

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
May 31, 2002**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD
Friday, May 31, 2002
9:30 - 10:30 a.m.
Board Room, The Rotunda

AGENDA

	<u>PAGE</u>
I. ACTION ITEMS (Mr. Howell)	
A. Fiscal year 2003 Medical Center Operating Budget (including employee bonus) (Mr. Howell to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report)	1
B. Changes in Medical Center Retirement Benefits (Mr. Howell to introduce Mr. William Carter; Mr. Carter to report)	13
II. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell)	
A. Vice President's Remarks	17
B. Finance and Operations (Mr. Fitzgerald to report on Finance; Mr. Carter to report on Operations)	18
C. Capital Projects (Messrs. Howell and Carter)	25
III. EXECUTIVE SESSION	
• ACTION ITEM - Consideration of the appointment, assignment, performance, and evaluation and credentialing of medical staff and healthcare professionals.	
• Discussion of the appointment, assignment, reassignment, performance and evaluation of employees of the Medical Center, and evaluation of performance of departments of the Medical Center which will necessarily involve consideration of the performance of specific individuals. Consultation with legal counsel on departments' performance in compliance with regulatory, licensing and accreditation requirements, which will necessarily involve discussion of the performance of individuals and include proprietary business-related information, disclosure of which would adversely affect the competitive position of the Medical Center. Consultation with legal counsel pertaining to litigation involving HEALTHSOUTH Corporation. And discussion of proprietary, business-related information pertaining to	

negotiation of reimbursement terms in proposed managed care contracts for medical services, 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), (7), (8) and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 31, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Fiscal Year 2003 Medical Center
Operating Budget

BACKGROUND: At its May meeting, the Board acts on the proposed operating budget for the Medical Center for fiscal year 2003. Under the *Code of Virginia*, the Board of Visitors is authorized to establish competitive compensation plans for employees of the University of Virginia Medical Center. The Medical Center is seeking approval for the payment of an employee bonus plan based on the financial performance of the Medical Center.

DISCUSSION: The Medical Center's 2002-2003 fiscal plan has been developed in response to the challenge of providing patient care, teaching, and research services in an increasingly changing health care industry. Revisions to Medicare payments caused by the Balanced Budget Act, in combination with pressures from third party payers, will have a negative impact on revenue on a per-case and per-visit basis. The cost associated with providing quality patient care will continue to have upward pressure due to labor shortages and increases in pharmaceutical and medical supply expenses. In addition, in fiscal year 2003 the Medical Center expects to continue to care for patients with higher acuity illnesses. In fiscal year 2002, the Medical Center's Medicare Case Mix Index (CMI) averaged 1.92. This acuity level is experienced by only a handful of hospitals in the United States.

Success in recruitment and retention of professional staff significantly impacted the FTE levels in fiscal year 2002. At the same time a shift in volume from inpatient to short stay negatively impacted net revenues. The resulting financial pressure caused the Medical Center to forego a planned annual salary increase for fiscal year 2002. This will force the Medical Center to consider alternative compensation strategies for its market sensitive workforce.

The fiscal year 2002 operating margin is projected to be \$6.5 million and the net operating income after non-recurring adjustments is projected to be \$20.4 million. The reduction to operating income is due to pressures on reimbursement, and increased salary expense for caregivers. The non-recurring

contractual adjustment for fiscal year 2002 is composed of \$13.8 million in one-time revenue settlements from Medicaid, Medicare, Trigon, and the Commonwealth of Virginia. For fiscal year 2003, these one-time settlements are projected to be \$2.0 million. (See Schedule "A" for detail.) The HMO component of the Medical Center's payor mix grew in fiscal year 2002. This was because of two major factors. On September 1, 2001, QualChoice was purchased by Southern Health Services, Inc. Also, Medicaid's Managed Care Program, Medallion II, entered the Medical Center's market on December 1, 2001. As a result, the Medical Center continues to experience additional requirements and pressures on denial write-offs and increases in labor requirements to administer contracts.

