

November 7, 1997

MEMORANDUM

TO: The Health Affairs Committee:

Charles M. Caravati, Jr., M.D., Chair  
John P. Ackerly, III  
William G. Crutchfield, Jr.  
William H. Goodwin, Jr.  
T. Keister Greer  
C. Wilson McNeely, III  
Albert H. Small  
Hovey S. Dabney, Ex Officio

and

The Remaining Members of the Board:

Franklin K. Birckhead	Terence P. Ross
Champ Clark	Elizabeth A. Twohy
Elsie Goodwyn Holland	Henry L. Valentine, II
Kristine L. LaLonde	Walter F. Walker
James C. Wheat, III	

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Meeting of the Health Affairs Committee  
on November 7, 1997

The Health Affairs Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 8:30 a.m., Friday, November 7, 1997, in the East Oval Room of the Rotunda; Charles M. Caravati, Jr., Chair, presided. John P. Ackerly, III, William G. Crutchfield, Jr., William H. Goodwin, Jr., T. Keister Greer, C. Wilson McNeely, III, Albert H. Small, and Hovey S. Dabney, Rector, were present. Also present were Franklin K. Birckhead, Champ Clark, Mrs. Elsie Goodwyn Holland, Terence P. Ross, Ms. Elizabeth A. Twohy, Henry L. Valentine, II, Walter F. Walker, James C. Wheat, III, and Ms. Kristine L. LaLonde; as well as John T. Casteen, III, Alexander G. Gilliam, Jr., Paul J. Forch, Robert W. Cantrell, Leonard W. Sandridge, Jr., Don E. Detmer, Peter W. Low, Ms. Colette Capone, Ernest H. Ern, Ms. Polley Ann McClure, Michael Halseth, Peter Munger, R. Scott Jones, and Ms. Jeanne F. Bailes.

The Chair asked Dr. Cantrell, Vice President and Provost for Health Affairs, to present the Agenda. With the permission of the Chair, the four Action Items were considered together.

The first of these was a resolution proposing adjustments to the salaries of the category of Medical Center employees classified as "Health Care Professionals." The proposed adjustments were arrived at after surveys conducted by several bodies; compensation for Health Care Professionals, by actions of the Commonwealth and the General Assembly, is established by the Board of Visitors. The adjustments proposed are an average salary increase of 4%, plus ½% of salary for market equity adjustments for some Health Care Professionals.

On motion, the resolution proposing salary adjustments for Health Care Professionals was adopted by the Committee and referred to the Finance Committee for approval (the Finance Committee subsequently approved the resolution and recommended it to the full Board for approval. See Minutes of the meeting of the Finance Committee, November 7, 1997 and Minutes of the meeting of the Board of Visitors, November 8, 1997).

The second Action Item was a resolution authorizing the development of an effective "corporate compliance program" designed to prevent and detect violations of law with regard to the delivery of health services. With the authorization of the Attorney General of the Commonwealth, the Medical Center has engaged the law firm of Vinson & Elkins to help develop the necessary compliance plan. Dr. Cantrell emphasized that the proposed plan is no way intended to imply that present management systems are inadequate.

On motion, the Committee adopted a resolution authorizing a Medical Center Corporate Compliance Program and referred it to the Finance Committee for approval (the Finance Committee subsequently approved the resolution and recommended it to the full Board for approval - see Minutes of the meeting of the Finance Committee, November 7, 1997, and Minutes of the meeting of the Board of Visitors, November 8, 1997).

Next, Dr. Cantrell proposed a new business venture between IQ Health (The Institute for Quality Health), a division of the Health Services Foundation, and the Cerner Corporation of Kansas City. IQ Health was established in 1990 and although its principal client is the University, it also provides services to businesses, municipalities and community organizations. It has become a recognized leader in providing demand management strategies as a means of controlling health care costs while providing optimal health care. The Cerner Corporation is a health information company and it wishes to purchase, through perpetual license, the

intellectual property developed by IQ Health called the "Health Risk Assessment." Cerner, by contract, will provide funds for "Health Risk Assessment" product development, and the license will be exclusive as long as Cerner's development funding continues. Dr. Cantrell emphasized that the proposed arrangement will involve no cost to the University or to the Board of Visitors.

Mr. Clark expressed concern that too many business ventures are not brought to the Board for approval until they actually have been established, and that once established they are not monitored properly. Mr. Sandridge acknowledged that the University needs to do a better job in this regard.

On motion, the Committee adopted a resolution approving the proposed business arrangement and recommended it to the full Board for approval (see Minutes of the meeting of the Board of Visitors, November 8, 1997).

The final Action Item proposed approval of the 1998 Gainsharing Plan for Medical Center employees and clinical faculty of the School of Medicine.

The Committee adopted, on motion, a resolution approving the 1998 Gainsharing Plan and referred it to the Finance Committee for approval (the Finance Committee subsequently approved the 1998 Gainsharing Plan and recommended it to the full Board for approval - see Minutes of the meeting of the Finance Committee, November 7, 1997, and Minutes of the meeting of the Board of Visitors, November 8, 1997).

