

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
May 8, 2003**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, May 8, 2003
3:00 - 5:45 p.m.

Medical Center Conference Dining Rooms 1, 2 and 3

Committee Members:

E. Darracott Vaughan, Jr. M.D., Chair
William G. Crutchfield, Jr. William H. Goodwin, Jr.
Eugene V. Fife Lewis F. Payne
John I. Gallin, M.D. Gordon F. Rainey, Jr.
 Katherine L. Smallwood, M.D.

Ex Officio Members:

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

AGENDA

	<u>PAGE</u>
I. ACTION ITEMS	
A. Fiscal Year 2004 Medical Center Operating Budget (Mr. Howell to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report)	1
B. Temporary Delegation of Authority Regarding Credentialing Actions (Mr. Howell)	9
II. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell)	
A. Vice President's Remarks	11
B. Finance, Write-offs and Operations (Mr. Fitzgerald to report on Finance and Write-offs; Mr. Howell to report on Operations)	12
C. Capital Projects	21
D. Buchanan Funded New Clinical Initiatives (Mr. Howell to introduce Dr. William D. Steers; Dr. Steers to report)	24
E. Decade Plan (Dr. Garson)	27
F. Graduate Medical Education (Mr. Howell to introduce Dr. Thomas A. Massaro; Dr. Massaro to report)	29
G. Performance Improvement (Dr. Massaro)	31

III. REPORT BY THE PRESIDENT OF THE CLINICAL STAFF OF THE MEDICAL CENTER (Dr. Beller) 33

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 contract negotiations regarding nutrition and environmental services procurements, and activities of an existing joint venture of the Medical Center for nuclear cardiac imagining, disclosure of which would adversely affect the competitive position of the Medical Center.

Consultation with legal counsel regarding the Medical Center's joint venture with HealthSouth, as well as departments' compliance with regulatory, licensing and accreditation requirements, which will also 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), (6), (7) and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Fiscal Year 2004 Medical Center
Operating Budget

BACKGROUND: At its May meeting, the Board acts on the proposed operating budget based on a recommendation for approval from the Medical Center Operating Board.

DISCUSSION: The Medical Center's 2003-2004 fiscal plan has been developed to include aspects of the joint Decade Plan developed by the Medical Center and School of Medicine while considering the challenge of providing patient care, teaching, and research services in an increasingly changing health care industry. Payment pressures from third party payers continue to have a negative impact on revenue on a per-case and per-visit basis. The cost associated with providing quality patient care will continue to have upward pressure due to increases in medical supply and pharmaceutical expenses and a shortage of healthcare workers. In addition, in Fiscal Year 2004, the Medical Center expects to continue to care for patients with high acuity illnesses. The Medical Center's acuity level of 1.89, as measured by a case mix index, is experienced by only a handful of hospitals in the United States.

The Fiscal Year 2003 operating margin is projected to be \$31.6 million and the net income is projected to be \$41.5 million. The non-recurring contractual adjustments included in the FY03 projection are composed of \$6.8 million in one-time revenue settlements from Medicaid, Medicare, Trigon, and the Commonwealth of Virginia. For Fiscal Year 2004, there are no projected one-time settlements. (See Schedule "A" for detail.) With prior year events such as the purchase of QualChoice by Southern Health Services, Inc. and Medicaid's managed care program, the Medical Center continues to experience additional requirements and pressures on denial write-offs and increases in labor requirements to administer contracts.

The Corporate Compliance Agreement and the new Health Insurance Portability and Accountability Act (HIPAA) are external pressures that continue to result in additional expenses for the Medical Center. The Medical Center continues to modernize and integrate information technology services through the Board approved Integrated Health Information Management System (IHIMS) project. In addition, increases in capital investment for the hospital expansion and all other capital activity will result in additional depreciation expense of \$5.4 million for Fiscal Year 2004. The budget includes the opening of two Modular Operating Rooms to increase Medical Center capacity from 19 to 21 operating rooms. The Medical Center's 2003-2004 fiscal plan accounts for these additional expenses while preserving its goal of providing high quality and cost effective health care, education, and research services to patients and their families, students, employers, state and federal governments, referring physicians, referring agencies, and affiliated networks.

The Decade Plan, which is a product of a joint planning process between the Medical Center and the School of Medicine, was also considered in the budget. Some of the items in the budget directly related to the Decade Plan include \$.2 million for an enhanced telephone service, \$.4 million for 10 additional access employees, \$.125 million for Cancer outreach, and \$.275 million for other unspecified initiatives.