The Corporate Integrity Agreement (CIA) and the new Health Insurance Portability and Accountability Act (HIPAA) legislation are external pressures that will result in additional expenses for the Medical Center. The Medical Center continues to modernize and integrate IT services by means of the Integrated Health Information Management System (IHIMS) project. These increased capital investments will result in additional depreciation expense of \$1.9 million for fiscal year 2003. The Medical Center's 2002-2003 fiscal plan accounts for these additional expenses while preserving its mission of providing high quality and cost effective health care, education, and research services to patients and their families, students, employers, state and federal governments, referring physicians, referring agencies, and affiliated networks.

The Medical Center budget development process continues to be highly participatory and clinically focused. Patient care service management, support function management, and physicians have significant roles in the budget development cycle. The budget process begins with a budget retreat and ends with each operating unit providing a monthly and cumulative operating and capital budget that contains service demand forecasts, required full-time equivalent personnel, fringe benefits, and a full complement of non-labor expenses.

Assumptions

Market conditions: For fiscal year 2003, total discharges are projected to grow 3.4 percent from fiscal year 2002 expected levels. Patient days are expected to increase overall by 4.3 percent, primarily because of bed openings, new faculty recruited by the School of Medicine and higher admission projections. Outpatient service demand is expected to grow by

5.9 percent. This reflects a continuing trend of outpatient business growing faster than inpatient business. The following table includes historical and projected patient volumes:

	<u>Actual</u> <u>2000-2001</u>	<u>Forecasted</u> <u>2001-2002</u>	<u>Budget</u> <u>2002-2003</u>
Discharges	27,676	26,643	27,537
Adjusted Discharges	43,956	43,571	45,703
Average length of stay	5.43	5.61	5.66
Patient days	150,150	149,465	155,874
Clinic & ER visits	519,147	526,234	557,260
Home Health visits	54,067	52,910	51,518

Revenues: The Medical Center's fiscal year 2003 patient payer mix includes more managed care as a result of Medallion II, Medicaid's managed care program, which entered the Medical Center's market on December 1, 2001. This resulted in 50 percent of the Medical Center's Medicaid patients now under managed care. While payments are expected to remain at Medicaid rates, utilization is expected to decrease as patient encounters are constrained by the HMOs. The Medical Center's largest challenge is the unwillingness of payers, especially government programs, to increase their payments commensurate with the increases in educational and medical delivery costs.

Rate changes: The Medical Center proposes a rate increase of 5 percent.

Expenses: Expenses from operations are projected to increase by \$2.1 million. Expenses per adjusted discharge decrease 4.3 percent from \$13,179 to \$12,614. We anticipate that expense per adjusted discharge included in the budget will be close to the academic Medical Center median expense. The cause of the decrease is to recognize efficiencies in operations in response to declining revenues from non-recurring sources. The Medical Center fiscal year 2002-2003 budget plans for 4 percent inflation for Medical Supplies and 15 percent for Pharmaceutical expenses. However, increased medical management and adjustments in retail pharmacy activity will offset inflation so that total Pharmaceutical costs are expected to increase just 0.9 percent.

Staffing: The Medical Center's fiscal year 2003 budget includes 5,139 FTEs, a reduction of 172 FTEs from staffing at current fiscal year 2002 projections of 5,311 FTEs. The pressure of diminishing revenues from third party payors and the reduction of non-recurring revenue supplements results in the need for greater operating efficiency for fiscal year 2002-2003 and

beyond. This reduction in staff is planned to occur with no layoffs.

Operating Plan: The operating plan includes actual results from 2000-2001, projected results for 2001-2002, and budgeted results for 2002-2003. A rapidly changing healthcare environment, however, could prove these assumptions less valid as the year progresses. For this reason, management will continue to monitor budget versus actual performance on a monthly basis and, where appropriate, recommend amendments to the Medical Center Operating Board. Also, management will continue to identify and implement process improvement strategies that will allow for operational streamlining and cost efficiencies.

