

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
January 30, 2003**

SECTION B

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, January 30, 2003

10:00 a.m. - 1:00 p.m.

Medical Center Conference Dining Rooms 1, 2 and 3

Committee Members:

Edwin Darracott Vaughan, Jr. M.D., Chair
John P. Ackerly, III William H. Goodwin, Jr.
William G. Crutchfield, Jr. Katherine L. Smallwood, M.D.
Eugene V. Fife Elizabeth A. Twohy
John I. Gallin, M.D.

Ex Officio Members:

George A. Beller, M.D.
Arthur Garson, Jr., M.D., M.P.H.
R. Edward Howell
Leonard W. Sandridge

AGENDA

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I. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell)	
A. Vice President's Remarks	1
B. Finance and Operations (Mr. Larry Fitzgerald to report on Finance; Mr. Howell to report on Operations)	2
C. Capital Projects	11
II. REPORTS BY THE PRESIDENT OF THE CLINICAL STAFF OF THE MEDICAL CENTER (Dr. Beller)	
A. Elections of Clinical Staff Representatives to the Clinical Staff Executive Committee	14
B. Standing Committees of the Clinical Staff Executive Committee	15
III. COMPLIANCE TRAINING AND REPORT (Mr. Ralph Traylor)	16

IV. EXECUTIVE SESSION

- ACTION ITEM - To consider proposed personnel actions regarding the appointment, reappointment, resignation, assignment, performance, and credentialing of specific medical staff and health care professionals, as provided for in Section 2.2-3711 (A) (1) of the Code of Virginia.
- Discussion of proprietary business-related information pertaining to strategic redeployment and compensation of personnel, and discussion of the appointment, reassignment, performance and evaluation of specific employees of the Medical Center and the evaluation of performance of departments of the Medical Center that will necessarily include discussion of the performance of specific employees.

Discussion of proprietary business-related information pertaining to business development, marketing and fundraising for the Cancer Center and the Children's Medical Center of the University of Virginia Medical Center, and a proposed radiation therapy joint venture, disclosure of which would adversely affect the competitive position of the Medical Center.

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.

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: January 30, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Vice President's 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: January 30, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.B. Finance and Operations

ACTION REQUIRED: None

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

DISCUSSION:

FINANCE

Fiscal Year 2003 continues to surpass expectations with an operating margin which is above budget. Total operating revenue is above budget, expenses are equal to budget, and full-time equivalent employees are below budget.

For Fiscal Year 2003, discharges are 2.2 percent below budget and .7 percent above prior year. Patient days are 2.2 percent below budget, and 1.2 percent above prior year. Length of stay is 5.6 days, which is equivalent to both budget and prior year. Discharges for neurosurgery and general surgery are above prior year, while discharges for orthopedics are below prior year. Outpatient visits are 1.8 percent below budget and 2.5 percent above prior year on an average daily visit basis. Same day patients are 9.1 percent above prior year.

Total operating revenue for Fiscal Year 2003 is 4.2 percent above budget and 8.1 percent above prior year. An average rate increase of 5 percent went into effect on July 1, 2002. Fiscal Year 2003 operating revenue also includes several prior year items identified through the revenue cycle process. The most significant of these is \$4.3 million in Electrophysiology Lab revenue not previously captured because of Medicare billing changes.

Total operating expenses for Fiscal Year 2003 are equal to the \$243.7 million budget and are .7 percent over prior year expenses. Salaries and wages and purchased services are below

both budget and prior year expenses. Medical supplies are above both budget and prior year expenses primarily as the result of the introduction of new and more expensive medical devices in cardiology.

The number of full-time equivalent employees (FTEs) is 117 below budget and 174 below prior year. Hospital and clinic FTEs are:

	<u>FY 2002</u>	<u>FY 2003</u>	<u>2003 Budget</u>
Hospital FTEs	4,810	4,575	4,703
Clinic FTEs	<u>460</u>	<u>521</u>	<u>510</u>
Total	5,270	5,096	5,213
Annualized			
Salary and Wage	\$42,438	\$43,248	\$42,637
Cost per FTE			

The Fiscal Year 2003 operating margin is 7.4 percent, which is above both the budgeted margin of 3.5 percent and the prior year's 0.6 percent margin.

