

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
HEALTH AFFAIRS COMMITTEE
MARCH 22, 2001**

HEALTH AFFAIRS COMMITTEE

Thursday, March 22, 2001

4:45 p.m.

Hospital Dining Conference Rooms 1, 2 & 3

Committee Members:

Charles M. Caravati, Jr., M.D., Chair

H. Christopher Alexander, III, M.D.

Thomas J. Bliley, Jr.

Vincent F. Callahan, Jr.

William G. Crutchfield, Jr.

William H. Goodwin, Jr.

Terence P. Ross

Elizabeth A. Twohy

Harry J.G. van Beek

John P. Ackerly, III, Ex Officio

AGENDA

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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	
A. Clinical Strategic Planning (Mr. Sandridge to introduce Mr. William Carter; Mr. Carter to report)	2
B. Financial Report (as of January 31, 2001) (Mr. Sandridge to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report)	4
III. EXECUTIVE SESSION	
• Discussion of the appointment, assignment, performance, and evaluation of prospective candidates and specific employees of the University and departments of the Medical Center which will necessarily involve discussion of specific individuals.	
An evaluation, with legal counsel, of the status of negotiations and performance with respect to the integration of the Medical Center computer system.	
Consideration, with the advice of legal counsel, the Medical Center's quality assurance review which involves discussion of the performance of Medical Center departments and specific individuals.	
To receive further from legal counsel advice with respect to pending or threatened litigation and any other matter requiring the advice of legal counsel.	

Discussion of an investment in a joint venture which will involve discussion of personnel and proprietary business data of the Medical Center.

Consideration of plans for a medical clinic in the surrounding service area which also will involve discussion of proprietary business information and business development strategies of the Medical Center, where public disclosure at this time would adversely affect the University's competitive position.

The relevant exemptions to the Virginia Freedom of Information Act are found in Section 2.1-344 A, (1), (5), (6), (7), (8) and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: March 22, 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: March 22, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: II.A. Clinical Strategic Planning

ACTION REQUIRED: None

BACKGROUND: The UVA Health System has developed a strategic plan for the clinical enterprise in order to assure success in achieving its service and academic missions in the next several years. The planning process, conducted with the analytic and facilitation services of the Computer Sciences Corporation (CSC) Healthcare Group, began in June 2000, and was completed in November 2000, with implementation currently in progress.

DISCUSSION: The intent of the strategic planning process was to establish a vision and to set clear directions for the clinical enterprise for the next five to ten years. The UVA Health System developed a data-driven plan of action based on these factors plus major environmental factors of importance. The strategic plan will provide the context and umbrella under which market and internal initiatives will be undertaken, as well as assist in priority setting.

The main work of the planning process was carried out by six Work Groups that reported to the Steering Committee. The issues that were addressed, selected because of their strategic importance, included Local Market Strategy, Regional and State Market Strategy, National and International Strategy, Internet Strategy, Best Place to Work Strategy, Alignment of Incentives within the Health System and one additional initiative, Patient Safety.

Internal operational issues comprise a large part of the strategic plan, and market issues make up the remainder. The highest priority issue for the Health System, on which all other strategies depend, relates to the recruitment and retention of a high quality staff. This is dependent on a variety of issues including quality of work-life, human resource policies, practices and capabilities, and management training. Efforts are under way to address each area. A second issue that relates to infrastructure is the use of technology for communication, health and business transactions. The Internet and an internal

Intranet will be used and enhanced to achieve these objectives. Alignment of incentives involves sharing the benefits of financial success with those responsible for that success. There are serious legal limits to the ability to gainshare with physicians, so we remain uncertain as to what we will ultimately be able to propose in this portion of the plan. Finally, patient safety has become a major focus in health care, and the Health system has responded by developing a set of initiatives and processes, including the General Electric Six Sigma approach, to address the most important issues.

The local, regional and national-international markets from which the Health System draws its patient populations were the topics of the final three work groups. In the short term, until capacity issues are resolved, a select group of market initiatives will be addressed, including development of a primary care model to enhance access and improve efficiency, creation of an interdisciplinary Geriatrics program, and development of a comprehensive Wellness-Health Promotion-Diagnostic center.

As the short-term strategies and goals, described above, are achieved, a longer-term set of plans will be developed. In addition, a robust process to evaluate the success of these activities is under development.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: March 22, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: II.B. University of Virginia
Medical Center Financial
Report as of January 31, 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 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 account for over 45 percent of the Medical Center's operating expenses are increasing in a number of ways associated with the nursing shortage. 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. The contracted labor, or nurse traveler, cost is 25 percent above budget (\$2.3 million above budget). We have been forced to retain these expensive traveling nurses to keep as many beds open as possible.
- Supply cost is increasing primarily because of 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 1.8 percent, and below

Fiscal Year 2000 by 1.1 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 1.0 percent above budget and 3.6 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 January.

Net operating revenue for Fiscal Year 2001 through January is 3.1 percent above budget and 16.1 percent above prior year. The increases in revenue are primarily because of lower indigent care write-offs, the conversion of the outpatient clinics to provider based entities, the increase to the case mix index and the opening of the Augusta Dialysis Center.