Medicare's payment methodology, Ambulatory Payment Classifications (APC), put outpatient reimbursement into a prospective payment system in fiscal year 2001. Radical changes to the payment structure are projected for fiscal year 2003; overall these may result in just a slight total payment reduction.

Revenues are impacted by the Balanced Budget Act (BBA), the Balanced Budget Refinement Act (BBRA), and the Benefits Improvement and Protection Act of 2000 (BIPA). The final reduction to Indirect Medical Education (IME) that was mandated by the BBA will take effect in fiscal year 2003, decreasing net revenue by \$4.5 million.

The major strategic initiatives that impact next year's fiscal plan include:

- Enhanced personnel compensation packages and annual salary and equity adjustments (\$ 3.1 million resulting from fiscal year 2002 actions and \$ 6.0 million of new adjustments for fiscal year 2003). Compensation for contracted services \$0.4 million.
- Introduction of a new Skull-Based Surgery program.
- Continuation of new initiatives.
- Required expenses related to the JCAHO survey (\$ 0.5 million).
- Radiology imaging joint venture.
- Required improvement to operating margins in psychiatry, kidney transplant and the clinics.

The major risk factors that impact the ability to accomplish the desired results of next year's fiscal plan include:

- The continuation and improvement of existing operating conditions including the management of the nursing shortage and a Medicare Case Mix Index above 1.92.
- Commonwealth of Virginia budget crisis.
- The ability to adapt to a shifting patient population where inpatient days are being replaced with short stays.
- New CMS (formerly, HCFA) and other regulatory reimbursement changes.
- On December 1, 2001, 50 percent of our current Medicaid business moved from traditional to managed care coverage under Medallion II, Virginia Medicaid's managed care program.
- Qualchoice was purchased by another HMO company, Southern Health Services, Inc, on September 1, 2001.
- IME payments are reduced by \$ 4.5 million for fiscal year 2003.
- Advancements in medical technology.
- Inflation for pharmaceutical goods could exceed 15 percent.
- Enhanced scrutiny by Federal regulators in areas such as Medical Records, Billing, Coding and contractual agreements.

A summary of historical and projected financial operating results are provided as follows:

(in millions)	Actual <u>2000-2001</u>	Projected <u>2001-2002</u>	Budgeted <u>2002-2003</u>
Total operating revenue	\$538.4	\$592.1	\$606.7
Operating expense	\$484.6	\$523.3	\$523.7
Bad Debt	\$14.3	\$20.4	\$20.0
Depreciation & Amortization	\$34.3	\$37.2	\$39.2
Interest	\$4.8	\$4.6	\$4.8
Operating income	\$0.5	\$6.5	\$19.0
Non-recurring contractual adjustments	\$13.2	\$13.8	\$2.0
Operating income after non-recurring contractual adjustments	\$13.7	\$20.4	\$21.0
Non-operating gain/(loss)	\$11.4	\$0.1	\$10.4
Total margin	\$25.1	\$20.5	\$31.4
Operating income percent	.1%	1.1%	3.1%
Operating income percent after non-recurring contractual adjustments	2.5%	3.4%	3.5%

Capital Plan: Funds available to meet capital requirements are derived from operating cash flows and cash-on-hand. The Medical Center faces many challenges regarding capital funding as continued pressures on the operating margin affect cash flow sources, while demand for capital has increased significantly from space requirements, technological advances and aging of existing equipment. The Medical Center management recommends \$39 million be authorized subject to cash being available for capital requirements in 2002-2003 concurrent with the expected depreciation expense for fiscal year 2003. Future plans for expansion of the hospital space will perpetuate this condition of demand for capital significantly exceeding supply from cash flow resources. The \$39 million capital plan excludes investments in joint ventures and the Medical Center expansion, which may be authorized separately by the Board for network development or other purposes. It is intended that the Medical Center will go forward with a Bond Issue to finance the Medical Center expansion project.