OPERATIONS

For the first five months of Fiscal Year 2003, labor expenses were .7 percent (117 FTEs) below budget, and 2.2 percent (174 FTEs) below the expenses for the first five months of Fiscal Year 2002. On a volume-adjusted basis, labor dollars were 1.2 percent below budget. The cost of the traveler (contract) health care professionals was \$1.0 million for the first five months of Fiscal Year 2003 versus \$3.9 million in the first five months of Fiscal Year 2002. While significantly below prior year, traveler expenses are \$500 thousand over budget for this fiscal year, mostly due to unanticipated use of contract labor by Radiology. The Medical Center has adopted a number of processes and standards to manage expenses more efficiently and we believe their effectiveness was shown in the financial performance for the first 5 months of Fiscal Year 2003.

Further, the Medical Center has adopted national benchmarking standards (HBSI) for operations and budget purposes. The standard of minimum performance for all areas (other than the Operating Room) is the HBSI 50th percentile.

Some areas within the Medical Center were identified as not being in compliance with these requirements. To facilitate our efforts to meet these standards without the necessity of employee lay-offs, Medical Center employees in positions eliminated under the HBSI standards were offered positions that were included in the Fiscal Year 2003 budget but were vacant. At this time the reassignment program has been successfully concluded.

We have made adjustments to the employee position control system to enhance its usefulness as a management tool. This system will become an increasingly important tool in our continuing effort to maintain the number of employees at a level consistent with management established standards.

Emerging technology in many areas, but especially in Cardiology, has increased costs in the current Fiscal Year and will increase costs even more in future months. An example is drug-eluting stents used in Cardiology. We estimate the use of stents will decrease operating income by \$500 thousand in Fiscal Year 2003.

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

Description	Most Recent Three Fiscal Years			Budget/Target
	Nov 01	Nov 02	Nov 03	Nov 03
Net patient revenue	\$220.6	\$238.2	\$257.3	\$247.9
Other revenue	<u>3.6</u>	<u>5.2</u>	<u>5.8</u>	<u>4.6</u>
Total operating revenue	<u>\$224.2</u>	<u>\$243.4</u>	<u>\$263.1</u>	<u>\$252.5</u>
Operating expenses	197.8	225.8	227.3	225.7
Depreciation	13.2	14.3	14.4	16.0
Interest expense	<u>2.0</u>	<u>1.9</u>	<u>2.0</u>	<u>2.0</u>
Total operating expenses	<u>\$213.0</u>	<u>\$242.0</u>	<u>\$243.7</u>	<u>\$243.7</u>
Operating income (loss)	<u>\$11.2</u>	<u>\$1.4</u>	<u>\$19.4</u>	<u>\$8.8</u>
Non-operating income (loss)	<u>\$3.0</u>	(\$7.6)	<u>\$4.5</u>	<u>\$4.3</u>
Net income (loss)	<u>\$14.2</u>	(\$6.2)	<u>\$23.9</u>	<u>\$13.1</u>
Principal payment	\$1.8	\$1.8	\$1.9	\$1.9

