAN NUTTER: Where were you before that?

DR. KLASKO: I was the Chair of OB/GYN and the President of Lehigh Valley Physician Group at Lehigh Valley Hospital.

COUNCILMAN NUTTER: How long were you there?

DR. KLASKO: I had been there since about 1982. I was a private OB/GYN physician originally and then I went into academic medicine, spent some time at Penn State. And then I came back to be Chair of OB/GYN and then went back to Wharton and then became President of a physician group.

COUNCILMAN NUTTER: President of?

DR. KLASKO: Lehigh Valley Physician Group.

COUNCILMAN NUTTER: So your time at MCP is from January '02 forward?

At MCP, my office existed at MCP from January '02 to about July of 2003.

COUNCILMAN NUTTER: And based on that time, your perspective is even prior to or during Allegheny that virtually no one could operate MCP in a superior fashion?

DR. KLASKO: From what I know about that hospital --

COUNCILMAN NUTTER: Is there something wrong with the hospital?

DR. KLASKO: No. The hospital needs a whole lot of capital, even more than it has. It needs a significant amount of infrastructure. It's needed that for a while. And at least to this point, there hasn't been a period of time, other than that small period of time where there were financial reasons, mostly around the outliers, that it's been profitable. From what I understood, it was not a very viable entity even during the Allegheny times. That might not be true, but that's what I've heard.

COUNCILMAN NUTTER: Mr. Chairman, that's all my questions, I think, at the moment -- I'm

sorry. I do have one last one.

So when you were informed on December 17, 2003, by Mr. Schaengold that Tenet proposed to close the hospital, did you agree with that decision?

DR. KLASKO: I didn't have --

MR. ARCHIBALD: We weren't asked to agree or disagree with that.

COUNCILMAN NUTTER: Hold on, Mr. Archibald. I asked Dr. Klasko.

DR. KLASKO: The reality is that the way the decision was presented to us is that someone external to Mr. Schaengold made a decision that the hospital was going to close. It was not a discussion. I did not have any basis to know whether or not that was a good decision or a bad decision. I knew it was a devastating decision for my faculty, my staff and the university. But I had no way of knowing if the business plan that was presented to restore MCP was a viable one or not. I was a proponent of that business plan.

COUNCILMAN NUTTER: So do you support or oppose the proposed closure of MCP?

DR. KLASKO: I support having a viable campus at MCP that can be run by someone who can run a hospital and run it well, and we would be happy to be a part of that. It's one of our clinical campuses.

COUNCILMAN NUTTER: So now you're saying you do believe that someone could run that particular hospital, you just don't think that the people who are running it now can run the hospital?

DR. KLASKO: No. I don't know if somebody can make money running that hospital. I don't know if there's money from the State or the City that can make that happen. I don't know any of that. Assuming that the hospital can be run and capital is put into that hospital to make it into a good university hospital campus, that would be a great, great thing.

COUNCILMAN NUTTER: Mr. Archibald, did you want to add to that?

MR. ARCHIBALD: No.

COUNCILMAN GOODE: The Chair recognizes Councilman Rizzo.

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN RIZZO: That last exchange just peaked my curiosity. Could you explain the management level there? Who's who here? Are you his boss or is he your boss? Tell me how this works.

MR. ARCHIBALD: The Dean reports to me.

COUNCILMAN RIZZO: I could tell when you told him not to talk. That's why I asked that question. So you're the Chief Executive.

MR. ARCHIBALD: No. Constantine Popadoukas (ph) is the CEO of our corporation here at the College of Medicine. He is also the CEO of Drexel University.

COUNCILMAN RIZZO: And then you are?

MR. ARCHIBALD: I report to him.

COUNCILMAN RIZZO: And the Dean reports to you?

MR. ARCHIBALD: He does.

COUNCILMAN GOODE: Councilman Rizzo, we assume Mr. Archibald was talking because he was not sworn in two weeks ago, and Dean Klasko was.

Before we end with this panel, with

respect to the notification given to you by Tenet, the closing of MCP and your relationship with Tenet with regard to the other five hospitals that it intends to continue to operate, I'm assuming you have made direct inquiries as to the financial health of those individual hospitals and those hospitals collectively?

MR. ARCHIBALD: No, we have not made financial inquiries about those hospitals.

When Tenet put out its release of the hospitals that they were retaining, they specifically mentioned in that release that they were going to retain the five remaining Philadelphia hospitals.

COUNCILMAN GOODE: So you're assuming that the other five hospitals that they intend to operate, because they were not on the list, are in financially good condition?

MR. ARCHIBALD: Once again, they specifically mentioned the Philadelphia region hospitals in their announcement of the hospitals that they were retaining and the reason that they were retaining them, because

they believe all those hospitals were financially viable.

COUNCILMAN GOODE: I understand that. You didn't answer my question. I'll ask it in a different way.

You're not relying upon, after having only 12 hours notice from Tenet about the close of MCP, surely you're not telling us that you're relying upon their press release regarding the other hospitals nationwide that will close and those within Philadelphia that will continue to operate? You're not relying upon that in terms of decisions that you make about your own livelihood, are you?

MR. ARCHIBALD: I have an 18-year affiliation with respect to my livelihood, and it's attached to Tenet's --

COUNCILMAN GOODE: Let me ask you a more direct question since you want to play around.

Are you having any financial problems at all with your relationship with Tenet, outside of MCP?

MR. ARCHIBALD: No.

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN GOODE: You have no problems whatsoever?

MR. ARCHIBALD: Nothing different with respect to Tenet has occurred with the other five hospitals.

COUNCILMAN GOODE: No problems at Hahnemann?

MR. ARCHIBALD: We provide services --

COUNCILMAN GOODE: Like for instance, with your radiology services?

MR. ARCHIBALD: We provide services inside the hospital. To the extent that we are not adequately reimbursed, we annually look at what our reimbursements are. We make a determination whether or not we're going to continue those services. Radiation right now is one of those services inside the hospital that we're not adequately reimbursed.

COUNCILMAN GOODE: Since these hearings two weeks ago, you have in fact notified Tenet that you cannot adequately provide radiology services at Hahnemann because they're not fulfilling a financial

obligation?

DR. KLASKO: No, that's not correct. What we have asked them to do, and we are working on a plan as we speak to effect this, is to take over the operations of this hospital-based service, which is, frankly, very common in many hospitals.

In the hospital system I came from, we would routinely have discussions like this between the physicians and the hospital. The only thing that makes it news and requires paper is because we're two separate corporations. But the reality is what we're doing with radiology is asking them to take over the operational control, because right now we run a physician group, and they run the hospital. And you've heard enough testimony about how the communication between those two can be difficult. And in a hospital-based service, that is magnified.