The Medical Center budget development process continues to be highly participatory and clinically focused. Patient care service management, support function management, and physicians have significant roles in the budget development cycle. The budget process begins with a budget retreat and ends with each operating unit providing a monthly and cumulative operating and capital budget that contains service demand forecasts, required full-time equivalent personnel, fringe benefits, and a full complement of non-labor expenses.

BUDGET AND OPERATING ASSUMPTIONS

Market conditions: For Fiscal Year 2004, total discharges are projected to grow 3.3 percent from Fiscal Year 2003 projected levels, primarily as a result of new operating capacity from the two modular operating rooms and additional beds brought into service. Patient days are expected to

increase overall by 2.4 percent and outpatient service demand is expected to grow by 7.7 percent. The growth in outpatient services reflects a continuing trend of health care services moving from the inpatient to the outpatient setting. The following table includes historical and projected patient volumes:

	Actual <u>2001-2002</u>	Forecasted <u>2002-2003</u>	Budget <u>2003-2004</u>
Discharges	26,803	26,926	27,809
Adjusted Discharges	44,353	44,957	47,705
Average length of stay	5.58	5.65	5.60
Patient days	149,489	152,107	155,814
Clinic & ER visits	585,480	594,307	640,110
Home Health visits	52,815	48,504	49,850

Revenues: The Medical Center's Fiscal Year 2004 budgeted payer mix remains consistent with that of 2003. One of the Medical Center's largest challenges is the unwillingness of payers, especially government programs, to increase their payments to be commensurate with the increases in educational and medical delivery costs. Growth in revenues is attributable to bed expansion and expansions for other patient services facilities including the Fontaine Medical Office Building, the McCue Sports Medicine Center and the modular operating rooms.

Rate changes: The Medical Center proposes a rate increase commensurate with inflationary impacts on expenses.

Expenses: Expenses from operations are projected to increase by \$64.3 million. Expenses per adjusted discharge increase 4.3 percent from \$13,371 to \$13,949. We anticipate that expense per adjusted discharge included in the budget will be slightly below the median expense of other academic medical centers. The Medical Center's budget includes 4 percent inflation for medical supplies, 5 percent for pharmaceutical expenses and 12 percent for employee health benefit expense.

Staffing: The Medical Center's Fiscal Year 2004 budget includes 5,340 FTEs, an increase of 276 FTEs from staffing at the current fiscal year 2003 projections of 5,064 FTEs. On an adjusted discharge basis, FTEs growth is virtually unchanged going from 41.1 FTEs per adjusted discharge in 2002-2003 to 41.0 FTEs per adjusted discharge in 2003-2004.

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, recommend amendments to the Medical Center Operating Board. Also, management will continue to identify and implement process improvement strategies that will allow for operational streamlining and cost efficiencies.

Revenues are impacted by the Balanced Budget Act of 1997 (BBA), the Balanced Budget Refinement Act of 1999, and the Benefits Improvement and Protection Act of 2000 (BIPA). The final reduction to Indirect Medical Education (IME) that was mandated by the BBA took effect October 1, 2002. The 12 month impact of the IME reduction is \$6.0 million.

The major strategic initiatives that impact next year's fiscal plan include:

- Enhanced personnel compensation packages and annual salary and equity adjustments (\$4.3 million resulting from Fiscal Year 2003 actions and \$4.7 million of new adjustments for fiscal year 2004). Adjustments to resident pay scales resulted in a \$0.7 million adjustment.
- Introduction of two modular operating rooms.
- Facility expansions such as the Fontaine Medical Office Building II and McCue Sports Medicine Center.
- Required expenses related to the Decade Plan and IHIMS.
- Radiology imaging joint venture, which will be fully operational for the entire fiscal year 2004.
- Implementation of early phases of the Decade Plan.

The major risk factors that impact the ability to accomplish the desired results of next year's fiscal plan include:

- The continuation and improvement of existing operating conditions including the management of the healthcare worker shortages and a Medicare Case Mix Index above 1.89.
- The Commonwealth of Virginia budget crisis.
- The ability to adapt to a shifting patient population where admissions are being replaced with one day stays.
- New CMS and other regulatory reimbursement changes.
- Advancements in medical technology which could alter expenses and/or revenues very quickly.
- Inflation for medical devices and pharmaceutical goods could exceed the budget assumptions.

- Enhanced scrutiny by Federal regulators in areas such as medical records, billing, coding and contractual agreements.

