

October 9, 1998

MEMORANDUM

TO: The Health Affairs Committee:

Charles M. Caravati, Jr., Chair
William G. Crutchfield, Jr.
William H. Goodwin, Jr.
T. Keister Greer
Terence P. Ross
Albert H. Small
Joseph E. Wolfe
John P. Ackerly, III, Ex Officio

and

The Remaining Members of the Board:

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|-----------------------|------------------------|
| Champ Clark | Henry L. Valentine, II |
| Elsie Goodwyn Holland | Walter F. Walker |
| Timothy B. Robertson | Benjamin P.A. Warthen |
| Elizabeth A. Twohy | James C. Wheat, III |
| | J. Michael Allen |

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Meeting of the Health Affairs
Committee

The Health Affairs Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 8:55 a.m., Friday, October 9, 1998, in the East Oval Room of the Rotunda; Charles M. Caravati, Jr., Chair, presided. William G. Crutchfield, Jr., William H. Goodwin, Jr., T. Keister Greer, Terence P. Ross, Joseph E. Wolfe, and John P. Ackerly, III, Rector, were present. Also present were Cahmp Clark, Mrs. Elsie Goodwyn Holland, Timothy P. Robertson, Ms. Elizabeth A. Twohy, Henry L. Valentine, II, Walter F. Walker, Benjamin P.A. Warthen, James C. Wheat, III, and J. Michael Allen; as well as John T. Casteen, III, Alexander G. Gilliam, Jr., Paul J. Forch, Leonard W. Sandridge, Jr., Robert W. Cantrell, Peter W. Low, Ms. Colette Capone, Robert D. Sweeney, Ernest H. Ern, Ms.

Polley Ann McClure, Gene D. Block, Michael Halseth, Ms. Martha D'Erasmus, L. Jay Lemons, and Ms. Jeanne Flippo Bailes.

The Chair asked Dr. Cantrell, Vice President and Provost for Health Sciences, to present the Agenda.

Dr. Cantrell asked Mr. Michael Halseth, Executive Director of the Medical Center, to give the financial report for Fiscal Year 1998 for the Medical Center.

Using slides, as well as printed material distributed to the Committee, Mr. Halseth gave his report. Patient admissions, patient days, and occupancy percentages remained stable - more or less unchanged from the previous fiscal year. There was growth in the number of outpatient visits - for the first time, the total this year exceeded half a million. (This figure, Mr. Halseth noted, does not include patient visits in the University's acquired practices; the total in this category would be some 140,000.) Revenues in Fiscal Year 1998 were up from last year, but so were operating expenses. The rise in operating expenses can be attributed to higher than anticipated inpatient days, but principally to bad debt and to the high costs of drugs and supplies. The expenses in the latter category were \$11.9m over budget; bad debts (which does not include indigent care) were \$5.5m over budget. The Medical Center is increasingly aggressive in trying to recover bad debt; the cost of drugs and supplies is difficult to control because of the increased use of expensive "high tech" drugs and procedures.

In sum, operating revenues were \$465.5m (budgeted at \$453m), up from \$428.3 last year. Operating expenses were \$439.1m (budgeted at \$426.3m), up from \$401.7m. The operating margin was \$26.4m (budgeted at \$26.7m), down from \$26.6m last year; the operating margin percentage for this year thus was 5.7% (budgeted at 5.9%), down from 6.2% last year.

The Chair asked Dr. Cantrell to report at the next meeting of the Committee on how the Medical Center is attempting to manage the costs of drugs and supplies.

At the end of Mr. Halseth's report, the Chair noted that Mr. Halseth is leaving his position at the Medical Center to take up a similar job in Winchester. The Chair commended him for his good work and service to the University, and wished him well in his new position.

Dr. Cantrell then gave his report.

Medical Center financial figures for July and August, the first two months of the current fiscal year show revenues slightly higher than budget. Expenses, however, are ahead of budget as well: 6.7% for July and 1.6% for August. Costs ahead of budget by more than 3% are medical supplies, purchased services and bad debt expense. Measures are being taken to control these, recognizing that medical supplies, particularly drug costs, are inflating in double digits.

The cost of delivering indigent care in Fiscal Year 1998 was \$48m; the Commonwealth provided only \$35m to cover these costs. Dr. Cantrell noted that if the Medical Center had received full reimbursement for indigent care, the Center's operating margin would have been nearly 10%. The Medical College of Virginia, he noted, faces similar problems.

Echoing the remarks of the Chair, Dr. Cantrell also thanked Mr. Halseth for his sixteen years of service. Mr. Halseth will be the President and Chief Executive Officer of the Valley Health System in Winchester.

Dr. Cantrell then mentioned organizational changes in the Health Sciences Center, as well as efforts to improve patient service. He also urged "rapid implementation of closer oversight of the Health Sciences Center by the Health Affairs Committee of the Board of Visitors."

Likening this year to the "Annus horribilis" of Queen Elizabeth II a few years ago, Dr. Cantrell recounted the baby switching incident and the measures undertaken to make sure that such a thing never happens again. He recounted, too, similar incidents at the Hospital morgue.

He then introduced Ms. Martha D'Erasmus, the new President and Chief Executive Officer of QualChoice. An R.N., Ms. D'Erasmus took a B.A. at Antioch College and the M.P.H. at The Johns Hopkins University. Most recently, she was Chief Executive of the MSO of the Georgetown University Medical Center.

Ms. D'Erasmus addressed the Committee briefly.

Dr. Cantrell told the Committee the Medical Center ranked in the top tier in nine of the sixteen medical specialties rated in the recent U.S. News & World Report "America's Best

Hospitals" issue. Last year, the Medical Center ranked in seven specialties.

The School of Nursing is becoming a national leader in research, having ranked 10th in the country in Fiscal Year 1997 in terms of NIH research funding. In March of this year, U.S. News & World Report ranked Nursing 17th in the nation, up from 26th three years ago.

The new UVA-HealthSouth Rehabilitation Hospital, a joint undertaking between the University and HealthSouth Corporation, opened on July 16th at the Fontaine Research Park. The hospital has 50 beds and offers a wide range of rehabilitation services.

In the discussion which followed his report, Dr. Cantrell pressed for closer connections between the Health Sciences Center and the Board of Visitors. He wondered if a relationship similar to Finance Committee oversight of the investment of the University's Endowment, couldn't be set up with the Health Affairs Committee.

Mr. Goodwin recommended the use of this model. The Chair said conversations to this end are taking place and he hoped to be able to present a proposal for some sort of arrangement at the next meeting of the Committee.

There was a general discussion of indigent care in which the President recounted some of the legislative history of the State's involvement.

The Rector welcomed Ms. D'Erasmus and offered the Board's support in her endeavors at QualChoice. He also thanked Mr. Halseth for his service and wished him well.

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On motion, the Committee adjourned at 9:50 a.m.

AGG:jb

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
Mr. Gene D. Block
Mr. L. Jay Lemons
Mr. Terry Holland
Ms. Louise Dudley