COUNCILMAN GOODE: Thank you, Dr. Klasko.

Mr. Archibald, are you familiar with the statement, "DUCOM cannot continue to incur the

financial losses associated with the radiology services it provides to HUH accordingly unless we are able to reach an agreement by which Tenet provides compensation that will at a minimum fully cover DUCOM's cost of providing services. DUCOM will, unfortunately, be unable to provide those services beyond 60 days from the date of this letter."

In other words, April 4th 2004.

MR. ARCHIBALD: Yes.

COUNCILMAN GOODE: Can you explain that statement?

MR. ARCHIBALD: It means that we're hoping in the next 60 days to work out a financial arrangement with Tenet with respect to these services. If we're not, on the 61st day we are expecting Tenet to be financially responsible for that department.

COUNCILMAN GOODE: So there's no potential shut down of service?

MR. ARCHIBALD: Oh, no. Absolutely not.

COUNCILMAN GOODE: So this statement is meant to convey what, in terms of your

financial relationship with Tenet? They must take over?

MR. ARCHIBALD: There are a number of things Tenet can do. They can take over the entire staff or they can pay us to continue to operate it. One of those two things have to happen. Or the third one is, they decide that they're going to not take over the staff and outsource the whole service.

COUNCILMAN GOODE: Okay. Thank you.

Councilman Nutter, you can call your next panel.

COUNCILMAN NUTTER: Well, Councilman Goode, a question just as a follow-up.

What caused this?

MR. ARCHIBALD: We can no longer continue to operate hospital-based services where the cost of our service exceeds our reimbursements. That's what caused it.

COUNCILMAN NUTTER: Did this just happen?

MR. ARCHIBALD: No. We provide a lot of hospital-based services for Tenet, and

they pay us for that. They don't pay us enough. There comes a point as an organization you have to stop doing it. In this particular area, we have to stop doing it or they have to change the way they're paying us.

COUNCILMAN NUTTER: So if Tenet decides not to pay you, and in line with Councilman Goode's question, if they just decide not to pay anybody, would you not have radiology services at the hospital?

You both immediately responded that, well, of course, there will be the service.

DR. KLASKO: Because there will.

COUNCILMAN NUTTER: Why.

DR. KLASKO: Because this is literally just a recognition that the radiology service will be better run with having a single entity taking both the financial and operational risk. It's a more efficient way of handling it. Right now they have an administrator; We have an administrator. In most hospitals, again, because they're the same corporation, there is that financial and operational mesh. We're two separate

corporations, so everything we do becomes sort of a deal that requires a piece of paper to occur. This is not unusual.

COUNCILMAN NUTTER: How long have you been providing these services at Hahnemann?

MR. ARCHIBALD: Probably since '98 when they came out of bankruptcy.

COUNCILMAN NUTTER: And you've always had the dual administrator and all the other --

MR. ARCHIBALD: In many hospital-based services.

COUNCILMAN NUTTER: So for five years you've been running it this way, and now all of a sudden you've reached the tipping point and you say, "Well, we can't do it this way anymore"?

DR. KLASKO: No. It's not exactly like that. There are other services where we've changed the way that we've -- who employs the doctor and who takes the financial and operational risk. At any given time we're looking at how best to deploy our resources for our three missions.

COUNCILMAN NUTTER: Let me ask this question. I'll go back to an earlier example. You talked about the OB/GYN from South Philadelphia. Now, when that idea was put forward and it was accepted, and then apparently it basically didn't work out the way you thought it would, who has the financial responsibility for the decision that was made, the decision that did not work out.

I'm assuming the doctor probably had a contract with you or Tenet. Now the patients aren't being referred. Is the doctor still there? Even if the doctor does not continue to perform, somebody's got to fulfill the obligations of the contract, right?

DR. KLASKO: The doctor is still there. In that particular doctor's case, he had been a private physician. He came on pretty much very similar to still being a private physician. The patients that I said, about 40 percent of his patients, believe it or not, actually did come up to MCP, and the other 60 percent decided that they wanted to go to Graduate. So he did some of his cases at

Graduate. He did some of his cases at MCP.

COUNCILMAN NUTTER: If those 60 percent don't come, there's in essence a loss of revenue that you anticipated when the decision was made to bring that doctor on.

DR. KLASKO: There's a loss in hospital revenue.

COUNCILMAN NUTTER: Hospital revenue. Who eats the cost?

DR. KLASKO: Tenet.

COUNCILMAN NUTTER: But you made the decision?

DR. KLASKO: No. Tenet and we made the decision.

COUNCILMAN NUTTER: So you both make a decision, but if it doesn't work out, it's on Tenet?

DR. KLASKO: I think it depends on your definition of not working out. We had no gynecology. We brought in a great gynecologist, who, from the point of view of bringing those South Philadelphia patients, entrepreneurially didn't work. But, you know what, he was seeing patients in the Center for

Women's Health. He was seeing patients in Andorra. He was seeing patients in the clinic. So while financially it didn't work out, for that period of time that he was there, we actually had really excellent gynecology covered. So I would argue that from everything you're asking about, which is how do we take care of that community, it was a success, and both Tenet and Drexel subsidized that success.

COUNCILMAN NUTTER: Okay. Let's go back to the statement that the Chair read into the record. What happens in the radiology situation on day 61 if you don't have an agreement, move the piece of paper on this particular issue?

DR. KLASKO: If we don't have an agreement, we will continue to provide radiology services. All these faculty are under our employ.

COUNCILMAN NUTTER: Dr. Klasko, wait a minute. You wouldn't go to the extent of notifying the staff of this decision, and other people wouldn't put statements in

writing, that if we don't have -- "DUCOM will, unfortunately, be unable to provide those services beyond 60 days from the date of this letter," i.e., April 4th, 2004.

DR. KLASKO: The information you haven't gotten --

COUNCILMAN NUTTER: I can only read English. So what it says is, if we don't have something by day 60, we have nothing on day 61.

You're saying, life will go on?

DR. KLASKO: We met with the staff today, both the CEO of the hospital and I, and we basically set out a plan whereby we would be able to transfer that operational risk, and we made it very clear if that doesn't happen immediately, that we will continue the current arrangement. What you've got a copy of is literally basically a statement that we want to transfer the financial and operational risks to Tenet in 60 days.

COUNCILMAN NUTTER: You're trying to get their attention?

DR. KLASKO: It's something that

would happen literally on a monthly basis if we were the same corporation. That requires a letter like this because we're different corporations.

In my old job, I would have said to the CEO of the hospital, "You know, we really need more money for radiology because malpractice is up."

And he would have said, "All right. Well, I'm not sure I want to do that."