A summary of historical and projected financial operating results are provided as follows:

(in millions)	<u>Actual</u> <u>2001-20021</u>	<u>Projected</u> <u>2002-2003</u>	<u>Budgeted</u> <u>2003-2004</u>
Total operating revenue	\$600.1	\$632.7	\$695.0
Operating expense	\$532.4	\$538.4	\$594.3
Bad Debt	\$22.5	\$23.6	\$26.6
Depreciation & Amortization	\$34.5	\$34.6	\$39.9
Interest	\$4.6	\$4.5	\$4.6
Operating income	\$6.1	\$31.6	\$29.6
Non-operating gain/(loss)	(\$1.0)	\$9.9	\$8.1
Total margin	\$5.1	\$41.5	\$37.7
Operating income percent	1.0%	5.0%	4.3%

Capital Plan: Funds available to meet capital requirements are derived from operating cash flows and funded depreciation reserve. The Medical Center faces many challenges on capital funding as continued pressures on the operating margin affect cash flow, while demand for capital has increased significantly from space requirements, technological advances and aging of existing equipment. Subject to funds availability, the Medical Center management recommends \$58 million be authorized for capital requirements. The \$58 million capital plan excludes approved investments in the Medical Center expansion previously approved by the Board.

ACTION REQUIRED: Approval by the Medical Center Operating Board, the Finance Committee and the Board of Visitors

RECOMMENDATION REGARDING FISCAL YEAR 2004 MEDICAL CENTER
OPERATING BUDGET

WHEREAS, the Medical Center Operating Board has reviewed the Fiscal Year 2004 Medical Center operating budget;

RESOLVED that the Medical Center Operating Board endorses and recommends to the Finance Committee and to the Board of Visitors approval of the Fiscal Year 2004 Medical Center operating budget.

Schedule A
University of Virginia Medical Center
Non-Recurring Revenue
(in millions)

	Projected Budgeted	
	FY '03	FY '04
Medicare Cost Report Settlements	6.8	0.0
Reserve for Trigon Endoscopy/Observation	0.5	0.0
Medicaid State Budget Reduction	(0.5)	0.0
Total	6.8	0.0

Schedule B
University of Virginia - Medical Center
Projected Fiscal Plan
2003-2004

	2001-2002 Actual	2002-2003 Forecast	2003-2004 Budget
Revenues			
Total Gross Charges	\$ 817,028,035	\$ 941,856,273	\$ 1,103,771,252
Less Deductions:			
Indigent Care Deduction (net of DSH payment)	25,561,079	32,230,380	46,575,125
Contractual Deduction	203,240,274	289,953,103	377,215,878
Total Deductions	228,801,353	322,183,483	423,791,003
Net Patient Revenue	588,226,682	619,672,790	679,980,249
Miscellaneous Revenue	11,838,092	13,058,354	15,052,439
Total Revenue	600,064,774	632,731,143	695,032,688
Expenses			
Expenses from Operations			
Operating Expenses	532,388,282	538,431,766	594,300,433
Depreciation and Amortization	34,468,124	34,557,494	39,948,483
Interest Expense	4,613,866	4,509,573	4,605,545
Bad Debt	22,513,844	23,627,181	26,569,000
Total Expenses from Operations	593,984,116	601,126,014	665,423,461
Operating Income	6,080,658	31,605,129	29,609,227
Other Gains and Losses			
Investment Income	11,637,033	10,504,047	10,400,000
Net loss from Affiliates	(7,530,421)	954,444	738,000
Loss on Fixed Assets	(214,913)	(1,554,825)	(1,000,000)
Other	(4,894,857)	-	(2,000,000)
Total Other Gains and Losses	(1,003,158)	9,903,667	8,138,000
Revenues and Gains in Excess of Expenses	\$ 5,077,500	\$ 41,508,796	\$ 37,747,227
Statistics			
Admissions or Discharges	26,803	26,926	27,809
Patient Days of Care	149,489	152,107	155,814
Clinic and Emergency Room Visits (Excluding Acquired Practices and Freestanding Clinics)	585,480	594,307	640,110
Home Health Visits	52,815	48,504	49,850
Average Length of Stay	5.58	5.65	5.60

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.B. Temporary Delegation of Authority
Regarding Credentialing Actions

BACKGROUND: The Medical Center Operating Board, as the governing body of the Medical Center, is responsible for appointing and reappointing clinicians to the Clinical Staff of the Medical Center, as well as for granting clinical privileges to such clinicians and for granting appropriate clinical privileges to Allied Health Professionals and certain other healthcare providers, based upon the recommendations of the Credentials Committee and the Clinical Staff Executive Committee of the Medical Center.

DISCUSSION: The Medical Center Operating Board is not scheduled to meet again until September 2003. Under the requirements of the Joint Commission on Accreditation of Healthcare Organizations and the Amended and Restated Bylaws of the Clinical Staff of the Medical Center, temporary privileges to practice within the Medical Center may be granted to practitioners for not more than ninety (90) days. More than ninety (90) days will elapse between the May and September meetings of the Medical Center Operating Board, and the privileges of some practitioners may lapse during this time. In addition, during the same time period, the Medical Center will receive new applications for Clinical Staff membership and for clinical privileges, and approval of such applications may be delayed. Physicians may not practice within the Medical Center until both membership and privileges are approved.