Total operating expenses through January Fiscal Year 2001 are 3.9 percent over the \$291.9 million budget and 16.2 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	4,254	4,424	4,435
Clinic FTEs	<u>131</u>	<u>367</u>	<u>376</u>
Total	4,385	4,791	4,811
Salary and Wage			
Cost per FTE	\$37,367	\$39,849	\$38,707

The salary and wage cost per FTE has increased because of 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 January is \$2.2 million (11.3 percent) higher than prior year. Filling nursing vacancies by contracting with traveling nurses is a contributing factor to the increased purchased services expense. Traveler's expense through January is \$651,000 (24.8 percent) higher than prior year.

The operating margin for Fiscal Year 2001 through January is 4.0 percent, which is below the budgeted margin of 4.7 percent, and equivalent to the prior year's 4.0 percent margin.

University of Virginia Medical Center
Income Statement
(Dollars in Millions)

Description	Most Recent Three Fiscal Years			Budgeted
	Jan 99	Jan 00	Jan 01	Jan 01
Net patient revenue	\$266.7	\$266.0	\$309.2	\$300.0
Other revenue	<u>6.2</u>	<u>6.0</u>	<u>6.6</u>	<u>6.3</u>
Total operating revenue	<u>\$272.9</u>	<u>\$272.0</u>	<u>\$315.8</u>	<u>\$306.3</u>
Operating expenses	245.0	240.6	281.7	269.4
Depreciation	18.2	17.6	18.8	19.7
Interest expense	<u>3.4</u>	<u>2.8</u>	<u>2.8</u>	<u>2.8</u>
Total operating expenses	<u>\$266.6</u>	<u>\$261.0</u>	<u>\$303.3</u>	<u>\$291.9</u>
Operating income (loss)	<u>\$6.3</u>	<u>\$11.0</u>	<u>\$12.5</u>	<u>\$14.4</u>
Non-operating income (loss)	<u>(\$2.7)</u>	<u>\$2.8</u>	<u>\$4.4</u>	<u>\$3.3</u>
Net income (loss)	<u>\$3.6</u>	<u>\$13.8</u>	<u>\$16.9</u>	<u>\$17.7</u>
Debt principal	\$2.1	\$2.2	\$2.5	\$2.5

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

Description	1/31/99	1/31/00	1/31/01
Assets			
Operating cash and investments	\$62.0	\$91.7	\$63.1
Patient accounts receivables	70.3	56.5	61.7
Other current assets	16.4	7.3	14.1
Property, plant and equipment	215.3	214.6	224.6
Depreciation reserve investments	145.6	156.8	171.4
Other assets	<u>12.9</u>	<u>16.4</u>	<u>18.8</u>
Total Assets	<u>\$522.5</u>	<u>\$543.3</u>	<u>\$553.7</u>
Liabilities			
Current portion long-term debt	\$3.6	\$3.8	\$4.1
Accounts payable & other liab	41.2	48.8	44.4
Long-term debt	99.2	97.4	93.2
Accrued leave and other LT liab	<u>12.7</u>	<u>10.7</u>	<u>13.2</u>
Total Liabilities	<u>\$156.7</u>	<u>\$160.7</u>	<u>\$154.9</u>
Fund Balance	<u>\$365.8</u>	<u>\$382.6</u>	<u>\$398.8</u>
Total Liabilities & Fund Balance	<u>\$522.5</u>	<u>\$543.3</u>	<u>\$553.7</u>

**University of Virginia Medical Center
Financial Ratios**

Description	Most Recent Three Fiscal Years			Budgeted
	Jan 99	Jan 00	Jan 01	Jan 01
Operating margin (%)	2.3%	4.0%	4.0%	4.7%
Total margin (%)	1.3%	5.0%	5.3%	5.7%
Current ratio (x)	3.3	3.0	2.9	4.0
Days cash on hand (days)	184.1	224.2	181.4	190.0
Gross accounts receivable (days)	84.5	77.3	85.7	80.0
Average payment period (days)	38.8	46.5	36.7	30.6
Annual debt service coverage (x)	4.6	6.8	7.3	7.7
Debt-to-capitalization (%)	21.3%	20.3%	18.9%	20.0%
Capital expense (%)	8.1%	7.8%	7.1%	7.7%

**University of Virginia Medical Center
Operating Statistics**

Description	Most Recent Three Fiscal Years			Budgeted
	Jan 99	Jan 00	Jan 01	Jan 01
Discharges	16,800	16,280	16,101	16,399
Patient days	91,450	85,272	88,339	87,430
Average length of stay	5.5	5.2	5.5	5.3
Clinic visits	269,043	284,131	294,654	291,871
ER visits	33,535	33,029	33,317	33,002
Medicare case mix index	1.8639	1.7595	1.8904	1.7583
Utilization by Payor Class				
Medicare %	36.2%	37.3%	38.6%	37.0%
Medicaid %	14.0%	12.4%	11.7%	11.9%
Blue Cross %	14.0%	16.3%	15.7%	14.0%
Managed care %	13.2%	13.0%	12.9%	15.5%
Self-pay, Commercial & other %	22.6%	21.0%	21.2%	21.6%
Total	100%	100%	100%	100%
FTE's	4,592	4,385	4,791	4,811