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

Description	11/30/2000	11/30/2001	11/30/2002
Assets			
Operating cash and investments	\$63.1	\$42.9	\$51.8
Patient accounts receivables	79.5	78.3	88.1
Property, plant and equipment	224.6	230.1	239.5
Depreciation reserve investments	171.4	183.4	206.4
Other assets	<u>15.0</u>	<u>32.5</u>	<u>10.2</u>
Total Assets	<u>\$553.6</u>	<u>\$567.2</u>	<u>\$596.0</u>
Liabilities			
Current portion long-term debt	\$4.1	\$4.2	\$4.6
Accounts payable & other liab	35.8	45.2	40.8
Long-term debt	93.2	88.7	85.2
Accrued leave and other LT liab	<u>12.6</u>	<u>16.5</u>	<u>17.7</u>
Total Liabilities	<u>\$145.7</u>	<u>\$154.6</u>	<u>\$148.3</u>
Fund Balance	<u>\$407.9</u>	<u>\$412.6</u>	<u>\$447.7</u>
Total Liabilities & Fund Balance	<u>\$553.6</u>	<u>\$567.2</u>	<u>\$596.0</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Nov 01	Nov 02	Nov 03	Nov 03
Operating margin (%)	5.0%	0.6%	7.4%	3.5%
Total margin (%)	6.3%	-2.6%	8.9%	5.1%
Current ratio (x)	3.6	2.5	3.1	4.0
Days cash on hand (days)	183.9	156.0	176.4	190.0
Gross accounts receivable (days)	79.0	71.6	70.5	60.0
Average payment period (days)	30.6	33.2	30.3	30.6
Annual debt service coverage (x)	7.8	2.7	10.3	7.9
Debt-to-capitalization (%)	18.6%	17.7%	16.0%	20.0%
Capital expense (%)	7.1%	6.7%	6.7%	7.4%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Nov 01	Nov 02	Nov 03	Nov 03
Discharges	11,521	11,230	11,312	11,572
Patient days	63,438	62,740	63,462	64,887
SS/PP Patients	2,515	3,146	3,433	2,546
Average length of stay	5.5	5.6	5.6	5.6
Clinic visits	212,346	220,452	226,510	231,198
ER visits	23,544	24,371	24,468	24,349
Medicare case mix index	1.9052	1.8778	1.8894	1.9384
Net Revenue by Payor				
Medicare %	37.8%	38.9%	34.6%	36.0%
Medicaid %	15.3%	13.5%	13.2%	11.7%
Managed care %	6.3%	6.4%	6.0%	6.1%
Commercial %	9.2%	9.5%	10.6%	9.8%
Other	<u>31.4%</u>	<u>31.7%</u>	<u>35.6%</u>	<u>36.4%</u>
Total	100%	100%	100%	100%
FTE's	4,772	5,270	5,096	5,213

University of Virginia Medical Center
SUMMARY OF OPERATING STATISTICS AND FINANCIAL PERFORMANCE MEASURES
 Fiscal Year to Date with Comparative Figures for Prior Year to Date - November 30, 2002

OPERATING STATISTICAL MEASURES - November 2002

ADMISSIONS and CASE MIX - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
ADMISSIONS:			
Surgical	4,119	4,552	10.5%
Medical	4,710	4,358	(7.5%)
Transplant	72	59	(18.1%)
Obstetrics	614	607	(1.1%)
Pediatrics	908	921	1.4%
Psychiatric	807	815	1.0%
Subtotal Acute	11,230	11,312	0.7%
Short Stay	3,146	3,433	9.1%
Total Admissions	14,376	14,745	2.6%
CASE MIX INDEX:			
All Acute Inpatients	1.6814	1.7386	3.4%
Medicare Inpatients	1.8778	1.8894	0.6%

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
ACUTE INPATIENTS:			
Inpatient Days	62,740	63,462	1.2%
Average Length of Stay	5.6	5.6	0.0%
Average Daily Census	410	415	1.2%
Births	561	577	2.9%
OUTPATIENTS:			
Clinic Visits	220,452	226,510	2.7%
Average Daily Visits	2,310	2,368	2.5%
Emergency Room Visits	24,371	24,468	0.4%
SURGICAL CASES			
Inpatient	5,282	5,332	0.9%
Outpatient	1,140	1,059	(7.1%)
Total	6,422	6,391	(0.5%)