In order to avoid the lapse or delay in privileges, the Medical Center requests the Medical Center Operating Board to delegate temporarily to the Chair of the Medical Center Operating Board, Dr. Vaughan, the authority to appoint and reappoint clinicians to the Clinical Staff of the Medical Center, and to grant appropriate clinical privileges to such clinicians, and to grant appropriate clinical privileges to Allied Health Professionals and certain other healthcare practitioners.

ACTION REQUIRED: Approval by the Medical Center Operating Board

APPROVAL OF TEMPORARY DELEGATION OF AUTHORITY REGARDING
CREDENTIALING ACTIONS

WHEREAS, the Medical Center Operating Board has the authority and responsibility for appointing and reappointing clinicians to the Clinical Staff of the Medical Center, as well as for granting appropriate clinical privileges to such clinicians and for granting appropriate clinical privileges to Allied Health Professionals and certain other healthcare practitioners to practice within the Medical Center; and

WHEREAS, the Medical Center Operating Board will not meet between May and September 2003, and in the interim, a number of Medical Center Clinical Staff members, Allied Health Professionals and other healthcare practitioners will need to be appointed, reappointed and/or granted clinical privileges; and

WHEREAS, the Medical Center may confer temporary clinical privileges for not more than ninety (90) days; and

WHEREAS, the Medical Center Operating Board desires to delegate temporarily to the Chair of the Medical Center Operating Board its authority to appoint and reappoint clinicians to the Clinical Staff of the Medical Center, and to grant appropriate clinical privileges to such clinicians, and to grant appropriate clinical privileges to Allied Health Professionals and certain other healthcare practitioners;

RESOLVED that the Medical Center Operating Board delegates to the Chair of the Medical Center Operating Board the authority to appoint and reappoint clinicians to the Clinical Staff of the Medical Center, and to grant appropriate clinical privileges to such clinicians and to grant appropriate clinical privileges to Allied Health Professionals and certain other healthcare practitioners to practice within the Medical Center; and

RESOLVED FURTHER that such delegation of authority be limited to those persons recommended by the Credentials Committee and the Clinical Staff Executive Committee from their May, June and July 2003 meetings; and

RESOLVED FURTHER that all such authority delegated to the Chair of the Medical Center Operating Board shall revert to the Medical Center Operating Board immediately upon the conclusion of the period delegated above.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

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 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: May 8, 2003

COMMITTEE: Medical Center Operating Board

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

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial and operations report, including write-offs of bad debt and indigent care, 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 and total operating expenses are above budget, while full-time equivalent employees are below budget.

For Fiscal Year 2003, admissions are 2.3 percent below budget and .4 percent above prior year. Patient days are 2.5 percent below budget, and 1.4 percent above prior year. Length of stay is 5.7 days, which is equal to budget and above prior year. Admissions for neurosurgery and general surgery are above prior year, while admissions for orthopaedics and transplant are below prior year. Same day patients are .5 percent above prior year. Outpatient volume declined in the month of February due to the snow.

Total operating revenue for Fiscal Year 2003 is 3.7 percent above budget and 6.3 percent above prior year. Total operating revenue includes several non-recurring transactions. Fiscal Year 2003 net operating revenue includes \$2.5 million related to services provided in Fiscal Year 2002. Fiscal Year 2002 net operating revenue includes \$1.4 million for the Fiscal Year 1993 and 1995 Medicare disproportionate share (DSH) settlements.

Total operating expenses for Fiscal Year 2003 are .5 percent above the \$390.4 million budget and .9 percent above prior year expenses. Salaries and wages and purchased services are below both budget and prior year expenses. Supplies and contracts are above both budget and prior year expenses.

The number of full-time equivalent employees (FTEs) is 192 below budget and 284 below prior year. Hospital and clinic FTEs are:

	<u>FY 2002</u>	<u>FY 2003</u>	<u>2003 Budget</u>
Hospital FTEs	4,854	4,534	4,729
Clinic FTEs	<u>457</u>	<u>493</u>	<u>490</u>
Total	5,311	5,027	5,219
Annualized			
Salary and Wage	\$42,171	\$43,029	\$42,502
Cost per FTE			

The Fiscal Year 2003 operating margin is 6.2 percent, which is above both the budgeted margin of 3.2 percent and the prior year's 1.2 percent margin.

WRITE-OFF OF BAD DEBTS AND INDIGENT CARE

Indigent care charges totaling \$43.2 million for the period July 1, 2002, through January 31, 2003, have been written off. Recoveries during this period amounted to \$5.5 million.