I would have said, "No, I'm really serious. We really need it."

And we would have that discussion.

With our relationship with Tenet, anything that initiates that discussion --

COUNCILMAN NUTTER: And the affiliation agreement requires you to send nasty letters to your partner to get them to do something? Is that the operation?

DR. KLASKO: It requires us to make clear what we would like to have happen and what our intentions would be.

COUNCILMAN NUTTER: Okay. Must be a lot of fun down there, boy.

2/12/04 - COMMERCE - RES. 040046

Mr. Chairman, thank you very much.

COUNCILMAN GOODE: Thank you, Councilman.

Gentlemen, will you please remain here?

We're going to ask the Tenet panel to please approach the witness table again.

Could we actually ask Mr. Thomas Morgan to approach the witness table, as well?

For the record, let me note that we've been joined by Councilwoman Jannie Blackwell.

Mr. Morgan, please state your name for the record and proceed with your testimony.

MR. MORGAN: My name is Thomas Morgan. I represent my community as a Committee Person of the 12th Ward, 11th Division. Also, I am a dialysis patient at MCP. DCI is the unit in the back of the hospital that houses the dialysis patients.

Now, DCI has built the building -- I'm not sure how this breaks down -- has built the building on land that's owned by Tenet. The patients in the hospital, in dialysis, we're

concerned because we're one of the units in the City whereas if something happens to you in dialysis, you have the doctors, radiology, surgeons, everybody right there to help you to live. If you go to another unit that does not have these services, or the hospital where a doctor comes in once a month, once a week, a nurse comes in once a week, and there's only technicians there, your chances of survival if there's a problem are quite less.

Right now I believe in my unit, if something happens in my unit today or tomorrow, they have to call 911 and take us somewhere else. You know, I don't know if any of these people that run this understand any of this. I don't mean to break up.

COUNCILMAN NUTTER: It's okay. It's all right.

MR. MORGAN: It seems like you're playing with my life. Drexel, Tenet, it seems like you're playing with our lives. I got a family just like you. I own a home. I live right. For me to come in here and seem like we're playing romper room, you know, questions

and answers and you don't answer nothing. I'm trying to live, man.

I represent 130 people, maybe 40 in this dialysis unit. Just like I'm sitting next to you now, somebody is sitting right next to me could pass away tomorrow that I have known for some time. I've been doing this thing now for four years. I work every day just like you. You understand? And I go to my dialysis treatment three times a week, four and a half hours. Get up and go back to work. And to hear this -- and I'm a taxpayer. You wouldn't want to see me in a dark alley. You understand? You would not want to see me in a dark alley.

We've got some good doctors down there. Many of them have been represented here. Many of them have testified here, many of the nurses, maintenance, everybody. It's all one big family. You need to stop and think about some of the things you're doing before you just shut down a hospital. You're killing a community. I don't know if it matters, but that's all I have to say, sir.

(Applause.)

COUNCILMAN NUTTER: Thank you very much, Mr. Morgan. I really appreciate you coming in and sharing your story. Thank you.

Mr. Schaengold, Mr. Leonard.

From the previous panel, we've now become aware of a document generally referred to as an affiliation agreement between Tenet and Drexel Medical School. Tell us about this agreement. What does it cover? And then I may have some additional questions.

MR. SCHAENGOLD: The agreement contains a confidentiality clause that would prevent me to discuss it in detail, other than to say it governs the partnership between Tenet and Drexel.

COUNCILMAN NUTTER: Based on the previous questioning of Dr. Klasko and Mr. Archibald, and in direct response from a question from the Chair, the issue was raised as to the waiving of that portion of the agreement, which would allow for transmittal of the agreement, as you've transmitted other information that had confidential components

to it.

I'm now making the request, can we have the agreement, and as a regular request that we've made for other items of information in the context of these hearings?

MR. SCHAENGOLD: I will relay that request to my company. I don't have the authority to waive that confidentiality, but I will forward your request.

COUNCILMAN NUTTER: And I appreciate that.

Let me ask this question. Is the confidential nature of the agreement related to financial data or the terms and conditions of payment for various services back and forth, or are there other operational components that also are covered by this confidentiality agreement.

MR. SCHAENGOLD: All of those items are in that affiliation agreement.

COUNCILMAN NUTTER: Well, I have made the request with the Chair's approval. When would you know what the answer would be, which is basically a yes or no question? When

would you know whether or not you can share the affiliation agreement?

MR. SCHAENGOLD: I think within the next 24 to 72 hours, having a weekend intervening. But by Monday we certainly would be able to provide you with a response.

COUNCILMAN NUTTER: I appreciate that.

Explain to the Committee as the party that decided to propose the closure of the hospital, recognizing that there are medical school students and others who derive benefit as a part of their educational program, what are the costs of, I guess, giving such short notice? Is there a two-year notice requirement with regard to closure of a hospital?

MR. SCHAENGOLD: Yes. And in lieu of that two years, then we have to reimburse for costs incurred.

COUNCILMAN NUTTER: And when the decision was made to close the hospital -- and I'm sure the individuals who are involved in that discussion or even yourself being aware

of the affiliation agreement and the direct and immediate impact, not only on MCP, but on Drexel Medical School, and recognizing that clearly you are going to violate at least a provision with regard to the two-year notice which then would obligate you to make certain additional expenditures, what was the value that was placed on the amount of money that Tenet would have to expend for having violated the two-year notice agreement?

MR. SCHAENGOLD: We did not violate the two-year notice agreement. In lieu of two-years' notice, we are responsible for costs incurred.

COUNCILMAN NUTTER: Well, with every respect, I would have actually anticipated that type of answer actually from your counsel. You have a two-year notice obligation, correct, under the agreement?

MR. SCHAENGOLD: Correct.

COUNCILMAN NUTTER: Did you provide two years' notice?

MR. SCHAENGOLD: No.

COUNCILMAN NUTTER: Therefore,

you're in violation of that. And I am sure in another part of the agreement, the cure for violating that is that you cover all costs, correct?

You only put a provision in that says you're required to give two-years' notice because someone actually was serious that they wanted two years' notice, correct?

MR. SCHAENGOLD: I'm really not comfortable discussing the contents of the agreement until I have received approval to waive confidentiality.

COUNCILMAN NUTTER: I understand that. I'm not trying to talk about the entire agreement. There's testimony on an open record that you have a two-year notice requirement. I asked you was there a two-year notice requirement; you said yes. So I'm confining myself to that area. But I can't allow a situation where you say, "We didn't violate the two-year notice agreement because we've agreed to pay X-amount of dollars." That's just an incorrect statement.

