

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
April 4, 2002**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD
Thursday, April 4, 2002
4:30 - 6:00 p.m.
Board Room, The Rotunda

AGENDA

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I. ACTION ITEM (Mr. Howell)	1
• Organizational Resolution	
II. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell)	
A. Vice President's Remarks	4
B. Finance and Operations (Mr. Howell to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report on Finance. Mr. Howell to introduce Mr. William Carter; Mr. Carter to report on Operations)	6
C. Clinical Programs and Capital Development	13
III. EXECUTIVE SESSION	
• Discussion of the appointment, assignment, performance, and evaluation of prospective candidates and specific individuals and departments, including credentialing of medical staff, which will also necessarily involve consideration of the performance of specific individuals. Consultation with legal counsel on departments' and affiliates' performance in compliance with accreditation and Medicare participation and reimbursement requirements, which will necessarily involve discussion of the performance of individuals and include proprietary business-related information.	

Discussion of a gift to the Medical Center. Consultation with legal counsel pertaining to litigation involving HEALTHSOUTH Corporation. Discussion of proprietary, business-related information pertaining to the Medical Center's acquisition of medical supplies and pharmaceuticals, disclosure of which would adversely affect the competitive position of the Medical Center. And discussion of proprietary, business-related information pertaining to negotiation of reimbursement terms in a proposed managed care contract for medical services, and pertaining to business development strategies regarding investment in a proposed health care joint venture, disclosure of which would adversely affect the competitive position of the Medical Center. The relevant exemptions to the Virginia Freedom of Information Act for all of these are provided for in Section 2.2-3711 (A) (1), (4), (5), (6), (7), (8) and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 4, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I. Organizational Approval

BACKGROUND: On January 26, 2002, the Board of Visitors created the University of Virginia Medical Center Operating Board and delegated to it exclusive authority for the governance, operation and management of the University of Virginia Medical Center. Prior to that date, the Board of Visitors had delegated to the Medical Policy Council certain governance authority over clinical practice and graduate medical education policies and standards, which authority was repealed by the January 26, resolution.

DISCUSSION: At its initial meeting, the Medical Center Operating Board must ratify certain actions previously taken by the Medical Policy Council and by the Medical Center administration and to adopt certain resolutions for the continued governance of the Medical Center as may be required for accreditation or other legal purposes.

ACTION REQUIRED: Approval by the Medical Center Operating Board

ORGANIZATIONAL RESOLUTION

WHEREAS, by virtue of the Board of Visitors' creation of the Medical Center Operating Board on January 26, 2002, the Medical Center Operating Board is the governing body of the University of Virginia Medical Center and is responsible for its operation and management; and

WHEREAS, the Medical Center is not an incorporated entity separate and apart from the University of Virginia, an agency of the Commonwealth, nor is the Medical Center governed by "bylaws" in the same way as a traditional corporation in the private sector may be so governed, but the January 26, 2002, resolution of the Board of Visitors creating the Medical Center Operating Board provides that the resolution, together with the Manual of the Board of Visitors of the University of Virginia, shall serve as the bylaws of the Medical Center Operating Board; and

WHEREAS, the January 26 resolution authorizes the Medical Center Operating Board to adopt resolutions, as necessary and appropriate, for the governance of the Medical Center; and

WHEREAS, in furtherance of the mission of the Medical Center, the Medical Center Operating Board desires to adopt certain resolutions which acknowledge its role in establishing Medical Center policy, promoting performance improvement within the Medical Center, providing for organizational management and planning for the Medical Center and addressing its accountabilities and responsibilities to the patient population served by the Medical Center; and

WHEREAS, the Medical Center Operating Board further desires to ratify and adopt all existing Medical Center policies that have been approved and adopted by the Medical Policy Council or have been adopted by senior administration of the Medical Center prior to the date hereof; and

WHEREAS, the Medical Center Operating Board further desires to adopt certain resolutions for the continued governance of the Medical Center and as required by regulating agencies, accrediting entities or applicable laws in accordance with the delegation to it by the Board of Visitors;

RESOLVED that the Medical Center Operating Board acknowledges that a criteria-based process for selecting a qualified and competent Chief Executive Officer of the Medical Center, including the responsibilities of the Chief Executive Officer, has been established previously by the Board of Visitors and is adopted by the Medical Center Operating Board; and