The estimated cost of indigent care in FY 2001-02 amounted to \$47.3 million of which 86% was funded through the Medicaid special disproportionate share payments. The cost of indigent care for fiscal year 2002-03 is estimated to be \$52.9 million of which 77% will be funded through the Medicaid special disproportionate share payments.

Bad debt charges totaling \$18.4 million for the first seven months of fiscal year 2002-03 have been written off. During this same period, \$6.3 million was recovered through suits, collection agencies, and Virginia refund set-off.

OPERATIONS

For the first eight months of Fiscal Year 2003, labor expenses were 1.9 percent (192 FTEs) below budget, and 3.5 percent (284 FTEs) below the expenses for the first eight months of Fiscal Year 2002. On a volume-adjusted basis, labor and benefit expenses were .3 percent below budget. The cost of the traveler (contract) health care professionals was \$2.0 million for the first eight months of Fiscal Year 2003 versus \$5.8 million in the first eight months of Fiscal Year 2002. While significantly below prior year, traveler expenses are \$645 thousand over budget for this fiscal year, mostly due to unanticipated use of contract labor by Radiology.

The Medical Center continues to experience increases in cost from technology advances such as drug-eluting stents for cardiology patients. This is a trend that is likely to continue. Most of our managed care contracts include provisions for price increases related to technology changes. However, Medicare and Medicaid payment metrics have always been slow to recognize such changes.

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

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb FY01	Feb FY02	Feb FY03	Feb FY03
Net patient revenue	\$351.7	\$385.8	\$409.6	\$395.8
Other revenue	<u>7.9</u>	<u>7.5</u>	<u>8.4</u>	<u>7.4</u>
Total operating revenue	<u>\$359.6</u>	<u>\$393.3</u>	<u>\$418.0</u>	<u>\$403.2</u>
Operating expenses	321.8	362.9	366.3	361.4
Depreciation	21.7	22.6	23.0	25.8
Interest expense	<u>3.2</u>	<u>3.1</u>	<u>3.0</u>	<u>3.2</u>
Total operating expenses	<u>\$346.7</u>	<u>\$388.6</u>	<u>\$392.3</u>	<u>\$390.4</u>
Operating income (loss)	<u>\$12.9</u>	<u>\$4.7</u>	<u>\$25.7</u>	<u>\$12.8</u>
Non-operating income (loss)	<u>\$9.5</u>	(\$4.5)	<u>\$6.2</u>	<u>\$6.9</u>
Net income (loss)	<u>\$22.4</u>	<u>\$0.2</u>	<u>\$31.9</u>	<u>\$19.7</u>
Principal payment	\$2.8	\$2.9	\$3.1	\$3.1

Note: Net patient revenue includes the following non-recurring items:

- FY03 includes \$2.5 million net impact of services rendered in FY02.
- FY02 includes \$1.4 million net impact for 1993 and 1995 Medicare DSH settlements

University of Virginia Medical Center

Balance Sheet

(Dollars in Millions)

Description	Most Recent Three Fiscal Years		
	Feb FY01	Feb FY02	Feb FY03
Assets			
Operating cash and investments	\$53.5	\$30.7	\$75.4
Patient accounts receivables	84.9	86.0	84.1
Property, plant and equipment	227.3	228.8	243.8
Depreciation reserve investments	173.9	186.0	207.7
Other assets	<u>28.9</u>	<u>49.6</u>	<u>11.5</u>
Total Assets	<u>\$568.5</u>	<u>\$581.1</u>	<u>\$622.5</u>
Liabilities			
Current portion long-term debt	\$4.1	\$4.2	\$4.4
Accounts payable & other liab	44.6	51.7	57.6
Long-term debt	93.2	88.7	86.9
Accrued leave and other LT liab	<u>14.5</u>	<u>17.2</u>	<u>17.1</u>
Total Liabilities	<u>\$156.4</u>	<u>\$161.8</u>	<u>\$166.0</u>
Fund Balance	<u>\$412.1</u>	<u>\$419.3</u>	<u>\$456.5</u>
Total Liabilities & Fund Balance	<u>\$568.5</u>	<u>\$581.1</u>	<u>\$622.5</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb FY01	Feb FY02	Feb FY03	Feb FY03
Operating margin (%)	3.6%	1.2%	6.2%	3.2%
Total margin (%)	6.1%	0.1%	7.5%	4.8%
Current ratio (x)	2.8	2.1	2.6	4.0
Days cash on hand (days)	174.3	147.9	190.4	190.0
Gross accounts receivable (days)	84.6	72.8	68.8	60.0
Average payment period (days)	36.4	37.1	40.8	30.6
Annual debt service coverage (x)	7.9	4.3	9.5	7.8
Debt-to-capitalization (%)	18.4%	17.5%	16.0%	20.0%
Capital expense (%)	7.2%	6.6%	6.6%	7.4%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb FY01	Feb FY02	Feb FY03	Feb FY03
Admissions	18,244	17,754	17,826	18,252
Patient days	100,058	99,641	101,022	103,597
SS/PP Patients	3,987	5,263	5,291	4,015
Average length of stay	5.5	5.6	5.7	5.7
Clinic visits	338,990	349,108	350,456	365,336
ER visits	37,873	38,754	38,035	38,475
Medicare case mix index	1.9041	1.9065	1.8897	1.9363
Net Revenue by Payor				
Medicare %	38.7%	38.8%	36.1%	36.0%
Medicaid %	14.7%	12.7%	11.9%	11.7%
Managed care %	6.6%	7.2%	6.8%	6.1%
Commercial %	9.6%	9.8%	11.0%	9.8%
Other	<u>30.4%</u>	<u>31.5%</u>	<u>34.2%</u>	<u>36.4%</u>
Total	100%	100%	100%	100%
FTE's	4,863	5,311	5,027	5,219

