UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
FOR THE UNIVERSITY
OF VIRGINIA
TRANSITIONAL CARE HOSPITAL
June 9, 2011
UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD
Thursday, June 9, 2011
11:15 – 11:30 a.m.
Medical Center Dining Conference Rooms

Committee Members:
Vincent J. Mastracco Jr., Chair
Helen E. Dragas
Andrew K. Hodson, MB.Ch.B
William P. Kanto Jr., M.D.
Constance R. Kincheloe

Randy J. Koporcz
The Hon. Lewis F. Payne
E. Darracott Vaughan Jr., M.D.
John O. Wynne

Ex Officio Members:
Teresa A. Sullivan
Steven T. DeKosky, M.D.
Dorrie K. Fontaine

Robert S. Gibson, M.D.
R. Edward Howell
Leonard W. Sandridge

AGENDA

I. ACTION ITEM

• Fiscal Year 2012 Transitional Care Hospital Operating and Capital Budgets (Ms. Hereford) 1

II. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE TRANSITIONAL CARE HOSPITAL (Mr. Howell)

A. Vice-President’s Remarks 6

B. Operations and Finance Report (Mr. Howell to introduce Ms. Michelle D. Hereford; Ms. Hereford to report) 7

III. EXECUTIVE SESSION
• **ACTION ITEMS** – To consider proposed personnel actions regarding the appointment, reappointment, resignation, assignment, performance, and credentialing of specific medical staff and allied health professionals, as provided for in Section 2.2-3711(A)(1) of the Code of Virginia. The meeting of the Medical Center Operating Board is further privileged under Section 8.01-581.17 of the Code of Virginia.

• Discussion of proprietary, business-related information pertaining to the operations of the Transitional Care Hospital, where disclosure at this time would adversely affect the competitive position of the Transitional Care Hospital, specifically:
  - Confidential information and data related to the adequacy and quality of professional services, patient safety in clinical care, and patient grievances for the purpose of improving patient care at the Transitional Care Hospital; and
  - Consultation with legal counsel regarding the Transitional Care Hospital compliance with relevant federal reimbursement regulations, licensure, and accreditation standards, all of which will involve proprietary business information of the Transitional Care Hospital and evaluation of the performance of specific Transitional Care Hospital personnel.

The relevant exemptions to the Virginia Freedom of Information Act authorizing the discussion and consultation described above are provided for in Section 2.2-3711 (A) (1), (7), and (22) of the Code of Virginia. The meeting of the Medical Center Operating Board is further privileged under Section 8.01-581.17 of the Code of Virginia.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: June 9, 2011

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I. Fiscal Year 2012 Transitional Care Hospital Operating and Capital Budgets

ACTION REQUIRED: None

BACKGROUND: The Transitional Care Hospital’s operating and capital budgets are consolidated with the Medical Center’s budget. At its June meeting, the Board of Visitors acts on the proposed budget based on a recommendation for endorsement from the Medical Center Operating Board.

DISCUSSION: The Transitional Care Hospital’s 2011-2012 fiscal plan has been developed while considering the challenge of providing a new patient care service in a new environment, developing a new workforce, and introducing teaching and training of clinical providers. The cost associated with providing quality patient care will continue to have upward pressure due to increases in medical supply, pharmaceutical and medical equipment expenses, as well as a shortage of health care workers. In addition, in Fiscal Year 2012, the Transitional Care Hospital expects to continue its volume growth of this very high acuity patient population.

The Transitional Care Hospital budget development process is clinically focused and highly participatory. Patient care service management, support function management, and physicians have significant roles in the budget development cycle. The budget process begins with senior management developing basic budget assumptions such as discharges, length of stay, standards for the number of employees, and inflation. This information is communicated to Transitional Care Hospital Managers and ends with each operating unit providing a cumulative operating and capital budget that contains service demand forecasts, required full-time equivalent personnel, and non-labor expenses.