Employee Bonus Plan: The Medical Center's budget for fiscal year 2002 presumed a compensation adjustment to base salary of 4%, payable in January of 2002. This scheduled salary adjustment was deferred because the Medical Center's operating margin was insufficient to accommodate the salary adjustment. The Medical Center last granted a salary adjustment in January of 2001. A salary adjustment to base salary is desirable if we are to retain our exceptional employees and to recruit equally competent replacement staff. However, an adjustment to base salary will exacerbate the financial problems for Fiscal 2003. In Fiscal 2003, our revenues are projected to be essentially flat as compared to FY02 and our expenditures are expected to increase 2.5%. It is proposed that Medical Center employees be granted a one-time bonus equal to a minimum of 2.5% of base pay, to be paid in August of 2002. The bonus would be paid to permanent and flex employees who were rated "commendable" or above on the last performance appraisal rating and who had completed their probationary period. (Excludes house-staff, who will receive a stipend increase of 4% effective July 1, 2002.)

ACTION REQUIRED: Approval of the Medical Center Operating Board, the Finance Committee and the Board of Visitors of the 2003 operating budget for the Medical Center; approval by the Medical Center Operating Board and the Board of Visitors of a bonus equal to a minimum of 2.5% of base pay for eligible Medical Center employees.

RECOMMENDATION REGARDING FISCAL YEAR 2003 MEDICAL CENTER
OPERATING BUDGET AND APPROVAL OF MEDICAL CENTER EMPLOYEE BONUS
PLAN

WHEREAS, the Medical Center Operating Board has reviewed the Fiscal Year 2003 Medical Center operating budget; and

WHEREAS, the Medical Center Operating Board recommends to the Finance Committee and the Board of Visitors approval of the Fiscal Year 2003 Medical Center operating budget; and

WHEREAS, Section 2.2-2905 of the *Code of Virginia* authorizes the Board of Visitors to establish compensation plans for employees of the Medical Center; and

WHEREAS, the Medical Center proposes to pay an employee bonus equal to a minimum of 2.5% of base salary for eligible employees; and

RESOLVED that the Fiscal Year 2003 Medical Center operating budget as recommended by the Medical Center Operating Board, is approved;

RESOLVED FURTHER that the payment in August, 2002, of a one-time bonus equal to a minimum of 2.5% of base salary for eligible Medical Center employees is approved; the exact payment is to be determined by the Vice President and Chief Executive Officer of the Medical Center, with the concurrence of the Chair of the Medical Center Operating Board and the Executive Vice President and Chief Operating Officer of the University.

Schedule A
 University of Virginia Medical Center
 Non-Recurring Revenue
 (in millions)

	Projected	Budgeted
	<u>FY '02</u>	<u>FY '03</u>
IC Days in DSH Settlements	8.8	
Medicare Cost Report Refillings- OIG Investigation - fiscal years 1997-1999	4.5	
Pharmacy Rebilling Project		2.0
Medicare Reserve for MSP issue	0.7	
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Total	14.0	2.0

Schedule B
University of Virginia - Medical Center
Projected Fiscal Plan
2002-2003