SUMMARY OF OPERATING STATISTICS AND FINANCIAL PERFORMANCE MEASURES
Fiscal Year to Date with Comparative Figures for Prior Year to Date - February 28, 2003

OPERATING STATISTICAL MEASURES - February 2003

ADMISSIONS and CASE MIX - Year to Date				OTHER INSTITUTIONAL MEASURES - Year to Date			
	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>		<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
ADMISSIONS:				ACUTE INPATIENTS:			
Surgical	6,374	6,860	7.6%	Inpatient Days	99,641	101,022	1.4%
Medical	7,623	7,230	(5.2%)	Average Length of Stay	5.6	5.7	1.8%
Transplant	119	101	(15.1%)	Average Daily Census	410	416	1.5%
Obstetrics	945	939	(0.6%)	Births	868	894	3.0%
Pediatrics	1,448	1,472	1.7%	OUTPATIENTS:			
Psychiatric	1,245	1,224	(1.7%)	Clinic Visits	349,108	350,456	0.4%
Subtotal Acute	17,754	17,826	0.4%	Average Daily Visits	2,323	2,319	(0.2%)
Short Stay	5,263	5,291	0.5%	Emergency Room Visits	38,754	38,035	(1.9%)
Total Admissions	23,017	23,117	0.4%	SURGICAL CASES			
CASE MIX INDEX:				Inpatient	8,266	8,477	2.6%
All Acute Inpatients	1,7019	1,7358	2.0%	Outpatient	1,784	1,599	(10.4%)
Medicare Inpatients	1,9065	1,8897	(0.9%)	Total	10,050	10,076	0.3%

OPERATING FINANCIAL MEASURES - February 2003

REVENUES and EXPENSES - Year to Date				OTHER INSTITUTIONAL MEASURES - Year to Date			
	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>		<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
NET REVENUES:				NET REVENUE BY PAYOR:			
Total Patient Rev.	362,351,273	386,216,333	6.6%	Medicare	140,740,108	139,491,661	(0.9%)
Appropriations	23,413,559	23,413,559	0.0%	Medicaid	45,947,625	45,896,932	(0.1%)
Misc Revenue	7,566,307	8,431,104	11.4%	Managed Care	26,114,683	26,080,421	(0.1%)
Total	393,331,139	418,060,996	6.3%	Commercial Insurance	35,402,747	42,508,230	20.1%
EXPENSES:				Blue Cross	48,735,729	58,305,246	19.6%
Salaries and Wages	184,365,040	177,927,059	(3.5%)	Southern Health	16,051,676	18,506,830	15.3%
Supplies and Contracts	100,050,006	113,527,055	13.5%	Tricare CHAMPUS	3,836,401	5,374,901	40.1%
Purchased Services	64,976,587	59,325,508	(8.7%)	Continuum	3,244,538	3,850,548	18.7%
Bad Debts	13,585,531	15,521,973	14.3%	Other	42,277,766	46,201,564	9.3%
Depreciation	22,606,351	23,058,298	2.0%	Total Paying Patient Rev.	362,351,273	386,216,333	6.6%
Interest Expense	3,080,594	2,976,250	(3.4%)	Managed Care	26,114,683	26,080,421	(0.1%)
Total	388,664,109	392,336,143	0.9%	Non-Managed Care	336,236,590	360,135,912	7.1%
Operating Margin	4,667,030	25,724,853	451.2%	Total Paying Patient Rev.	362,351,273	386,216,333	6.6%
Operating Margin %	1.2%	6.2%	418.6%	OTHER:			
Non-Operating Revenue	(4,460,987)	6,192,719	N/A	Collection % of Gross Billings	73.10%	65.78%	(10.0%)
Net Income	206,043	31,917,572	15390.7%	Days of Revenue in Receivables (Gross)	72.8	68.8	(5.5%)
				Cost per CMI & OP-Adj Discharge	7,022	7,006	(0.2%)
				Cost per CMI & OP-Adj Day	1,251	1,236	(1.2%)
				Cost per Outpatient Visit	68.11	70.27	3.2%
				Total F.T.E.'s	5,311	5,027	(5.3%)
				F.T.E.'s Per Adjusted Occupied Bed	7.92	7.27	(8.2%)

