

May 15, 1999

MEMORANDUM

TO: The Health Affairs Committee:

Charles M. Caravati, Jr., M.D., Chair
William G. Crutchfield, Jr.
William H. Goodwin, Jr.
Terence P. Ross
Elizabeth A. Twohy
H. Christopher Alexander, III, M.D.
Harry J. G. van Beek
John P. Ackerly, III, Ex Officio

and

The Remaining Members of the Board:

Champ Clark	Albert H. Small
T. Keister Greer	Henry L. Valentine, II
Elsie Goodwyn Holland	Walter F. Walker
Timothy B. Robertson	Benjamin P.A. Warthen
Robert G. Schoenvogel	James C. Wheat, III
Joseph E. Wolfe	

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Meeting of the Health Affairs Committee
on May 15, 1999

The Health Affairs Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 8:30 a.m., Saturday, May 15, 1999, in the East Oval Room of the Rotunda; Charles M. Caravati, Jr., M.D., Chair, presided. William G. Crutchfield, Jr., William H. Goodwin, Jr., Terence P. Ross, Ms. Elizabeth A. Twohy, and John P. Ackerly, III, Rector, were

present. Champ Clark, T. Keister Greer, Mrs. Elsie Goodwyn Holland, Timothy B. Robertson, Albert H. Small, Henry L. Valentine, II, Walter F. Walker, Benjamin P.A. Warthen, James C. Wheat, III, Joseph E. Wolfe, and Robert G. Schoenvogel also were present; as were John T. Casteen, III, Leonard W. Sandridge, Jr., Alexander G. Gilliam, Jr., Paul J. Forch, Robert W. Cantrell, M.D., Peter W. Low, Ms. Colette Sheehy Capone, Robert D. Sweeney, William W. Harmon, Ernest H. Ern, Gene D. Block, Terry Holland, William E. Carter, Thomas A. Massaro, M.D., Robert Baker, and Ms. Jeanne Flipppo Bailes.

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

The first two Items on the Agenda were Consent Items: one had to do with a conflict of interest exemption involving a contract with E-Site Therapeutics and the other involved a conflict of interest exemption for sponsored research with Multimedia Medical Systems, Inc.

On motion, the Committee adopted resolutions approving conflict of interest exemptions in these two cases and recommended the resolutions to the full Board for approval. (See Minutes of the meeting of the Board of Visitors, May 15, 1999.)

Dr. Cantrell introduced Mr. William E. Carter and asked him to give the Medical Center financial report.

Running quickly over figures for the first three quarters of the current fiscal year, Mr. Carter made the following points: Medical Center admissions are up - 21,700 as of March 31st compared with 20,749 at this point last year and the FY 1999 budgeted figure of 19,600; Patient Days are down from 124,237 last year to 116,805 this year and a budgeted figure of 118,554; the occupancy rate is 74.4% compared with 77.2% last year; although below the budgeted figure of 400,436, Outpatient and Emergency Room visits are at 395,632, over 382,990 last year; Operating Revenue stands at \$348.6m, which is below the budgeted figure of \$350.5m but above \$340.9 from last year; Operating Expenses are \$344.7m, above last year's figure of \$321.9m and above the budgeted figure of \$330.1m. Mr. Carter said the Operating Margin thus stands at \$3.9m, below last year's figure of \$19m and below the budgeted figure of \$20.4m; translating those figures to percentages, the third

quarter figure last year was 5.6%, the current figure is 1.1% and the FY1999 budgeted figure is 5.8%

Dr. Cantrell then asked Dr. Massaro, Chief of Staff, to comment on medical supply and pharmaceutical costs and what is being done to try to contain them.

Dr. Massaro told the Committee that the cost of pharmaceuticals is one of the most critical issues facing academic health centers. He said there have been 100% increases in the price of drugs over the last few years. As for the University's Medical Center, 90% of drug costs are for in-patients; most reimbursements for the costs of in-patient care are on fixed contracts which do not take into account the steep price rises in drugs.

Dr. Massaro then cited the example of new and extremely successful cardiac procedures developed at the Medical Center, procedures requiring new drugs which are so expensive that the procedures become financially unprofitable. He emphasized that the Health Sciences administration takes very seriously the profitability of its academic medical center. Staff and medical students have been made aware of this and are trained to take it into account. The Medical Center is now a member of a joint purchasing program which should effect significant savings.

Dr. Massaro described other methods that are being used to cut drug costs. One, for example, that was instituted last year to look into the use of anti-biotics has already saved \$500,000 in drug costs. Other programs underway are looking into specific diagnoses and procedures with an aim toward cutting drug costs.

Summing up his presentation, Dr. Massaro said during the past year, Medical Center drug cost rises for the first time are below the inflationary trend.

Dr. Cantrell introduced Mr. Robert J. Baker, President and Chief Executive Officer of the University Health System Consortium, an alliance of more than 80 academic health centers and over 60 affiliated health care organizations. Mr. Baker then gave the Committee an overview of the financial impact of the Balanced Budget Act on university health systems across the country.

Mr. Baker concluded his report - a report which provoked lively discussion among Members - with several recommendations, including:

Future Balanced Budget Act reductions should be reduced by using the federal surplus.

The Balanced Budget Act should not be extended beyond 2002.

Academic health center leadership groups and public policy makers should collaborate to define and measure the social costs of producing health care professionals, enhancing medical innovation and discovery, and caring for the medically needy.

Academic health center leadership groups should collaborate with all interested parties to establish public policy that defines government's responsibility to reimburse the appropriate social costs of the academic health center.

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On motion, the meeting was adjourned at 9:58 a.m.

AGG:lah

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