MR. SCHAENGOLD: Well, it's not a

violation. The agreement gives us the options of a two-year notice. Or if we don't provide a two-year notice, we have to then cover the costs incurred. It's not a violation of. It is options of.

COUNCILMAN GOODE: So you intend to pay $50 million?

MR. SCHAENGOLD: We don't know what the total costs will be.

COUNCILMAN GOODE: Do you intend to pay whatever the costs may be?

MR. SCHAENGOLD: We intend to pay the costs that are incurred by Drexel as a result of the closure of MCP.

COUNCILMAN GOODE: At what point do you plan on discussing with Drexel what those costs might be?

In other words, do you accept the statement that those costs might be $20 million by June 30th of this year and $50 million going into next year?

MR. SCHAENGOLD: I accept that those are potential costs that we may have to incur in the event that they are unable to find

employment and relocate their physicians and staff.

COUNCILMAN GOODE: I'll ask the question again.

At what point will you have a conversation with Drexel about the reality of what those costs are at first leading up until June 30th of this year?

MR. SCHAENGOLD: We have had those conversations. They have shown me an estimate of what they believe their salaries and expenditures will be for the remainder of their academic year.

COUNCILMAN GOODE: Up until June 30, 2004?

MR. SCHAENGOLD: Correct.

COUNCILMAN GOODE: You have agreed to pay those costs?

MR. SCHAENGOLD: We have agreed to cover the costs that they incur as a result of our decision to close MCP.

COUNCILMAN GOODE: But they showed you a list of potential costs up until June 30, 2004?

MR. SCHAENGOLD: Correct.

COUNCILMAN GOODE: Do those costs seem unreasonable.

MR. SCHAENGOLD: The cost represents the current salaries that they're paying their staff.

COUNCILMAN GOODE: During this academic year. I got that, Mr. Schaengold.

MR. SCHAENGOLD: I assume they are accurate.

COUNCILMAN GOODE: So what was your communication with Drexel with regard to that list?

MR. SCHAENGOLD: I have made it clear to the leadership of Drexel that we will honor our commitments under the affiliation agreement.

COUNCILMAN GOODE: With no direct response to the list that was given you?

MR. SCHAENGOLD: No. The list just represented all the physicians and staff that they currently employ and their salaries and benefits associated with those individuals.

COUNCILMAN GOODE: And there was a dollar amount?

MR. SCHAENGOLD: Yes. And we don't know how many will be here throughout the next several months. But we have an inventory of their staff.

COUNCILMAN GOODE: I will defer to Councilman Nutter to continue his questioning.

Somewhere between your statement and Dr. Klasko's statement, someone is not telling the full truth about whether there's an agreement to pay wind-down costs and whether there is a specific agreement to pay wind-down costs at least until June 30, 2004.

The Chair recognizes Councilman Rizzo first.

COUNCILMAN RIZZO: Thank you.

In reference to the affiliation agreement, your decision to close the facility, the hospital, was made premature of the two years. If you would keep the institution open on what you know today for two years, you would not be in violation; is that right?

MR. SCHAENGOLD: We're not in violation now. There are two alternatives. I can give you two years' notice and I don't

incur any costs, or I can close it right now and I incur the costs that they will experience as a result of that decision.

COUNCILMAN RIZZO: I don't know where I learned the word "violation," but I'll take it out of my vocabulary. But I think I learned it from that desk where you are sitting.

If you actually notified and took advantage of the full two years, what do you think your losses would be?

You're talking the potential of $50 million. If you kept it running for two years and did not trigger what you just described, what do you anticipate your losses would be.

MR. SCHAENGOLD: If you look at the losses at MCP for fiscal year '03 and the information that we've presented and I've stated before, we've incurred losses of over $30 million at MCP. And based on information available to me, we could very well be incurring the same amount every year going forward, excluding any investment in capital.

As you may recall from my previous

testimony, the decision to close MCP was based on the fact that we could not sustain those kind of losses without jeopardizing the well-being of the five remaining hospitals.

COUNCILMAN RIZZO: Very good. Thank you.

Thank you, Mr. Chairman.

COUNCILMAN NUTTER: Mr. Schaengold, let's talk about that. First of all, I would think that you would have had to factor in to either your business plan -- or it must have come up in the course of discussions between December 10th and December 12th, 2003, someone must have analyzed what you anticipate your exposure to be on wind-down costs related to the option to not provide two years' notice and to cure it by paying costs incurred during the wind down; is that correct?

MR. SCHAENGOLD: Correct.

COUNCILMAN NUTTER: What was the estimate that the company had at the time that was used as a part of the closure decision of anticipated exposure to close the hospital without the two years' notice?

MR. SCHAENGOLD: Approximately $50 million.

COUNCILMAN NUTTER: Had you had a conversation with the Drexel medical people to determine that?

MR. SCHAENGOLD: No. That was based on our estimate of the number of physicians working at MCP and what we projected to be a reasonable wind-down period.

COUNCILMAN NUTTER: So without a discussion with the Drexel medical school people, and having left them at some point in time along the way believing that more investment was going to be made in the hospital and possibly increased services, you estimated on your own, two separate entities, a $50 million wind-down cost, which is exactly the same as what Drexel came up with on their own, and there was no conversation or sharing of information for the arrival at those figures?

MR. SCHAENGOLD: That is correct. I mean, this is a fairly straightforward analysis of taking a look at the cost of salaries and

benefits and malpractice and making an assumption that over a two-year period, about 50 percent of attrition will occur and approximately $50 million in costs will have to be covered as a result of this attrition. There was no discussion or collusion or conspiracy with Drexel in regards to this. This is a business decision that was made.

COUNCILMAN GOODE: Mr. Schaengold, that makes complete sense to me, that if the actual cost is $50 million over two years, the cost is $50 million over two years. And if the cost up until June 30, 2004 is $20 million, then the cost is $20 million. Why then does Drexel have to submit to you a list of their costs?

MR. SCHAENGOLD: We are obligated to reimburse them for their costs that they incur as a result of our decision. When they incur that cost, they will submit that and then we pay that.

COUNCILMAN GOODE: I think you testified that they have already submitted a list of those costs for the remainder of this academic

year.

MR. SCHAENGOLD: No. They have submitted a list of employees that they currently have that are employed providing service at MCP, and it will be those individuals that are tracked over a two-year period to determine what actual costs are incurred.

COUNCILMAN GOODE: But up until June 30th of this year, Drexel has submitted to you a list of potentially affected people and the cost associated with them; is that correct?

MR. LEONARD: Mr. Chairman, we're not to June of this year. They've given us projections. They haven't incurred the costs yet. We're in February of this year.