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
Obstetric cases for FY03 have been adjusted by 140 cases which were incorrectly classified as Gynecology
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
Inpatient surgical cases include both inpatients and short stay/post procedure patients
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: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.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.

Attachment
The University of Virginia Medical Center
Capital Projects Report

Scope	Budget	Funding Source	BOV Approval Date	Projected Completion Date
PRE-CONSTRUCTION				
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. Scope change (3/03) to include additional floor for Heart Center faculty offices.	\$58 M (\$62.7 M - revised)	Bonds @ \$54 M (\$58.7 M - revised) Hospital Operating Revenues @ \$4 M	March '99	Sept '05 (March '06 -revised)

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)
Critical Care Unit Expansion - additional 9 beds to the MICU, and STICU in University Hospital	\$3.25 M (\$2.7 M - revised)	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 (Feb '04- revised) (Otolaryngology)

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.D. Buchanan Funded New Clinical Initiatives

ACTION REQUIRED: None

BACKGROUND: Mr. Ward Buchanan, a 1914 graduate of the University's Law School, left a \$52.6 million bequest to create an unrestricted endowment fund for the University of Virginia Medical Center. The Medical Center is using the interest earnings from the Ward Buchanan Fund to provide seed funding of unique, clinically differentiating programs at the Medical Center. The annual interest earnings are \$2.5 million, and the Medical Center is using a matching funds approach to utilize this money for new clinical programs for a total funding of \$5 million. Funding will be provided for a maximum of three (3) years for each new clinical program.

DISCUSSION:

On October 22, 2002, a call for proposals was sent to all School of Medicine clinical department chairs for submissions of Letters of Intent (LOIs) describing proposed clinically differentiating programs the Medical Center should fund.

Twenty LOIs were received from various departments; most of these program requests engaged multiple departments. Multidisciplinary proposals show the integration of different groups working to achieve improved care for our patients. These LOIs were reviewed by the Programs Committee consisting of 6 physicians representing 6 different clinical areas and chaired by Dr. Frederick Wooten, Chair of Neurology, to determine which proposals would advance to Stage II of the process based on predetermined criteria. Nine programs were selected to move to the next stage.

In Stage II, an assessment was done for the market and financial viability of each program. These included:

- The Pediatric Motor Assessment and Management Program
- Virginia Childhood Obesity Center
- Virginia Hand Center
- Child Life Therapy
- Human Clinical Islet Cell Transplantation Program
- Occupational/Environmental Toxicology Program
- Advancement of Clinical Trials for Improving Outcomes in Neuro-Oncology (ACTION)
- Division of e-Health Education and Interventions
- Surgical Minimal Approach with Robot Technology (SMART)

In order to receive funding, programs must demonstrate an ability to achieve an 11% return on investment and 7% net operating margin in the 3rd and final year of funding. Programs also must be clearly unique and set the University of Virginia Medical Center apart from other academic medical centers and hospitals in the area.

Based on the above criteria, the Programs Committee recommended that the following four (4) programs receive funding. The Vice President and Chief Executive Officer of the Medical Center and the Vice President and Dean of the School of Medicine have made the final decision.

- Virginia Hand Center: This program is a collaborative initiative, which has already begun between the Department of Orthopaedics and the Department of Plastic Surgery. The clinical expertise offered includes management of a wide spectrum of upper extremity deformities, such as innovative techniques for microvascular reconstruction of the upper extremity, management of congenital hand anomalies, microvascular techniques for trauma reconstruction and implantation of electrical stimulators to enhance rehabilitation of spinal cord injury patients. Currently, no such center for upper extremity management exists within the Commonwealth of Virginia. The goal is to make the Virginia Hand Center a "Center of Excellence" at the national level.
- Surgical Minimal Approach with Robotic Technology (SMART): The Department of Urology will use these funds for the establishment of a minimally invasive robotic surgery center at the Medical Center. This

technology will allow Urology, and possibly other surgical specialties, to convert some open cases to a laparoscopic approach. The two primary advantages for the patient are rapid recovery time and a significant reduction in blood loss. Surgery time will be reduced for patients as well. The robot has already been purchased through Mellon funds, and the Buchanan funds will be used for leasing a mobile operating room facility to house the robot and for training of physicians.