BUDGET AND OPERATING ASSUMPTIONS

Market conditions: For Fiscal Year 2012 discharges are budgeted to grow in excess of 200% from Fiscal Year 2011 projected levels. The growth will be facilitated by the completion of the
demonstration period, increased recruitment, and additional referrals. The following table includes historical and projected patient volumes:

<table>
<thead>
<tr>
<th></th>
<th>Budget 2010-2011</th>
<th>Projected 2010-2011</th>
<th>Budget 2011-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discharges</td>
<td>172</td>
<td>75</td>
<td>276</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>28</td>
<td>30</td>
<td>29</td>
</tr>
<tr>
<td>Patient days</td>
<td>4,816</td>
<td>2,254</td>
<td>8,004</td>
</tr>
</tbody>
</table>

Revenues: The Transitional Care Hospital’s Fiscal Year 2012 budgeted payer mix remains consistent with that of Fiscal Year 2011. One of the Transitional Care Hospital’s largest challenges is the unwillingness of government payers to increase payments commensurate with the increases in medical delivery costs. Growth in revenues will result from the impact of increasing volume and negotiated contracts with rate increases.

Rate changes: The Transitional Care Hospital Medicare base rate will increase 2% over Fiscal Year 2011 to $38,391.

Expenses: Expenses from operations are projected to increase by 45% from the Fiscal Year 2011 projection.

Previous increases in capital investment will result in additional depreciation expense of $99,640 for Fiscal Year 2012. The Transitional Care Hospital’s 2011-2012 fiscal plan accounts for these additional expenses while preserving its goal of providing high quality and cost effective health care and education.

Staffing: The Transitional Care Hospital’s FTEs are planned at 103.27, an increase of 54 FTEs from staffing at the current Fiscal Year projection of 49 FTEs.

Operating Plan: The rapidly changing health care environment will require continuous examination of budget assumptions. Management will monitor budget versus actual performance on a monthly basis and, where appropriate, make changes to operations. Also, management will continue to identify and implement process improvement strategies that will allow for operational streamlining and cost efficiencies.

The major strategic initiatives that impact next year’s fiscal plan include:
• The continuation of the collaborative effort between the Transitional Care Hospital and the School of Medicine Faculty on documentation of clinical care and its coding.

• The continuation of the collaborative effort between the Transitional Care Hospital and the School of Medicine Faculty on supply cost.

• The continuation of our efforts to better engage our employees and enhance patient satisfaction.

• The continuation of the collaborative effort between the Transitional Care Hospital and the Medical Center to reduce length of stay.

• The effort to modernize and integrate information technology services through the Electronic Medical Record project.

The major risk factors that impact the ability to accomplish the fiscal plan include:

• Nationwide shortage of health care workers that could negatively impact our ability to maintain appropriate staffing.

• Maintaining an adequate number of physicians in areas experiencing a national shortage.

• Advancements in medical technology that could alter expenses and/or revenues very quickly.

• The emerging impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.

• Inflation for medical equipment and pharmaceutical goods that could exceed the budget assumptions.

A summary of Transitional Care Hospital projected financial operating results are provided as follows:

<table>
<thead>
<tr>
<th></th>
<th>Projected</th>
<th>Budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010-2011</td>
<td>2011-2012</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>$6.7</td>
<td>$18.8</td>
</tr>
<tr>
<td>Operating expense</td>
<td>9.6</td>
<td>17.4</td>
</tr>
<tr>
<td>Operating income</td>
<td>(2.9)</td>
<td>1.4</td>
</tr>
<tr>
<td>Non-operating gain/(loss)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total margin</td>
<td>(2.9)</td>
<td>1.4</td>
</tr>
<tr>
<td>Operating income percent</td>
<td>(43.0)%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>
Capital Plan: Funds available to meet capital requirements are derived from operating cash flows, funded depreciation reserves, philanthropy, and interest income. The Transitional Care Hospital faces many challenges regarding capital funding as continued pressures on the operating margin affect cash flow, while demand for capital will increase significantly due to the need to expand. Subject to funds availability, the Transitional Care Hospital management recommends $406,000 be authorized for capital requirements.