	2000-2001 Actual	2001-2002 Forecast	2002-2003 Budget
Revenues			
Total Gross Charges	\$ 680,495,510	\$ 796,436,233	\$ 879,878,303
Less Deductions:			
Indigent Care Deduction (net of DSH payment)	16,086,242	18,371,113	32,720,231
Contractual Deduction	139,525,773	197,307,320	251,630,810
Total Deductions	155,612,015	215,678,433	284,351,041
Net Patient Revenue	524,883,495	580,757,800	595,527,262
Miscellaneous Revenue	13,548,179	11,349,460	11,139,730
Total Revenue	538,431,674	592,107,260	606,666,992
Expenses			
Expenses from Operations			
Operating Expenses	484,555,107	523,330,377	523,717,783
Depreciation and Amortization	34,313,603	37,247,500	39,180,983
Interest Expense	4,801,814	4,620,891	4,770,309
Bad Debt	14,314,012	20,378,297	19,971,173
Total Expenses from Operations	537,984,536	585,577,065	587,640,248
Operating Income	447,138	6,530,196	19,026,744
Non-Recurring Contractual Adjustments (Schedule A)	13,208,005	13,837,000	2,000,000
Operating Income After Non-Recurring Contractual Adjustments	13,655,143	20,367,196	21,026,744
Other Gains and Losses			
Investment Income	11,038,455	11,616,751	12,851,751
Net loss from Affiliates	3,181,297	(6,668,245)	750,000
Loss on Fixed Assets	(2,548,403)	-	(1,250,000)
Other	(250,000)	(4,894,851)	(2,000,000)
Total Other Gains and Losses	11,421,349	53,655	10,351,751
Revenues and Gains in Excess of Expenses	\$ 25,076,492	\$ 20,420,851	\$ 31,378,495
Statistics			
Admissions or Discharges	27,676	26,643	27,537
Patient Days of Care	150,150	149,465	155,874
Clinic and Emergency Room Visits (Excluding Acquired Practices and Free-standing Clinics)	519,147	526,234	557,260
Home Health Visits	54,067	52,910	51,518
Average Length of Stay	5.43	5.61	5.66

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UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Approve a bonus plan for Medical Center employees.

DESCRIPTION: Section 2.2-2905 of the *Code of Virginia* authorizes the Board of Visitors to establish competitive compensation plans for employees of the University of Virginia Medical Center. It is proposed that Medical Center employees be granted a one-time bonus equal to a minimum of 2.5 percent of base pay.

FISCAL IMPACT: The estimated fiscal impact of providing a one-time 2.5 percent bonus for current employees in Fiscal Year 2002-2003 is \$4,565,339. This figure is calculated as follows:

Costs 2.5% Bonus Costs, Payout August 23, 2002


<u>Categories of Eligibility</u>	<u>2.5% of Base Salaries</u>	<u>FICA</u>	<u>Total Incremental Cost</u>
Staff Salaries	4,070,791	305,309	4,376,100
Management Salaries	417,911	31,343	449,254
Total Eligible Salaries ^{- 1} :	4,488,701	336,653	4,825,354
Less: Probationary Employees	(197,345)	(14,801)	(212,146)
Less: Needs Improvement	(44,529)	(3,340)	(47,869)
Total Cost less Probationary, Needs Improvement, Wage and Residents	\$4,246,827	\$318,512	\$4,565,339

Total Employees: 4,272

¹ - Excludes Wage employees and Residents

CONCLUSION: The Bonus Plan is an essential strategy in lieu of a salary increase to retain employees. The Board of Visitors should approve the Bonus Plan for Medical Center employees.

RECOMMEND APPROVAL OF BOARD ACTION:



Leonard W. Sandridge
May 31, 2002

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UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 31, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.B. Changes in Medical Center Retirement Benefits

BACKGROUND:

DISCUSSION: In an effort to better manage its operating costs, the Medical Center is proposing to make changes to the Medical Center's retirement plan. These changes are recommended because management has determined that the present level of benefits is more generous than the benefits of hospitals with which the Medical Center competes for staff. These changes will not affect existing employees and are not expected to be detrimental to recruitment efforts of the Medical Center.

Specifically, the Medical Center proposes the following changes:

CURRENT	PROPOSED
<u>Retirement Plan</u>	<u>Retirement Plan</u>
8% employer contribution with no required employee contributions	4% employer contribution
<u>Matching Contribution Plan</u>	<u>Matching Contribution Plan</u>
Employer provides 50% match on employee contributions to 403(b) to a maximum of \$480 per year	Employer provides 50% match on 403(b) contributions of up to 4% of pay
1 year vesting schedule for employer contributions	2 year vesting schedule for employer contributions

The amount and timing of savings will be dependent upon the Medical Center employee turnover rates.