COUNCILMAN GOODE: Well, I completely agree with you. I'm asking why did they submit their list in terms of projections? I'm trying to figure out more specifically, has there been a discussion about what the wind-down costs are, and is there actually an informal agreement between Drexel and Tenet.

MR. SCHAENGOLD: Let me make it

absolutely clear. We have committed to the leadership of Drexel that we will honor our commitments under the affiliation agreement.

COUNCILMAN GOODE: With no specific costs associated?

MR. SCHAENGOLD: Correct. I asked Drexel to give me a list of physicians and staff currently employed at MCP, and that will be the base of the individuals that we track now for a period of two years so that we can both know what expenses are being incurred. And we are obligated to cover those. I requested that list of them and they provided it this past week. It's a list of their employees.

COUNCILMAN GOODE: And you believe that list is accurate.

MR. SCHAENGOLD: Absolutely.

COUNCILMAN GOODE: Okay. Thank you.

Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Mr. Chairman.

At the first hearing there was a fair amount of discussion -- maybe we didn't

have the report yet. Maybe it was the second hearing.

It was estimated by your consultant that with a certain amount of investment and a whole host of other steps and actions to be taken, that the hospital could either potentially or in fact reach a break-even point in about two years. A decision was made, though, at the December time period, a day or so after receiving that report, that in the company's opinion that was not doable and the decision was made.

You said also during that time you recognized that there could be as much as a $50 million exposure for wind-down costs. Was it this past fiscal year there was a $30 million loss or is it the current fiscal year?

MR. SCHAENGOLD: FY '03.

COUNCILMAN NUTTER: FY '03, which ended when for you?

MR. SCHAENGOLD: December 31.

COUNCILMAN NUTTER: December 31st you had a $30 million loss?

MR. SCHAENGOLD: Over $30 million.

COUNCILMAN NUTTER: What was the projection for FY '04? You're on the calendar year?

MR. SCHAENGOLD: Correct.

COUNCILMAN NUTTER: Projection for FY '04 was?

MR. SCHAENGOLD: Our budget for MCP that we submitted, or at least we were prepared to submit, was a loss of $27 million.

COUNCILMAN NUTTER: $27 million. So over the two years it's a $57 million loss? Over the two years, a $57 million loss?

MR. SCHAENGOLD: '03 and '04.

COUNCILMAN NUTTER: And so then you have to factor in your anticipated wind-down costs of at least $50 million. Now, suppose Drexel submits during that time more than $50 million in costs under the affiliation agreement. What happens?

MR. SCHAENGOLD: We have committed to honor the terms of the affiliation agreement, and we will reimburse them for costs that they incur as a result of this decision.

COUNCILMAN NUTTER: So if it were $60 million, you'd pay it?

MR. SCHAENGOLD: Yes.

COUNCILMAN NUTTER: If it were $70 million, you would pay it?

MR. SCHAENGOLD: Yes.

COUNCILMAN NUTTER: If it were $80 million, you would pay it?

MR. SCHAENGOLD: Yes.

COUNCILMAN NUTTER: So in the calculation to determine whether to close the hospital or not, you decided that somehow it was cheaper, more cost efficient to close the hospital and then set off a chain of events that could in fact result in more money being spent in wind-down than it would actually cost to keep the hospital operating; is that correct?

(Applause.)

MR. SCHAENGOLD: We made a decision based on the information available to us that MCP was no longer a viable acute care facility and that we should close it as soon as possible because the losses were not

sustainable. If we were to save the remaining five hospitals in Philadelphia, we could not afford to continue operating a facility that over the past five years has lost the cumulative amount of $70 million and received $44 million in capital for a negative cash outflow of over $113 million. We could not sustain that kind of an operation. And we made a decision based on the available information to close this facility.

This hospital was on the verge of bankruptcy before it was acquired by Allegheny, during Allegheny, and it has been in a negative position for the past five years. We simply could not turn it around and we made a decision to close it at this time.

COUNCILMAN NUTTER: While simultaneously making capital investment and, at least according to the Drexel testimony, increasing a variety of services or taking steps to increase and improve services at the same time either yourself or someone else -- and you weren't here for most of that time, I recognize that -- that the company was under

the belief that the hospital would not survive?

MR. SCHAENGOLD: We tried for five years to turn around a facility that all health care consultants in this community suggested and warned us that it was not viable. We tried for five years to make it a go, and we made a business decision that we could no longer sustain --

COUNCILMAN NUTTER: Mr. Schaengold, I hate to interrupt you. But the most recent consultant that you hired gave you a report on December 9th that laid out in a two-inch thick, three-ring binder the history and a variety of steps that could be taken or should be taken to turn the hospital around. Within 72 hours of receipt of that report, a decision was made to close the hospital. How is it possible? How can you sit at that table and tell me that you took any of those recommendations seriously, since there was never any time to try to implement them?

MR. SCHAENGOLD: It was in my judgment and in the judgment of others that the probability of successful implementation of

those suggestions would still not stem the losses generated by MCP and it was not a viable facility.

COUNCILMAN NUTTER: Well, that may very well be true, but you are leaving out the part about it was about mid-December. Your fiscal year ends on December 31, 2003, and the financial people had also made a decision that if something was going to happen it needed to happen in 2003 and not in 2004. Wasn't that as much a factor in the decision as anything else?

MR. SCHAENGOLD: That involves the timing. This does not involve the decision whether MCP is a viable hospital. You are intimating by your question --

COUNCILMAN NUTTER: Mr. Schaengold, timing, as they say, is everything.

MR. SCHAENGOLD: May I finish?

You are intimating by your questions that we have made a terrible, bad business decision and that in fact because of our incompetence --

COUNCILMAN NUTTER: No. You've made

a terrible, bad healthcare decision.

(Applause.)

MR. SCHAENGOLD: If that is correct, sir, if that truly is correct, then I go back to my previous offers to this Committee that Tenet is prepared to do two things: Turn over the hospital so that the City can operate it and lease the facility, or acquire the facility from us for a minimal amount of money and operate it as a City hospital.

This is the largest City in the country that does not have a general hospital. If we are so incompetent in how we operated this hospital and that you believe that the consultant report, in fact, can make this hospital be viable, then I am offering this to the City formally today. Two alternatives: Lease it from us or acquire it from us and operate as an acute care facility.

COUNCILMAN NUTTER: Well, I mean, that's quite dramatic. I appreciate the offer. I'm not in the hospital business. If that was a serious and legitimate offer, I assume that you're having conversations with people who are

in the healthcare business for the City of Philadelphia. But that was a decision that was made, sir, I think when I was in high school. So I don't know that we're going to go back into the hospital business. But as far as I can tell, you are in the hospital business, and I think we do have a right to expect that you would operate a hospital. I'm not going to comment on whether it's competency or incompetency. I may not even be in a position to make that evaluation. But someone in the company made the decision to buy that hospital and seven others and try to run them because they thought they could make money. There's nothing wrong with that. This is America. We're now here at this particular decision. We have not had any extensive conversation or testimony about the operations of that particular hospital. You had the medical school people at least make an opinion about how it ran.