Dr. Cantrell then reported on a variety of items: He informed the Committee of the recent death of Dr. Thomas Hunter, a former Dean of the School of Medicine, the first Vice President for Medical Affairs, and a renowned physician, researcher and teacher. He announced the appointments of Dr. Sim Galeska as Chair of the Department of Family Medicine, vice Dr. Lewis Barnett, and Dr. Joyce Hamlin as Chair of the Department of Biochemistry. This department is to be renamed the Department of Biochemistry and Molecular Genetics, which is indicative of a refocusing of the Department's efforts and interests - changes, it is hoped, which will help move the Department's ranking into the group of the best ten in the country. If such is the case, the Department would join four of the seven other basic sciences departments which rank among the top fifteen in the nation: Cell Biology, Biomedical Engineering, Microbiology, and Molecular Physiology and Biological Physics. Dr. Cantrell noted that this would be in line with the goal of moving the entire School of Medicine into the "Top Ten" (see Minutes of the meeting of the Health Affairs Committee, July 9, 1997).

A national search is underway to replace Mr. Peter Munger, who is resigning this month as Chief Financial Officer. The University continues to expand the telemedicine program to the point where it has become a recognized leader in the field. Recently, the University was awarded a grant of \$412,000 from the federal Department of Commerce to extend telemedicine outreach to four medical practices in Southwest Virginia. The Generalist Initiative, a collaborative effort among the three medical schools in the state, is making impressive progress through the support of the Robert Wood Johnson Foundation, which has made a grant of \$1.5m to continue its activities for another three years. The Initiative, which aims at increasing the numbers of medical graduates entering General Medicine, is directed by Dr. R. Michael Morse of the University's Department of Family Medicine.

Dr. Cantrell reported briefly on the impact of recent federal cuts in spending for Medicare and Medicaid: Medicare cuts on the Medical Center's current budget are estimated to be \$7.3m. Indigent care funding from the State, he said, is now more important than ever. He was optimistic that reductions in Medicaid funding for disproportionate share will be offset by expanded coverage under "Aid for Children." With money that had been reserved to counteract the Medicare cuts, along with other contingency funds, Dr. Cantrell said the cuts should be manageable this year. Because of the decreased federal support for graduate medical training, which was a part of the budget cuts, reductions in the number and distribution of residents are being studied.

Dr. Cantrell noted that it has been over a year since the Medical Center was granted codified autonomy by the General Assembly. Major progress, he said, has been made in implementing more cost-effective arrangements in the areas of procurement, leasing, capital outlay and human resources.

Finally, Dr. Cantrell reported that the Medical Center, in the face of declining hospital occupancy rates across the country, continues to have a relatively high occupancy rate: in the low to mid 80% range for October and 75% for the quarter as a whole. The intensive care units have been particularly full. All of this continues as the volume of outpatient visits is rising. Dr. Cantrell said he believes these increases are related to "the investments we have been making in building relationships through networking, affiliations and acquiring practices, but also reflects the fact that everyone - physicians, nurses and others are all working harder and functioning better as a team than ever before." All of this, he commented, "perhaps explains why the University of Virginia Medical Center has been identified by a Gallup poll as the preferred provider in this region by a 37% margin."

Dr. Cantrell asked Mr. Peter Munger, Chief Financial Officer of the Medical Center, to give the first quarter financial report for the Center. He noted that this will be Mr. Munger's last such report as Chief Financial Officer, and he thanked him for his outstanding service to the University.

Using slides and material distributed previously to the Committee, Mr. Munger gave his report. Inpatient occupancy averaged above 75.8% for the quarter compared to 76.3% last year. Admissions and patient days for the quarter exceeded both budget and the same quarter last year. Outpatient visits, including both clinics and the Emergency Room, were substantially higher than budget and the first quarter last year. Operating revenues in the first quarter exceeded expenses by \$11.5m; part of the increase, Mr. Munger said, can be attributed to higher admissions and part to favorable reimbursement rates. The effects of the reduction in Medicare revenues will not be realized until the current quarter. Operating and total margins for the quarter were 10.1% and 8.5%, respectively, which is an improvement over the first quarter last year.

After a brief discussion of the figures - Mr. Goodwin, for example, noted QualChoice reimbursements did not appear on the table of revenues; Mr. Munger replied that QualChoice is not yet a prime source of revenue for the Hospital - the Chair thanked Mr. Munger for his service.

Dr. Cantrell introduced Dr. R. Scott Jones, Chair of the Department of Surgery and President of the Health Services Foundation, and asked him to report on the work of the Clinical Faculty Remuneration Task Force, which was formed a little over a year ago and which Dr. Jones has directed.

Dr. Jones and his Task Force considered a number of issues and have made recommendations which include: a rational and fair method for distributing all institutional revenues to departments and their faculty; all clinical faculty shall receive a *Base Salary*; additional guaranteed salary shall be designated as *Variable Salary*; the sum of *Base Salary* and *Variable Salary* will be the *Negotiated Salary*; new faculty will be guaranteed a *Negotiated Salary* for 36 months and all faculty will be reviewed annually. The key and general element to the Task Force recommendations is that *Negotiated Salaries* can go up or down, depending on productivity and revenue production.

The goal for implementation of the Task Force's recommendations is July 1, 1998.

- - - - -

On motion, the meeting was adjourned at 9:20 a.m.

AGG:lh

Copies to: Mr. John T. Casteen, III  
Mr. Paul J. Forch  
Dr. Robert W. Cantrell  
Mr. Peter W. Low  
Mr. Leonard W. Sandridge, Jr.  
Mr. Robert D. Sweeney  
Mr. Ernest H. Ern  
Mr. William W. Harmon  
Ms. Colette Capone  
Ms. Polley Ann McClure  
Dr. Don E. Detmer  
Mr. Terry Holland  
Mr. L. Jay Lemons  
Ms. Louise Dudley