ACTION REQUIRED: Approval by the Medical Center Operating Board and by the Board of Visitors

APPROVAL OF CHANGES TO MEDICAL CENTER RETIREMENT BENEFITS

WHEREAS, the Medical Center desires to amend the Medical Center's retirement plan benefits on a prospective basis; and

WHEREAS, the Medical Center Operating Board after careful review believes it is in the best interest of the Medical Center to amend the retirement plan benefits;

RESOLVED that the Medical Center is authorized to amend the retirement plan benefits to provide for (i) a 4% employer contribution, (ii) an employer matching contribution of 50% on 403(b) contributions of up to 4% of pay and (iii) a vesting period of two years for the employer contributions; and

RESOLVED FURTHER that such amendment shall become effective no earlier than October 1, 2002, and shall apply to Medical Center employees hired on or after such effective date; and

RESOLVED FURTHER that the Vice President and Chief Executive Officer of the Medical Center, with the concurrence of the Chair of the Medical Center Operating Board and the Executive Vice President and Chief Operating Officer of the University, and in consultation with the General Counsel, is authorized to execute appropriate amendments and other legal documents to effectuate these changes to the Medical Center retirement plan.

UNIVERSITY OF VIRGINIA
FISCAL IMPACT STATEMENT

PROJECT/PROPOSED BOARD OF VISITORS ACTION: Revise the Medical Center Retirement Plan to create a new contribution formula for new employees.

DESCRIPTION: In 1996 the Medical Center was authorized via an amendment to the Code of Virginia to establish a Medical Center Retirement Plan as an option to the defined benefit plan offered by the Virginia Retirement System. A defined contribution retirement plan was approved by the Board of Visitors with a contribution rate of 8% of base salary. It was created to allow the Medical Center to offer a plan that was competitive with the Healthcare Industry. The Medical Center was also required by the Commonwealth of Virginia to provide a 50% match of employee contributions to a maximum of \$480 per year to employees who participate in a 403(b) or a 457 plan. A recent survey of healthcare retirement plans revealed the Medical Center Retirement Plan contribution rate to be on the high end when compared to the retirement plans reviewed. The Medical Center can alter its contribution rate of 8% for "new" employees with minimal impact its recruiting capabilities. The new contribution rate for the Medical Center Retirement Plan is proposed as 4% of base salary plus a match of 50% on the employees' 403(b) contributions of up to 4% of pay. Additionally, the vesting schedule would move from 1 to 2 years. New employees would be 100% vested when they have completed two years of service.

FISCAL IMPACT: The annual cost saving per new employee is approximately \$1,305 based on the proposed changes.

In the most recent twelve months of complete data, the Medical Center hired 717 new people. Had this plan been in place during that time, the following savings would have been realized:

Change in Medical Center Contribution Plan	\$981,536
Change in Matching Contribution Plan (assuming increase in participation from 10% to 30%)	(\$114,590)
Change in vesting policy from one to two years	<u>\$68,448</u>
Calculated Net Savings using new plan criteria	<u><u>\$935,394</u></u>

Going forward, the new plan should provide similar substantial savings on an annual basis for the Medical Center with no detrimental impact or offset related to increased hiring costs. Moreover, these savings will accumulate over time as new employees are added and turnover occurs with employees hired under the current (higher) retirement plan.

CONCLUSION: Re-designing the Medical Center Retirement Plan to provide for a reduced contribution rate for new employees can result in significant savings for the Medical Center with minimal impact on the recruitment or retention of employees. The Board of Visitors should approve the re-design of the Medical Center Retirement Plan.