So now I'll ask you the same question. What is your professional opinion about the management and operations about the

MCP Hospital?

MR. SCHAENGOLD: This hospital was operated by competent individuals under the direction of a hospital management company which does have the expertise to run hospitals, and we have made a decision that this hospital is not viable. And I can be criticized for the timing --

COUNCILMAN NUTTER: You made a business decision because it's affecting your finances that it's not viable. That has nothing to do with need of service.

MR. SCHAENGOLD: But you just finished telling me that there's nothing wrong with making a profit. We are a hospital management company and we have deemed this hospital to not be viable, no different than the people who own St. Agnes have deemed their hospital not to be viable and it should be merged with another hospital or that the people who ran other hospitals.

COUNCILMAN NUTTER: You use the example St. Agnes having a conversation.

(Applause.)

COUNCILMAN NUTTER: We didn't have that opportunity. As I stated 8 million. We didn't have all this jumping around and hollering and screaming a couple years ago on City Avenue because there was a different mindset and there were a different group of people who took that situation and handled in a different fashion. And I'm not saying that there wouldn't be some consternation or some disruption in the community about a subsequent decision after a legitimate process in the MCP situation. It's not like people had a parade down City Avenue when the hospital closed, but they at least understood what was going on. We saw alternatives. The company actually -- and I've said this a hundred times and I'll say it here today -- the company actually did the right thing through a process and even through disposition. Because I know they could have sold it at a higher price or for some other use that was totally against the community's interest. They did not, and ultimately sold it back to the people who had it.

So there are ways to do things. And we don't need to go back over a lot of that territory back from the first hearing. But, you know, you can't complain about our response to this, given that you put yourself in the jackpot. This is a self-inflicted wound here.

MR. SCHAENGOLD: I'm not complaining. I am offering you an alternative.

COUNCILMAN NUTTER: Don't offer me a hospital. I don't need a hospital. I need healthcare. It's like you offer me more combs and brushes for my hair. I don't need it.

MR. LEONARD: Let's be clear about the problem we're talking about. The problem in healthcare in this country begins with the fact that $44 million people are uninsured. That's not a City problem. That's not a State problem. That's a federal problem. We need universal insurance. When people don't have insurance, they seek their medical care at the emergency room. MCP receives 60 percent of its patients at the emergency room. They are the people that don't have insurance. That's a national problem. You can't solve it. Tenet

can't solve it. And beating up Tenet because of a national problem doesn't advance the ball.

COUNCILMAN NUTTER: I appreciate that. But part of this conversation that has come out over the past couple weeks has also gotten into the issue of what are the doctors doing; how was the hospital being run; what were the facilities and services available; who's referring who, where? I think somewhere in this arrangement there must be some ability to effect what the mix is of the different patients and how are the doctors referring their patients and what's going on on the medical school side and what's going on on the hospital side.

You're absolutely right about who has insurance and who doesn't, and the company has an excellent charity care policy. I say that knowing what it is because I helped develop it. But that's beside the point. The issue here is how do these two institutions work together for the betterment of healthcare in the City. And at times, over the past couple weeks, there has seemingly been a

disconnect between who does what with whom.

So we do have some concerns about how the hospital was operated and what are the doctors doing and who controls what and decisions that were made about investment and operations. And those are some very serious issues that Tenet does have some ability to control either with their partner at Drexel, and Drexel with their partner at Tenet. That's what we're talking about here.

And the last part of this is, other than offering me a site that I don't necessarily know that the City of Philadelphia or the Commonwealth of Pennsylvania are going to step up and run, what else are you prepared to do? What else are you prepared to offer? Because we have been asking that question for the past few weeks, and I don't have a particularly good answer on that.

MR. LEONARD: We've given you our answer.

COUNCILMAN GOODE: Thank you, Mr. Leonard.

The Chair recognizes Councilman

Rizzo, very briefly; Representative Manderino, very briefly; Senator Hughes, very briefly; and then we're going to have a five-minute recess.

COUNCILMAN RIZZO: I think I'm not the only one confused about the relationship between Tenet and Drexel. You made a statement that for five years you tried to turn a hospital around. You heard the testimony where they hired a doctor -- and I don't know what the financial consequences were in bringing a doctor from South Philadelphia, believing that his patients would follow. How did you try to turn around a hospital -- did you have any input on that?

You indicate you're trying to turn a place around. With a decision like that, that's stupid.

MR. SCHAENGOLD: I do not know the specifics of this particular example. But I think we may be blowing this out of proportion from the following perspective.

During any given day, any given week, there has always been dialog between Tenet and

Drexel about physician recruitment, physician needs, clinical programs. This goes on in every hospital, every day, whether they are in partnership with Tenet or whether they are freestanding institutions. I am assuming that in this particular case, in order to meet a clinical need that was identified at MCP, one of the alternatives was to try to recruit someone that is not on the MCP staff. And all parties were lead to believe that this individual could, in fact, provide the necessary services at MCP because he felt that he could bring his patients to that facility, as well as provide clinical services there. Was it the right decision? Was it a well thought out decision? I don't know. But it is but one of many of those type of interactions that take place in any hospital.

COUNCILMAN RIZZO: But you can understand me, as a Member of this Committee, hearing an example like that, thinking there must be others, maybe dozens of others or hundreds of other decisions like that. How can you turn around an institution if it doesn't

appear to be managed well?

MR. SCHAENGOLD: Well, in this particular case, it sounds as though it didn't work. For example, in the area of neurosurgery, the recruitment of that physician appears to have been very successful. So some of these things work out and some of these things don't.

COUNCILMAN RIZZO: Again, I think there's a big difference between a person that has a life-threatening issue to deal with. You'll go to China if you need to get treatment, or wherever in the world. But when you're talking about the kind of care that that doctor from South Philadelphia provided, you do have a choice.

MR. SCHAENGOLD: I don't disagree with you. I think it was probably not the best decision.

COUNCILMAN RIZZO: Do you have a feel for what that missed cue cost?

MR. SCHAENGOLD: No, I don't.

COUNCILMAN RIZZO: I'd just be curious what you paid that doctor to end that

relationship, or Drexel University.

MR. SCHAENGOLD: We would have not paid for that physician.

COUNCILMAN RIZZO: But you made the statement that you tried to turn this place around. How are you going to turn a place around if you don't have the ability to have some oversight of that?