RESOLVED FURTHER that the Medical Center Operating Board acknowledges the right of the medical staff to attendance and voice through a representative chosen by the medical staff at Medical Center Operating Board meetings, and that the elected President of the Medical Center medical staff shall serve as this representative; and

RESOLVED FURTHER that the Medical Center Operating Board ratifies and adopts all existing Medical Center policies that have been approved and adopted by the Medical Policy Council prior to April 4, 2002; and

RESOLVED FURTHER that until further resolution of this Committee, the Medical Policy Council shall continue in its present format and shall serve as the executive committee of the clinical staff of the Medical Center; and

RESOLVED FURTHER that subject to the continuing authority and policies of the Medical Center Operating Board, the Medical Policy Council is hereby delegated the authority for (i) determining the appropriate criteria for appointment and reappointment of clinicians to the clinical staff of the Medical Center and the appropriate criteria for appointment and reappointment of healthcare professionals practicing within the Medical Center, (ii) appointing and reappointing, in accordance with the established criteria, qualified clinicians to the clinical staff of the Medical Center and qualified healthcare professionals to practice within the Medical Center, and (iii) granting of privileges to the clinical staff of the Medical Center and healthcare professionals practicing within the Medical Center as determined by the Medical Policy Council to be appropriate for each individual; and

RESOLVED FURTHER that the Medical Center Operating Board hereby ratifies and adopts all existing Medical Center policies that have been approved and adopted by senior administration of the Medical Center prior to April 4, 2002; and

RESOLVED FURTHER that the Vice President and Chief Executive Officer of the Medical Center is hereby delegated the authority to adopt appropriate policies and procedures over administrative matters within the Medical Center; and

RESOLVED FURTHER that the Medical Center shall be managed and operated in compliance with all applicable laws and regulations, requirements of the Board of Visitors and the Medical Center Operating Board, applicable University policies and procedures, and Medical Center policies and procedures, including the Compliance Code of Conduct and the applicable conflict of interest requirements as defined under law.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 4, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.A. Vice President Remarks

ACTION REQUIRED: None

DISCUSSION: The Vice President and Chief Executive Officer of the Medical Center will inform the Medical Center Operating Board of recent events that do not require formal action, but of which it should be made aware.

OPERATING STATISTICAL MEASURES - APRIL 2002

ADMISSIONS and CASE MIX - Year to Date

	<u>FY 01</u>	<u>FY 02</u>	<u>% Change</u>
<u>ADMISSIONS:</u>			
Surgical			
Medical			
Transplant			
Obstetrics			
Pediatrics			
Normal Newborn			
Psychiatric			
Subtotal Acute			
Short Stay			
Total Admissions			
<u>CASE MIX INDEX:</u>			
All Acute Inpatients			
Medicare Inpatients			

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 01</u>	<u>FY 02</u>	<u>% Change</u>
<u>ACUTE INPATIENTS:</u>			
Inpatient Days			
Average Length of Stay			
Average Daily Census			
Births			
<u>OUTPATIENTS:</u>			
Clinic Visits			
Average Daily Visits			
Emergency Room Visits			
<u>SURGICAL PROCEDURES:</u>			
Inpatient			
Outpatient			
Total			

OPERATING FINANCIAL MEASURES - APRIL 2002

REVENUES and EXPENSES - Year to Date

	<u>FY 01</u>	<u>FY 02</u>	<u>% Change</u>
<u>NET REVENUES:</u>			
Total Patient Rev.			
Appropriations			
Total			
<u>EXPENSES:</u>			
Salaries and Wages			
Supplies and Contracts			
Purchased Services			
Bad Debts			
Depreciation			
Interest Expense			
Total			
Operating Margin			
Operating Margin %			
Non-Operating Revenue			
Net Income			

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 01</u>	<u>FY 02</u>	<u>% Change</u>
<u>NET REVENUE BY PAYOR:</u>			
Medicare			
Medicaid			
Managed Care			
Commercial Insurance			
Other			
Total Paying Patient Rev.			
Managed Care			
Non-Managed Care			
Total Paying Patient Rev.			
<u>OTHER:</u>			
Collection % of Gross Billings			
Days of Revenue in Receivables (Gross)			
Cost per CMI & OP-Adj Discharge			
Cost per CMI & OP-Adj Day			
Cost per Outpatient Visit			
Total F.T.E.'s			
F.T.E.'s Per Adjusted Occupied Bed			

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 4, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.B. Finance and Operations

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial and operations report and reviews it with the Vice President and Chief Executive Officer before submitting the report to the Medical Center Operating Board.