OPERATING FINANCIAL MEASURES - November 2002

REVENUES and EXPENSES - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
NET REVENUES:			
Total Patient Rev.	223,611,775	242,677,844	8.5%
Appropriations	14,633,475	14,633,475	0.0%
Misc Revenue	5,171,509	5,791,098	12.0%
Total	243,416,759	263,102,417	8.1%
EXPENSES:			
Salaries and Wages	115,213,948	112,741,323	(2.1%)
Supplies and Contracts	62,292,368	66,721,344	7.1%
Purchased Services	40,661,703	37,520,715	(7.7%)
Bad Debts	7,605,878	10,295,750	35.4%
Depreciation	14,273,736	14,457,973	1.3%
Interest Expense	1,936,134	1,983,571	2.5%
Total	241,983,767	243,720,676	0.7%
Operating Margin	1,432,992	19,381,741	1252.5%
Operating Margin %	0.6%	7.4%	1151.3%
Non-Operating Revenue	(7,649,744)	4,493,970	(158.7%)
Net Income	(6,216,752)	23,875,711	(484.1%)

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
NET REVENUE BY PAYOR:			
Medicare	86,942,960	83,908,892	(3.5%)
Medicaid	30,224,481	32,088,810	6.2%
Managed Care	14,229,262	14,497,080	1.9%
Commercial Insurance	21,286,236	25,795,363	21.2%
Other	70,928,836	86,387,699	21.8%
Total Paying Patient Rev.	223,611,775	242,677,844	8.5%
Managed Care	14,229,262	14,497,080	1.9%
Non-Managed Care	209,382,513	228,180,764	9.0%
Total Paying Patient Rev.	223,611,775	242,677,844	8.5%
OTHER:			
Collection % of Gross Billings	72.71%	65.60%	(9.8%)
Days of Revenue in Receivables (Gross)	71.6	70.5	(1.5%)
Cost per CMI & OP-Adj Discharge	7,010	6,756	(3.6%)
Cost per CMI & OP-Adj Day	1,255	1,204	(4.0%)
Cost per Outpatient Visit	67.62	72.08	6.6%
Total F.T.E.'s	5,270	5,096	(3.3%)
F.T.E.'s Per Adjusted Occupied Bed	7.85	7.28	(7.3%)

Assumptions - Operating Statistical Measures

Admissions and Case Mix Assumptions

Admissions include all admissions except normal newborns
Pediatric surgery cases are included in Pediatrics admissions
Obstetrics surgery cases are included in Obstetrics admissions
Transplant surgery cases are included in Transplant admissions
Transplants include all solid organ transplants and bone marrow transplants
All other surgery cases are counted as Surgical admissions
Surgical cases are defined by DRG
Short Stay Admissions include both short stay and post procedure patients
Case Mix Index for All Acute Inpatients is All Payor Case Mix Index from Stat Report

Other Institutional Measures Assumptions

Patient Days, ALOS and ADC figures include all patients except normal newborns
Surgical Cases are the number of patients/cases, regardless of the number of procedures performed on that patient
Split of surgical cases into inpatient and outpatient based on discharges from the Surgical Admission Suite
Outpatient surgical cases do not include those performed at VASC

Assumptions - Operating Financial Measures

Revenues and Expenses Assumptions:

Medicaid out of state is included in Medicaid
Medicaid HMOs are included in Medicaid
Physician portion of DSH is included in Other
Trigon is included in Other
Non-recurring revenue is included

Other Institutional Measures Assumptions

Collection % of Gross Billings includes appropriations
Days of Revenue in Receivables (Gross) is the BOV definition
Cost per CMI & OP-Adj Discharge and Day uses Medicare CMI to adjust
Costs for Cost per Outpatient Visit come from clinic income statement
OP visits used in calculation of Cost per Outpatient Visit are provider based clinic visits only
FTEs are Medical Center FTEs only, does not include contract labor FTEs

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 30, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.C. Capital Projects Report

ACTION REQUIRED: None

BACKGROUND: The Medical Center is constantly improving and renovating its facilities. We will provide a status report of these capital projects at each Medical Center Operating Board meeting.

DISCUSSION: The current Medical Center capital projects report is set forth in the following table.

