

**UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS  
MEETING OF THE  
HEALTH AFFAIRS COMMITTEE  
APRIL 5, 2001**

HEALTH AFFAIRS COMMITTEE

Thursday, April 5, 2001  
4:00 - 5:00 p.m.  
Board Room, The Rotunda

AGENDA

	<u>PAGE</u>
I. REMARKS BY THE VICE PRESIDENT AND PROVOST FOR THE HEALTH SYSTEM (Dr. Cantrell)	1
II. REPORTS BY THE VICE PRESIDENT AND PROVOST FOR THE HEALTH SYSTEM (Dr. Cantrell)	
A. Medical Center Financial Report (as of February 28, 2001) (Mr. Sandridge to report)	2
B. Performance Improvement Project (Mr. Sandridge to introduce Mr. William Carter; Mr. Carter to report)	9

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 5, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: I. Remarks by the Vice President  
and Provost for the Health  
System

ACTION REQUIRED: None

BACKGROUND: The Vice President and Provost for the Health System will utilize this portion of the Health Affairs Committee meeting to inform the Board of Visitors of recent events which do not require formal action, but of which they should be made aware.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 5, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: II.A. Medical Center Financial Report  
as of February 28, 2001

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial report and reviews it with the Executive Vice President and Chief Operating Officer before submitting the report to the Health Affairs Committee of the Board of Visitors. The Health Services Foundation (HSF) prepares and presents financial statements to the Vice President and Provost for the Health System.

OVERALL DISCUSSION: Overall the financial statements reflect a series of broad operational issues such as the following:

- The discharges have declined because of bed availability and the nursing shortage. In order to maintain a safe ratio of nursing personnel to staff beds, especially intensive care beds, we have had to close beds.
- Personnel costs, which accounts for over 45 percent of the Medical Center's operating expenses is increasing. The nursing shortage is contributing to the increase in a number of ways. We have increased the rate of pay above what was budgeted. The overtime pay in Fiscal Year 2001 is over 100 percent above Fiscal Year 2000 spending. We have retained expensive traveling nurses to keep as many beds open as possible.
- Supply cost is increasing primarily due to the increase in pharmaceutical costs.

These broad operational issues are affecting all hospitals across the country in varying degrees.

DETAILED DISCUSSION: Discharges from the Medical Center for Fiscal Year 2001 are below budget by 2.2 percent, and below Fiscal Year 2000 by 1.7 percent. The Psychiatry and Surgery service lines experienced the most significant increases in discharges over last year, while the Neurology and Pediatrics

service lines experienced the most significant decreases in discharges. Although discharges are slightly below expectations, patient days are .4 percent above budget and 2.4 percent above prior year. A higher than expected case mix index has led to a higher than expected average length of stay for patients discharged through February.

Net operating revenue for Fiscal Year 2001 through February is 2.8 percent above budget and 15.4 percent above prior year. The increases in revenue are primarily due to lower indigent care write-offs, the conversion of the outpatient clinics to provider based entities, the increase of the case mix index and the opening of the Augusta Dialysis Center.

Total operating expenses through February Fiscal Year 2001 are 3.8 percent over the \$325.2 million budget and 15.5 percent over prior year expenses. Salaries and wages, medical center contracts, medical supplies and purchased services are higher than budget and higher than prior year.

The number of full-time equivalent employees (FTEs) is 20 below budget and 406 above prior year. The increase in salaries and FTEs over prior year is primarily the result of University and HSF employees transferring to the Medical Center's payroll with the conversion to provider-based clinics in Fiscal Year 2001. Hospital and clinic FTEs are:

	<u>FY 2000</u>	<u>FY 2001</u>	<u>2001 Budget</u>
Hospital FTEs	4,264	4,463	4,421
Clinic FTEs	<u>133</u>	<u>376</u>	<u>375</u>
Total	4,397	4,839	4,796
Salary and Wage			
Cost per FTE	\$37,389	\$39,621	\$38,851

The salary and wage cost per FTE has increased due to salary adjustments made in:

July	2000	Retention and recruitment bonus
September	2000	Minimum wage range adjustment
October	2000	Implemented enhanced shift differential program
November	2000	Holiday/premium pay adjustment Equity increases to market rates
January	2001	4 percent pay for performance increase

Medical Center contracts are above budget primarily due to payments to physicians for medical direction being greater than budgeted. The higher cost of pharmaceuticals is a contributing factor to the increased medical supplies expense. Pharmaceuticals expense through February is \$2.0 million (8.5 percent) higher than prior year. Filling nursing vacancies by contracting with traveling nurses is a contributing factor to the increased purchased services expense.

The operating margin for FY 2001 through February is 3.8 percent, which is below the budgeted margin of 4.7 percent, and equivalent to the prior year's 3.8 percent margin.