RECOMMEND APPROVAL OF BOARD ACTION:



Leonard W. Sandridge
May 31, 2002

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 31, 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.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 31, 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

Although March is the strongest month financially this fiscal year, overall fiscal year 2002 continues to be below expectations. In general, inpatient volume is below budget and labor cost is above budget.

The major determinant of total operating revenue is patient discharges. Through nine months of fiscal year 2002, discharges are below budget by 1,177, which is 5.5 percent. Had discharges been equal to budget, operating revenue would have been approximately \$17,000,000 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 net revenue from lower discharges.

Total operating revenue for fiscal year 2002 is 1.3 percent above budget and 10.5 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 2.3 percent above the \$429.4 million budget and 11.1 percent over prior year expenses. Salaries and wages and supplies are higher than both budget and prior year.

The number of full-time equivalent employees (FTEs) is 161 above budget and 422 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 (191), and new programs (41). Hospital and clinic FTEs are:

	<u>FY 2001</u>	<u>FY 2002</u>	<u>2002 Budget</u>
Hospital FTEs	4,559	4,861	4,726
Clinic FTEs	<u>343</u>	<u>463</u>	<u>437</u>
Total	4,902	5,324	5,163
Annualized			
Salary and Wage	\$39,816	\$42,343	\$41,830
Cost per FTE			

Plans have been prepared and approved which will lower expenses in the remaining months of the fiscal year. 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 was delayed. The organization is clearly focused on the requirement to reduce expenses.

The operating margin for fiscal year 2002 is 0.6 percent, which is below both the budgeted margin of 1.6 percent and the prior year's 1.2 percent margin. If we consider the impact of non-recurring contractual adjustments, the operating margin is 1.7 percent, which is below both the budgeted margin of 5.1 percent and the prior year's 2.9 percent margin.

OPERATIONS

In the month of March, the Medical Center continued the trends from the previous months in that discharges were 1,177 below budget, but short stay/post procedure days were 1,783 above budget. By June, the Medical Center will begin piloting a 6-bed short stay unit on 8 West to allow the

Medical Center to better align the resources required to care for short stay patients. The Medical Center will continue efforts to reduce the operating costs.

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

Description	Most Recent Three Fiscal Years			Budgeted
	March 00	March 01	March 02	March 02
Net patient revenue	\$345.1	\$390.9	\$433.7	\$426.8
Other revenue	<u>7.7</u>	<u>9.2</u>	<u>8.4</u>	<u>9.7</u>
Total operating revenue	<u>\$352.8</u>	<u>\$400.1</u>	<u>\$442.1</u>	<u>\$436.5</u>
Operating expenses	314.1	367.1	410.4	399.6
Depreciation	22.8	24.6	25.4	26.3
Interest expense	<u>3.7</u>	<u>3.6</u>	<u>3.5</u>	<u>3.5</u>
Total operating expenses	<u>\$340.6</u>	<u>\$395.3</u>	<u>\$439.3</u>	<u>\$429.4</u>
Operating income (loss)	12.2	4.8	2.8	7.1
Nonrecurring contractual adjust.	<u>2.5</u>	<u>7.2</u>	<u>5.0</u>	<u>15.9</u>
Operating inc after nonrecurring adj.	<u>\$14.7</u>	<u>\$12.0</u>	<u>\$7.8</u>	<u>\$23.0</u>
Non-operating income (loss)	<u>4.4</u>	<u>7.0</u>	<u>(2.8)</u>	<u>6.9</u>
Net income (loss)	<u>\$19.1</u>	<u>\$19.0</u>	<u>\$5.0</u>	<u>\$29.9</u>
Debt principal	\$2.9	\$3.2	\$3.3	\$3.3