ACTION REQUIRED: Approval by the Medical Center Operating Board

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RECOMMENDATION REGARDING FISCAL YEAR 2012 TRANSITIONAL CARE HOSPITAL OPERATING AND CAPITAL BUDGETS

WHEREAS, the Medical Center Operating Board has reviewed the Fiscal Year 2012 Transitional Care Hospital operating and capital budgets;

RESOLVED, the Medical Center Operating Board endorses and recommends to the Finance Committee and to the Board of Visitors approval of the Fiscal Year 2012 Transitional Care Hospital operating and capital budgets.
## University of Virginia - Transitional Care Hospital
### Projected Fiscal Plan
#### 2011-2012

<table>
<thead>
<tr>
<th></th>
<th>2009-2010 Actual</th>
<th>2010-2011 Forecast</th>
<th>2011-2012 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Gross Charges</td>
<td>$ -</td>
<td>$ 14,871,746</td>
<td>$ 56,719,254</td>
</tr>
<tr>
<td>Less Deductions:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indigent Care Deductions</td>
<td>-</td>
<td>(148,717)</td>
<td>(1,355,248)</td>
</tr>
<tr>
<td>Contractual Deductions</td>
<td>-</td>
<td>(8,030,743)</td>
<td>(36,563,666)</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>-</td>
<td>(8,179,460)</td>
<td>(37,918,914)</td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>-</td>
<td>6,692,286</td>
<td>18,800,340</td>
</tr>
<tr>
<td>Miscellaneous Revenue</td>
<td>393</td>
<td>284</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>393</td>
<td>6,692,570</td>
<td>18,800,340</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses from Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>818,610</td>
<td>7,127,642</td>
<td>15,354,445</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>1,000</td>
<td>994,083</td>
<td>1,093,722</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>-</td>
<td>841,716</td>
<td>896,033</td>
</tr>
<tr>
<td>Bad Debt</td>
<td>-</td>
<td>694,899</td>
<td>71,217</td>
</tr>
<tr>
<td><strong>Total Expenses from Operations</strong></td>
<td>819,610</td>
<td>9,658,340</td>
<td>17,415,417</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>(819,217)</td>
<td>(2,965,770)</td>
<td>1,384,923</td>
</tr>
<tr>
<td>Other Gains and Losses</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Revenues and Gains in Excess of Expenses</strong></td>
<td>$ (819,217)</td>
<td>$ (2,965,770)</td>
<td>$ 1,384,923</td>
</tr>
</tbody>
</table>

### Statistics
- **Discharges - Transitional Care Hospital**: 0, 75, 276
- **Patient Days of Care - Transitional Care Hosp**: 0, 2,254, 8,004
- **Average Length of Stay - Transitional Care Hl**: 0, 30, 29
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: June 9, 2011

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.A. Vice President’s Remarks

ACTION REQUIRED: None

DISCUSSION: The Vice President and Chief Executive Officer of the University of Virginia Transitional Care Hospital will inform the Medical Center Operating Board of recent events that do not require formal action.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: June 9, 2011

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.B. Finance, Write-offs, and Operations

ACTION REQUIRED: None

BACKGROUND: The University of Virginia Transitional Care Hospital opened on August 4, 2010.

FINANCE AND OPERATIONS REPORT

The University of Virginia Transitional Care Hospital has been in operation since August 4, 2010. The Hospital currently has a census of 10. It has admitted 40 patients since August 4, with 71% of those admissions originating from the Medical Center and 29% from other referral sources. The top three admitting diagnoses continue to drive the operations of the facility, with a heavy focus on the ventilator weaning population. The Hospital has achieved the goal of maintaining an average length of stay in excess of 25 days and will continue to manage this important indicator.

The Transitional Care Hospital continues to prepare for two regulatory reviews, the Initial Joint Commission Hospital Survey and the Centers for Medicare and Medicaid Services six month demonstration period.

The initial Joint Commission Survey is an unannounced survey and will occur after six months of operation. The Hospital will be surveyed under the “small hospital” category (<50 beds). The Hospital is expecting three surveyors over a 3-4 day period.

The Centers for Medicare and Medicaid Services six month demonstration period began in September 2010. During this period, the Transitional Care Hospital must establish an average length of stay in excess of twenty-five days for its Medicare admissions. To achieve this goal Medicare admissions during this period will be restricted to patients for whom there is a high probability that the length of stay will exceed twenty-five days. Commercial patients, whose length of stay does not
affect the Medicare measurement, will also be admitted during this period.

The Transitional Care Hospital focus over the next year will be on growing the census. It is projected that the census will reach 24 by the end of calendar year 2011. The hospital will continue to adhere to its plan of slow, steady growth. Such a plan will ensure the delivery of high quality patient care while further educating referral sources, community members, and employees.

For the nine months of fiscal year 2011, the Transitional Care Hospital recorded a loss from operations of $3,121,227 versus a budgeted loss of $2,875,390.