**University of Virginia Medical Center**

**Income Statement**

(Dollars in Millions)

Description	Most Recent Three Fiscal Years			Budgeted
	Feb 99	Feb 00	Feb 01	Feb 01
Net patient revenue	\$301.7	\$304.5	\$351.7	\$342.4
Other revenue	<u>7.4</u>	<u>7.0</u>	<u>7.9</u>	<u>7.3</u>
Total operating revenue	<u>\$309.1</u>	<u>\$311.5</u>	<u>\$359.6</u>	<u>\$349.7</u>
Operating expenses	280.0	276.3	321.3	307.4
Depreciation	20.6	20.2	21.6	22.6
Interest expense	<u>3.8</u>	<u>3.2</u>	<u>3.2</u>	<u>3.2</u>
Total operating expenses	<u>\$304.4</u>	<u>\$299.7</u>	<u>\$346.1</u>	<u>\$333.2</u>
Operating income (loss)	<u>\$4.7</u>	<u>\$11.8</u>	<u>\$13.5</u>	<u>\$16.5</u>
Non-operating income (loss)	<u>(\$2.0)</u>	<u>\$3.5</u>	<u>\$5.6</u>	<u>\$3.6</u>
Net income (loss)	<u><u>\$2.7</u></u>	<u><u>\$15.3</u></u>	<u><u>\$19.1</u></u>	<u><u>\$20.1</u></u>
Debt principal	\$2.4	\$2.5	\$2.8	\$2.8

**University of Virginia Medical Center**  
**Balance Sheet**  
(Dollars in Millions)

Description	2/28/99	2/29/00	2/28/01
<b>Assets</b>			
Operating cash and investments	\$63.4	\$89.0	\$53.5
Patient accounts receivables	63.8	56.0	69.8
Other current assets	17.5	10.2	24.6
Property, plant and equipment	214.6	216.7	227.3
Depreciation reserve investments	146.2	157.4	173.9
Other assets	<u>13.0</u>	<u>16.4</u>	<u>19.4</u>
<b>Total Assets</b>	<b><u>\$518.5</u></b>	<b><u>\$545.7</u></b>	<b><u>\$568.5</u></b>
<b>Liabilities</b>			
Current portion long-term debt	\$3.6	\$3.8	\$4.1
Accounts payable & other liab	38.4	48.9	44.0
Long-term debt	99.2	97.4	93.2
Accrued leave and other LT liab	<u>12.4</u>	<u>11.5</u>	<u>14.5</u>
<b>Total Liabilities</b>	<b><u>\$153.6</u></b>	<b><u>\$161.6</u></b>	<b><u>\$155.8</u></b>
<b>Fund Balance</b>	<b><u>\$364.9</u></b>	<b><u>\$384.1</u></b>	<b><u>\$412.7</u></b>
<b>Total Liabilities &amp; Fund Balance</b>	<b><u>\$518.5</u></b>	<b><u>\$545.7</u></b>	<b><u>\$568.5</u></b>

**University of Virginia Medical Center  
Financial Ratios**

Description	Most Recent Three Fiscal Years			Budgeted
	Feb 99	Feb 00	Feb 01	Feb 01
Operating margin (%)	1.5%	3.8%	3.8%	4.7%
Total margin (%)	0.9%	4.9%	5.2%	5.7%
Current ratio (x)	3.4	2.9	3.1	4.0
Days cash on hand (days)	183.8	219.8	174.6	190.0
Gross accounts receivable (days)	82.1	77.2	84.9	80.0
Average payment period (days)	36.0	46.0	36.0	30.6
Annual debt service coverage (x)	4.4	6.8	7.3	7.7
Debt-to-capitalization (%)	21.4%	20.2%	18.4%	20.0%
Capital expense (%)	8.0%	7.8%	7.2%	7.7%

**University of Virginia Medical Center  
Operating Statistics**

Description	Most Recent Three Fiscal Years			Budgeted
	Feb 99	Feb 00	Feb 01	Feb 01
Discharges	19,130	18,571	18,253	18,669
Patient days	103,558	97,742	100,059	99,648
Average length of stay	5.5	5.3	5.5	5.3
Clinic visits	308,499	328,103	335,884	333,593
ER visits	38,496	37,627	37,873	37,615
Medicare case mix index	1.8608	1.7762	1.8976	1.7773
Utilization by Payor Class				
Medicare %	36.5%	37.6%	38.4%	37.0%
Medicaid %	13.9%	12.2%	11.6%	11.9%
Blue Cross %	14.0%	16.4%	15.6%	14.0%
Managed care %	12.8%	13.0%	12.9%	15.5%
Self-pay, Commercial & other %	<del>22.7%</del>	<del>20.9%</del>	<del>21.5%</del>	<del>21.6%</del>
Total	100%	100%	100%	100%
FTE's	4,550	4,397	4,839	4,796

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 5, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: II.B. Performance Improvement Project

ACTION REQUIRED: None

BACKGROUND: In January 2000, the Health System embarked on Phase II of its Performance Improvement initiative designed to enhance operational efficiency and revenue capture. Phase one, which ran from July to November 1999, involved an assessment by a health care consulting firm on the cost reduction and revenue enhancement opportunities within the Health System. The analysis covered the institution's clinical operations and administrative support areas, as well as its revenue cycle and supply chain. The firm's findings were outlined to the Board of Visitors during an executive session at the November 17, 1999, Health Affairs Committee meeting. Since the last report to the Board in October 2000, the project has focused on completing the three major reorganizations recommended for central administration and maximizing the cost savings in the Operating Room's supply task force and the pharmacy's development of indigent care reimbursement programs.

DISCUSSION: Since the Board of Visitors meeting in October 2000, the Performance Improvement Project has focused its efforts on completing three reorganizations within Health System Administration. These include, the consolidation of a variety of departments under a Chief Business Development, Marketing and Public Relations Office, the integration of all analytical and operational and clinical process improvement resources under a single leader, and the reorganization of facilities management services. In addition, the Pharmacy, Operating Room and Medical Management programs continue to have success in cost reduction through contract negotiation, supply substitutions, and education of medical staff to reduce supply and pharmaceutical utilization. Discussion will focus on an overview of the projects noted above and updates on the initiative's five established work teams.