DISCUSSION:

FINANCE

The first seven months of Fiscal Year 2002 were not up to expectations. Overall, inpatient volume was below budget and labor cost was above budget. If these trends continue, financial performance in Fiscal Year 2002 will continue to be below expectations.

The major determinant of net revenue is patient discharges. For the first seven months of Fiscal Year 2002 discharges are below budget by 938, which is 5.7 percent. Had discharges been equal to budget, net revenue would have been approximately \$14,000,000 higher. Several services are below budget such as neurosurgery, inpatient surgery, and obstetrics. Outpatient volume such as same day patients and outpatient visits, are above budget but not enough to offset the drop in discharges.

Net operating revenue for Fiscal Year 2002 is 1.8 percent below budget and 9.2 percent above prior year. The increase in revenue over prior year is partly the result of the conversion of the outpatient clinics to provider-based clinics which occurred August 1, 2000. In addition, gross charges for the Medical Center increased an average of 15.0 percent on July 1, 2001.

Total operating expenses for Fiscal Year 2002 are 2.8 percent above the \$332.6 million budget and 12.5 percent over prior year expenses. Salaries, wages and supplies are higher than both budget and prior year.

The number of full-time equivalent employees (FTEs) is 135 above budget and 475 above prior year. The increase in FTEs over prior year is the result of University and HSF employees transferring to the Medical Center's payroll (190), successful efforts to increase FTEs to permit the opening of more beds (244), and new programs (41). Hospital and clinic FTEs are:

	<u>FY 2001</u>	<u>FY 2002</u>	<u>2002 Budget</u>
Hospital FTEs	4,487	4,840	4,725
Clinic FTEs	<u>329</u>	<u>451</u>	<u>431</u>
Total	4,816	5,291	5,156
Annualized			
Salary and Wage	\$39,843	\$42,573	\$41,563
Cost per FTE			

Plans have been prepared and approved which will lower expenses to approximately \$3 million below budgeted expenses. The major component of the plan is to reduce hiring and limit discretionary spending. Also, the pay for performance salary increase scheduled to occur in January has been delayed. The organization is clearly focused on the requirement to reduce expenses.

The salary and wage cost per FTE in Fiscal Year 2002 is higher than in the prior year because of two salary adjustments made during the second half of Fiscal Year 2001:

- January 2001 4 percent pay for performance increase
- March 2001 Internal equity alignment increases for health care professionals, RN wage premium for inpatient pool nurses

The operating margin for Fiscal Year 2002 is .8 percent, which is below both the budgeted margin of 5.2 percent and the prior year's 3.8 percent margin.

OPERATIONS

For the first seven months of Fiscal Year 2002 our patient care areas have struggled with a fundamental change in the nature of our inpatient workload. As of January, our discharges are 938 below budget. This, of course, has a negative impact on our financial performance. However, short stays are 1,233 above budget. While we get paid significantly less for short stays, the work associated with caring for these patients is as intense, and perhaps more so, than for regular admissions. Efforts continue to improve throughput of our inpatients.

Use of travelers has been significantly reduced from levels six months ago. Travelers costs for February were \$200,000 below the monthly average cost for the last six months of 2001.

Staff turnover continues to be much lower than was experienced a year ago.

Since January we have completed a major renovation project in the Family Medicine Department. We have modernized and increased the clinic space and have consolidated faculty offices near the clinic.