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

Description	3/31/00	3/31/01	3/31/02
Assets			
Operating cash and investments	\$87.2	\$35.3	\$13.4
Patient accounts receivables	50.4	69.0	80.8
Other current assets	21.9	32.6	52.4
Property, plant and equipment	215.8	228.6	228.1
Depreciation reserve investments	157.7	175.2	187.6
Other assets	<u>16.6</u>	<u>19.0</u>	<u>11.9</u>
Total Assets	<u>\$549.6</u>	<u>\$559.7</u>	<u>\$574.2</u>
Liabilities			
Current portion long-term debt	\$3.8	\$4.1	\$4.2
Accounts payable & other liab	48.5	33.6	39.2
Long-term debt	97.4	93.1	88.7
Accrued leave and other LT liab	<u>12.2</u>	<u>16.0</u>	<u>18.3</u>
Total Liabilities	<u>\$161.9</u>	<u>\$146.8</u>	<u>\$150.4</u>
Fund Balance	<u>\$387.7</u>	<u>\$412.9</u>	<u>\$423.8</u>
Total Liabilities & Fund Balance	<u>\$549.6</u>	<u>\$559.7</u>	<u>\$574.2</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years Budgeted			
	March 00	March 01	March 02	March 02
Operating margin (%)	3.5%	1.2%	0.6%	1.6%
Operating margin w/ nonrecurring adj (%)	4.1%	2.9%	1.7%	5.1%
Total margin (%)	5.3%	4.6%	1.1%	6.5%
Current ratio (x)	3.0	3.6	3.4	4.0
Days cash on hand (days)	216.6	159.8	137.0	190.0
Gross accounts receivable (days)	69.3	78.4	71.7	80.0
Average payment period (days)	45.3	27.9	28.7	30.6
Annual debt service coverage (x)	7.0	7.0	5.0	8.8
Debt-to-capitalization (%)	20.1%	18.4%	17.3%	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
	March 00	March 01	March 02	March 02
Discharges	21,101	20,708	20,095	21,272
Patient days	111,246	112,836	112,583	117,679
SS/PP Days	3,136	3,728	5,500	3,717
Average length of stay	5.3	5.5	5.6	5.5
Clinic visits	373,637	385,348	392,558	382,213
ER visits	42,575	42,571	43,878	42,722
Medicare case mix index	1.7911	1.9051	1.8964	1.8731
Utilization by Payor Class				
Medicare %	38.3%	38.8%	39.2%	36.9%
Medicaid %	12.0%	12.5%	11.3%	10.8%
Blue Cross %	16.2%	16.0%	17.6%	13.3%
Managed care %	13.0%	12.8%	12.2%	11.7%
Self-pay, Commercial & other %	<u>20.6%</u>	<u>19.9%</u>	<u>19.6%</u>	<u>27.3%</u>
Total	100%	100%	100%	100%
FTE's	4,413	4,902	5,324	5,163

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 31, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.C. Capital Projects Reports

ACTION REQUIRED: None

DISCUSSION: The Medical Center is constantly improving and renovating its facilities. We will provide a status report of these capital projects at each MCOB meeting. Our current report is set forth in the attached table.

ATTACHMENT

**The University of Virginia Medical Center
Capital Projects Report**

Scope	Budget	Funding Source	Projected Completion Date
PRE-CONSTRUCTION			
Hospital Expansion Project-horizontal expansion of University Hospital and renovation of entire second floor to accommodate complete rebuilding and expansion of the Perioperative Services and Heart Center. Additional renovations and expansion for Interventional Radiology and Clinical Laboratory	\$58 M	Bonds	Sept '05
Breast Care Center- renovate 7,200 sq. ft. for a new Breast Care Center that combines breast imaging and breast cancer therapy	\$1.4 M	Medical Center Annual Capital Budget	April '03
Cancer Center- Infusion Center - expand existing outpatient cancer center clinic and infusion center.	\$1.25 M	Medical Center Annual Capital Budget	March '03
UNDER CONSTRUCTION			
Critical Care Unit Expansion - additional 9 beds to the MICU, TCV-PO and STICU in University Hospital	\$3.25 M	Medical Center Annual Capital Budget	March '03