The University of Virginia Medical Center
Capital Projects Report

Scope	Budget	Funding Source	BOV Approval Date	Projected Completion Date
PRE-CONSTRUCTION				
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	Bonds	Oct '00	April '03 (May '03-revised)
Cancer Center-Infusion Center - expand existing outpatient cancer center clinic and infusion center.	\$1.25 M	Bonds	Jan '02	March '03 (Dec '03-revised)
South Garage Expansion - provide 419 additional parking spaces to replace those lost by construction, potential loss of a leased lot and for reserved parking expansion.	\$8.5 M	Bonds	Oct '00	May '04

UNDER 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 @ \$54 M Hospital Operating Revenues @ \$4 M	March '99	Sept '05 (Dec '05 - revised)
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	Oct '00	March '03 (Dec '03-revised)
Clinical Office Building - Fontaine - provide space for additional imaging and clinical care, including consolidation of the Endocrinology Clinic and Otolaryngology Clinic.	\$16.75 M	Bonds	Jan '02	June '03 (shell, imaging & Endocrinology) Oct '03 (Otolaryngology)

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 30, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.A. Elections of the Clinical Staff
Representatives to the Clinical Staff
Executive Committee

ACTION REQUIRED: None

BACKGROUND: Elections of four (4) representatives from the Clinical Staff to the Clinical Staff Executive Committee were held in October. This report discusses the results of the election.

DISCUSSION: The Bylaws of the Clinical Staff of the University of Virginia Medical Center were amended in September to create the Clinical Staff Executive Committee to serve as the executive committee of the Clinical Staff and oversee the quality of the clinical care delivered within the Medical Center, delineate and adopt clinical policy within the Medical Center and serve as the liaison between the Clinical Staff and the Medical Center Operating Board.

The membership of the Clinical Staff Executive Committee is set forth in the Amended and Restated Clinical Staff Bylaws and includes four (4) active members of the Clinical Staff who are elected by the Clinical Staff for a term of three (3) years each. The following individuals were elected in October:

- Primary Care Representative: Mohan Nadkarni, M.D.
- Medical Specialties Representative: Robert S. Gibson, M.D.
- Surgical Representative: David R. Diduch, M.D.
- Hospital-Based Representative: Paul D. Mintz, M.D.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 30, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.B. Standing Committees of the Clinical Staff Executive Committee

ACTION REQUIRED: None

BACKGROUND: The Clinical Staff Executive Committee of the Medical Center has established certain Clinical Staff Standing Committees that will report to the Clinical Staff Executive Committee.

DISCUSSION: The Amended and Restated Bylaws of the Clinical Staff of the University of Virginia Medical Center, effective September 19, 2002, provide for a Bylaws Committee, a Credentials Committee, a Nominating Committee and such other Standing Committees as the Clinical Staff Executive Committee may designate from time to time.

At its November 26, 2002, meeting, the Clinical Staff Executive Committee designated the Clinical Staff Standing Committees and Subcommittees as follows:

Bylaws Committee
Cancer Committee
Credentials Committee
Ethics Committee
Graduate Medical Education Committee
Nominating Committee
Operating Room Committee
Patient Care Committee
 Acute Care Subcommittee
 Critical Care Subcommittee
 Resuscitation Subcommittee
Pharmacy and Therapeutics Committee
 Radioactive Drug Research Subcommittee
Quality Council
 Infection Control Subcommittee
 Patient Safety Subcommittee
 Safety and Security Subcommittee
Transfusion Committee

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: January 30, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: III. Compliance Training and Report

ACTION REQUIRED: None

BACKGROUND: On September 13, 2002, The University of Virginia Medical Center began the second year of a Corporate Compliance Agreement with the Office of Inspector General - U.S. Department of Health and Human Services. This Agreement requires the annual training of staff and management of the University of Virginia Medical Center, including the Medical Center Operating Board of the Board of Visitors.

DISCUSSION: The mandatory training reviews the Corporate Compliance Agreement, highlights changes to the Compliance Code of Conduct, and emphasizes significant compliance policies and regulatory initiatives. Mr. Ralph Traylor, Corporate Compliance Officer, will make the presentation. At the end of the training, each Medical Center Operating Board member will be asked to sign an attestation of compliance training. In addition, Mr. Traylor will update the Medical Center Operating Board on the completion of the first year of the Corporate Compliance Agreement.