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

Description	Most Recent Three Fiscal Years			Budgeted
	Jan 00	Jan 01	Jan 02	Jan 02
Net patient revenue	\$264.6	\$305.3	\$334.0	\$330.9
Non-recurring revenue	1.4	3.9	2.7	12.4
Other revenue	<u>6.0</u>	<u>6.6</u>	<u>8.0</u>	<u>7.6</u>
Total operating revenue	<u>\$270.6</u>	<u>\$315.8</u>	<u>\$344.7</u>	<u>\$350.9</u>
Operating expenses	240.6	282.2	319.3	309.5
Depreciation	17.6	18.8	19.8	20.4
Interest expense	<u>2.8</u>	<u>2.8</u>	<u>2.7</u>	<u>2.7</u>
Total operating expenses	<u>\$261.0</u>	<u>\$303.8</u>	<u>\$341.8</u>	<u>\$332.6</u>
Operating income (loss)	<u>\$9.6</u>	<u>\$12.0</u>	<u>\$2.9</u>	<u>\$18.3</u>
Non-operating income (loss)	<u>\$2.8</u>	<u>\$4.4</u>	<u>(\$6.1)</u>	<u>\$5.4</u>
Net income (loss)	<u>\$12.4</u>	<u>\$16.4</u>	<u>(\$3.2)</u>	<u>\$23.7</u>
Debt principal	\$2.2	\$2.5	\$2.6	\$2.6

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

Description	1/31/2000	1/31/2001	1/31/2002
Assets			
Operating cash and investments	\$91.7	\$52.9	\$31.6
Patient accounts receivables	56.5	70.5	80.8
Other current assets	7.3	22.5	33.3
Property, plant and equipment	214.6	227.3	229.7
Depreciation reserve investments	156.8	173.0	185.0
Other assets	<u>16.4</u>	<u>19.2</u>	<u>11.7</u>
Total Assets	<u>\$543.3</u>	<u>\$565.4</u>	<u>\$572.1</u>
Liabilities			
Current portion long-term debt	\$3.8	\$4.1	\$4.2
Accounts payable & other liab	48.8	45.0	47.3
Long-term debt	97.4	93.2	88.7
Accrued leave and other LT liab	<u>10.7</u>	<u>13.2</u>	<u>16.4</u>
Total Liabilities	<u>\$160.7</u>	<u>\$155.5</u>	<u>\$156.6</u>
Fund Balance	<u>\$382.6</u>	<u>\$409.9</u>	<u>\$415.5</u>
Total Liabilities & Fund Balance	<u>\$543.3</u>	<u>\$565.4</u>	<u>\$572.1</u>

**University of Virginia Medical Center
Financial Ratios**

Description	Most Recent Three Fiscal Years			Budgeted
	Jan 00	Jan 01	Jan 02	Jan 02
Operating margin (%)	3.5%	3.8%	0.8%	5.2%
Total margin (%)	4.5%	5.1%	-0.9%	6.7%
Current ratio (x)	3.0	3.0	2.8	4.0
Days cash on hand (days)	224.2	174.6	148.6	190.0
Gross accounts receivable (days)	77.9	84.6	75.4	80.0
Average payment period (days)	46.5	37.0	34.4	30.6
Annual debt service coverage (x)	6.5	7.2	3.7	8.9
Debt-to-capitalization (%)	20.3%	18.5%	17.6%	20.0%
Capital expense (%)	7.8%	7.1%	6.6%	6.9%

**University of Virginia Medical Center
Operating Statistics**

Description	Most Recent Three Fiscal Years			Budgeted
	Jan 00	Jan 01	Jan 02	Jan 02
Discharges	16,280	16,096	15,657	16,595
Patient days	85,272	88,338	88,011	91,403
Average length of stay	5.2	5.5	5.6	5.5
Clinic visits	284,131	295,846	303,696	295,340
ER visits	33,029	33,317	34,066	33,129
Medicare case mix index	1.7595	1.8975	1.8960	1.8659
Utilization by Payor Class				
Medicare %	37.3%	38.8%	39.8%	37.0%
Medicaid %	12.4%	12.4%	10.8%	10.8%
Blue Cross %	16.3%	15.4%	16.6%	13.4%
Managed care %	13.0%	12.5%	11.7%	11.7%
Self-pay, Commercial & other %	<u>21.0%</u>	<u>20.9%</u>	<u>21.0%</u>	<u>27.1%</u>
Total	100%	100%	100%	100%
FTE's	4,385	4,816	5,291	5,156

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: April 4, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.C. Clinical Programs and
Capital Development

ACTION REQUIRED: None

DISCUSSION: The Vice President and Chief Executive Officer of the Medical Center will inform the Medical Center Operating Board of significant clinical programs adopted within the Medical Center since the last meeting of the Board of Visitors, as well as major capital development planned for the Medical Center.