MR. SCHAENGOLD: Well, we work with our partner. We work with private physicians. We try to, in a sense, market our hospital to physicians who would want to use it. Our partner tries to help out by recruiting physicians as part of their faculty, filling clinical positions that are appropriate, and in the process here, hoping to strengthen the facility.

COUNCILMAN RIZZO: To me, it sounds like part of the failure of that facility is what we're hearing today. It doesn't appear that Drexel and Tenet are working together. It sounds like it was doomed for failure based on this description of the way it's run.

MR. SCHAENGOLD: Honestly, sir, I

think this hospital was doomed for failure a decade ago. It has been on life support since then. I think everyone can go back through all the records available in this community, this hospital has been not viable for a very long time.

COUNCILMAN RIZZO: Thank you.

Thank you, Mr. Chairman.

COUNCILMAN GOODE: Representative Manderino.

REPRESENTATIVE MANDERINO: Thank you, Mr. Chairman.

I'm just a lowly public service servant with a five figure income, so every time somebody throws around these eight figure dollar amounts, it makes my head pound a little bit. So I may be remembering dollar numbers inaccurately. I'm trying not to. But I've heard $20 million to $35 million, $30 million to $50 million in so many different contexts that -- I don't think I'm mixing them up, but if I am, I'm sure you will correct me.

You said several times in this last exchange MCP is no longer a viable acute care

facility. MCP is no longer a viable hospital. And I guess I would agree with you if you would have finished it, "as far as Tenet is concerned." But I guess I can't agree yet that it would not have been viable for anyone because of some unanswered questions.

When we were in the Governor's Office a couple of weeks ago, I remember the question being put to Tenet about what would take -- there's all this significant capital improvement that needs to be done to this hospital to make it viable, what would it take. And I remember a figure of $35 to $50 million. Now I find out that we weren't willing to offer the $35 and $50 million for either ourself or for someone else to bring it up, but we're willing to spend $35 to $50 million to shut it down so that the community doesn't have healthcare and there's not a competitor in that piece of the market. That upsets me.

I keep hearing about what an intake we had of all these uninsured people, and then I hear that we basically have no social work department operating at the hospital that would

use Pennsylvania's mechanism for getting uninsured people's coverage by getting them signed up for the Medical Assistance Spend Down Program, where our other urban hospitals in Philadelphia do that very aggressively and bring significant MA dollars into their hospitals.

So I guess what I want to ask is two questions. One, can you enlighten me, if I am incorrect, about the status of the social work department at MCP? And the reason that I'm asking that is because, again, that's one of those factors I think that go into the equation of, if we can find someone else interested in operating it. That's an important piece of information to know about whether that was something that was even attempted.

And my second question was, what were the capital estimates in terms of infusion of dollars for capital to bring that facility to the point where you thought it needed it for operating?

My third question finally is, is the obligation, the financial obligation that you

now owe to Drexel, whether it's $20 million or $30 million or $50 million or, God forbid, more than that because of the operating agreement and the shut down, is that obligation on your behalf and that debt on Drexel's behalf unsecured debt?

MR. SCHAENGOLD: I'll answer it in reverse order. It is part of a contract, an agreement, so that is what governs that issue.

REPRESENTATIVE MANDERINO: And there's no collateral for that agreement.

MR. SCHAENGOLD: No.

REPRESENTATIVE MANDERINO: So, God forbid, it's $50 million and Tenet doesn't have $50 million dollars, and all of a sudden Tenet is in bankruptcy court, Drexel is standing in line as an unsecured creditor, or unsecured -- am I using the term right, unsecured debt?

SENATOR HUGHES: They're owed money.

REPRESENTATIVE MANDERINO: They're owed money. Thank you, Senator Hughes.

They're owed money and they have no security to assure that money will come to

them?

MR. SCHAENGOLD: I can't respond to a hypothetical.

REPRESENTATIVE MANDERINO: There is no collateral security in this agreement, There's just a promissory obligation to pay costs, so therefore they would stand in line like any other creditor? There's nothing in this agreement that puts them first in line or anything like that?

MR. SCHAENGOLD: That is correct.

Your second to last question was we estimated that currently there is probably around $40 to $45 million in capital needs for that building to be brought up to reasonable standards that would have to be spent probably over a three-year period.

In regards to your first question, I don't know where that information is coming from, but we do have someone who can address the entire process, hopefully, to the satisfaction of everyone.

MR. HIGHSMITH: My name is Jack Highsmith. I'm the Regional Director for

2/12/04 - COMMERCE - RES. 040046

Patient Financial Services for the Pennsylvania market, Tenet Healthcare.

REPRESENTATIVE MANDERINO: And I guess to rephrase or restate the question for you, my concern was with regard to MCP under Tenet's management, particularly in the last two years, which was testimony we received last week of where the significant loss of revenue occurred, in the past two years. What was the status of a social work department or whatever equivalent you might call it, but people who would work with people who came into the hospital that didn't have insurance to try to get the paperwork done and follow it through to qualify them for the State Medical Assistance Spend On Program and have the hospital bills covered.

MR HIGHSMITH: Since 11/11/98, all Tenet market facilities have had a Medicaid eligible program called the Medical Eligibility Program, which is consistent with our policies for all hospitals throughout the country. The day of acquisition, staff were in place to begin the entitlement process. The gentleman

who is sitting over here, Mr. Anthony Lewkowitz (ph), is the regional manager of that program.

People started performing that service Day One at all Tenet facilities and have consistently done so since Day One.

REPRESENTATIVE MANDERINO: So there was somebody that did that at the Tenet MCP facility? Was it one person or a department? And do you have any statistics on your rate of -- I don't know what you call it. I'm not using the right industry jargon. Whether it's rate of recovery or rate of reimbursement, whatever.

MR. HIGHSMITH: There are four people performing services at MCP Hospital and formally the EPPY (ph) campus combined. There are also support personnel that assist those individuals. If you would like to get into the specifics of that process, the screening process both at bedside and throughout the registration process, Mr. Lewkowitz can comment on that.

REPRESENTATIVE MANDERINO: That's not necessary. I appreciate that, and I take

your word what you said, and I obviously either had incomplete or inaccurate information with regard to that point.

Thank you, Mr. Chairman.

COUNCILMAN GOODE: Thank you, Representative.

Senator Hughes.

SENATOR HUGHES: Thank you, Mr. Chairman.

I just want everybody to be clear about why we're here and why this is an issue for the City, State and federal government to address. I'm not here and this Committee is not here to beat up on Tenet. However, they deserve a little butt spanking. All right?

And I want to be clear about that, Mr. Leonard, because you said we shouldn't be beating up on Tenet.

We clearly know the larger policy issues about uninsured. That issue was raised when we started off this hearing a couple weeks ago. I specifically spoke about that. I know very well about the issues in the Commonwealth of Pennsylvania and about the issues of the

uninsured. We are here to deal with that, to deal with the fact that this corporation which you represent handled this piss poorly and would not have to be in this situation if they did something a little bit different. And consequently, created a significant amount of bad will in a community. They destroyed the good will that they had in one act. That's why we are here. Because this company nationally is going down the tubes.

(Applause.)

SENATOR HUGHES: No applause.

This company nationally is going down the tubes. This company owns about five or six other facilities in this region. We are here asking probing questions, finding out about $50 million that's owed to Drexel University, getting all of those other issues out on the table because they deserve to be out on the table because the healthcare future of the City of Philadelphia is on the line.

I personally don't believe that Drexel University is going to get a dime of that money. Because I believe when it comes

time to collect, that Tenet is going to go under. And then they're going to put that note on some kind of receivable way further down the line and Drexel will never get paid.

But it's our responsibility to raise these issues and to ask these questions because, because, because there's a significant amount of public dollars in the mix here. This private corporation makes its money off of public dollars and makes its money off of premiums in the private sector that a lot of people are finding hard to pay. So we have a responsibility to probe this issue and probe it as much as we can. There's significant players in this region. We've got to ask these questions. They're going down the tubes nationally. We have to ask these questions.

If we're going to get to the issues, Mr. Leonard, that you raised about the issue of uninsured, these issues have to be brought up because we have to create a public climate to deal with that issue. And you know how this stuff works. We've got to push and push and push until we can get some resolve on that. So

I don't have any problem asking him these questions. I think it's our responsibility to ask him these questions.

They and their representatives should not mind answering these questions being asked because when they came to the table in 1998 looking to come in and save, they sure did come to the Commonwealth and to the City looking for a whole lot of money to come in. And now we're in a situation where they're on their way out after we put a whole lot of money into the mix. Our state tax dollars were put in. Your state dollars were put in the mix to help them out. And they're making money other places. But I bet a dollar right now Roxborough is next. Because when you put -- how many uninsured -- 30,000, 40,000, 50,000 uninsured that you service through your emergency room? When you put them out on the street, they're going someplace else. So we have a responsibility to ask those questions.

And I have a problem with anybody asking me or asking this Committee, "Well, you

don't need to beat up on these guys." No. This is our responsibility. Get the information out there so everybody can hear how this system works so we can respond to the larger problem.

And if you guys had done it differently -- and, Mr. Leonard, you weren't here at the first hearing, but that was a tentative first hearing. If the corporation had done this whole thing differently, we wouldn't be having this right now. We wouldn't be going through all of this right now. We'd be going through, how do we solve, how do we save, how do we do that? That's the conversation we would be going through right now.

You know that, Mr. Schaengold, because you and I had that back and forth three weeks ago. So we have got to get to the bottom line. We've got to understand what the numbers are. We've got to understand what all of this means.

Because sure and behold, Councilman Nutter, Councilman Goode, Councilman Rizzo,

Councilwoman Blondell Reynolds, all the rest of us in a couple months, you know what's going to happen, We got somebody to come in and rescue, but they need some State money to come in and rescue and they need some City money to come in and rescue and they need some federal money to come in and rescue. You know how that works. All right.

Now we're better informed through this whole process about how to respond when they come to us looking for the money, because that's exactly what's going to happen. They're going to come to us looking for money. They're going to come and look for a bail-out here, a little money here, tweak this here, tweak that here. Everybody knows how this is going to play itself out. But if we don't understand what's going on here, if we don't understand how to protect the other institutions that you have in this City, if we don't raise these issues, if we don't go through all this laborious process to find out, then we're stuck with the same kind of deal that we were stuck with in 1998. We have

to know.

So that wasn't a question, Mr. Chairman. I'm just using my senatorial prerogative sitting at Councilman Nutter's desk to do what I got to do.

(Applause.)

MR. ARCHIBALD: Senator, do you want a response?

SENATOR HUGHES: If the Chair will allow one, absolutely.

COUNCILMAN GOODE: Actually, Mr. Leonard, I think that that was in response to your comments. We don't need a back-and-forth.

What I'd like to do at this time is actually pose a few questions or raise a few issues with you.

I think you need to have a separate conversation with Councilman Nutter about the confidentiality of the information you submitted, particularly the financial information. You agreed to do that in a clear-the-courtroom-type setting; is that correct?

2/12/04 - COMMERCE - RES. 040046

MR. LEONARD: The detailed information?

COUNCILMAN GOODE: Yes.

MR. LEONARD: Yes. If he wants to have an additional conversation about that, we can do it on or off the record in some confidential setting.

COUNCILMAN GOODE: Okay. We need a copy of the affiliation agreement.

MR. LEONARD: We said we'd get back to you on that.

COUNCILMAN GOODE: Okay. I need you to get back to me directly on whether we're going to get a copy of the affiliation agreement or not, not within necessarily a specific time frame. Mr. Schaengold said he could do it within 24 to 72 hours, so at some point early next week, I really just need a yes or no on whether we're going to get the affiliation agreement or not.

Last time I asked you very directly what your suggested next steps are outside of the hearing process.

MR. LEONARD: Well, I think realistically we move to a different forum next

week. We have the court process restarting and the hearing on the injunctive relief that is sought by the Save the MCP Coalition will be going on. So probably by the end of next week or the beginning of the week after that, there will be a court decision that will be in place one way or the other. And that will inform what happens in these hearings to a large extent, I suspect.

I think that at this point the City Council has to continue to work with the State, with the federal authorities and see what the options are. We're willing to continue to work with all of those entities to see if we can help develop some viable option. I guess we have to wait for the court to decide before you do anything else. It's your decision, obviously, but the hearings are next week.

COUNCILMAN GOODE: Thank you, Mr. Leonard.

This hearing will stand in recess for exactly five minutes.

(Brief recess.)

2/12/04 - COMMERCE - RES. 040046

COUNCILMAN GOODE: The Commerce and Economic Development Committee is back in session.

I have one question for Mr. Leonard. Will your client submit an answer to the requests to the Committee?

MR. LEONARD: Yes, the information requests and private session with Councilman Nutter. We will try to be responsive.

COUNCILMAN GOODE: This Committee is recessed to the call of the Chair.

(Council adjourned at 5:04 p.m.)

C E R T I F I C A T I O N

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of February 12, 2004, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE ON COMMERCE AND ECONOMIC DEVELOPMENT

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Lisa C. Bradley, RPR