- Advancement of Clinical Trials for Improving Outcomes in NeuroOncology (ACTION): This proposal comes from the Departments of Neurology and Neurological Surgery along with Radiation Oncology, Pathology, Health Evaluation Sciences and Psychology. The goal is to enhance and promote the availability of clinical trials for patients with cancers of the central nervous system. A strong clinical trials program is needed for the Cancer Center to transition from its National Cancer Institute Clinical Cancer Center designation to a Comprehensive Cancer Center.
- Virginia Childhood Obesity Program: This program is a collaboration between the various Pediatric subspecialties (Endocrinology, Nephrology, Orthopaedics, Otolaryngology, Cardiology, Respiratory Medicine, Surgery and Gastroenterology), along with Nutrition, Adolescent Medicine, Telemedicine, Exercise Physiology and Psychology. Childhood obesity has become a pandemic in the United States as, over the last 25 years, the percentage of obese children has more than doubled. Of the 1,246,000 school-age children in Virginia, 15% (or 187,000) are currently obese. This program will provide a comprehensive medical, nutritional and psychosocial evaluation of all patients followed by individualized counseling for lifestyle (dietary/physical activity/behavioral) modification. This program will target the complications of pediatric obesity requiring subspecialty care, which includes insulin resistance syndrome, type 2 diabetes mellitus, hypertension, gastrointestinal disorders, respiratory disorders, orthopaedic problems and psychosocial issues.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.E. Decade Plan

ACTION REQUIRED: None

BACKGROUND: The Decade Plan is the major current initiative of the Health System and is a joint planning effort of the School of Medicine, the Medical Center and the Health Services Foundation to achieve top academic health center status.

DISCUSSION: The goal of the Decade Plan is for the Health System to achieve top status as a health care institution by 2012.

- Top status is defined by:
 - Superior innovation, collaboration, visibility, and excitement - both objectively and in recognition by others - from individuals to institutions
 - With new leadership in the School of Medicine and Medical Center working together toward common goals and unprecedented willingness to collaborate across Grounds, the Health System is positioned to achieve these objectives.

The theme of the Decade Plan is "Models for all of US." The Health System will create models in key mission areas that the entire country will look to and follow. In the area of patient care, emphasis will be placed on improved access for patients to medical care, on a better understanding of the market demand for medical services, in providing targeted growth of particular programs and in ensuring the highest quality of patient care outcomes.

Progress in the research mission will be achieved through the construction of a new building devoted to research, MR-6 (the financial commitment shared with the Commonwealth), through reemphasizing clinical and patient-oriented research, translational programs (those that extend from the very basic laboratory to improving the care of the patient - many are disease-oriented, such as diabetes), and through the recruitment of at least fifty new researchers over the next ten years.

The educational mission will address the needs of tomorrow's students in an updated curriculum that will stress integration of science and patient care, working in teams, innovation, and professionalism with compassion. The Health System will become a center for research on educational methods, learning how to improve teaching and learning. To retain and attract teachers, an educator development initiative will teach the teachers to teach, and give teachers appropriate recognition and credit for their commitment, including preparation of portfolios for promotion.

The community service mission will be given renewed emphasis. The Health System is part of the community and seeks to serve and support the well-being of that community as a whole.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.F. Graduate Medical Education

ACTION REQUIRED: None

BACKGROUND: Recent changes in Graduate Medical Education requirements place the accountability and responsibility at the institutional, rather than program, level.

DISCUSSION: Graduate medical education is one of the most important missions of a great academic health center. Excellence in resident education is one of the strategic goals of this institution. Training residents well today will influence medical practice in the nation for the next four to five decades.

The Medical Center has over 600 resident training slots. The majority of these are young physicians in programs approved by the Accreditation Council for Graduate Medical Education (ACGME) that oversees graduate medical education at the national level. The ACGME surveys and reviews our programs regularly.

Most new residents come to the Medical Center after being selected in the National Resident Matching Program (NRMP). The Medical Center generally does very well in the NRMP process, and this year was no exception.

As physician workforce issues have become more important in the health policy area, major changes in training practice has begun. The conceptual framing of educational goals has been modified significantly. Success in training will be measured by achieving competencies in six broad areas and not just assumed as a consequence of time spent in certain assignments. These competencies are:

1. Patient Care
2. Medical Knowledge
3. Practice-Based Learning and Improvement
4. Interpersonal and Communications Skills
5. Professionalism
6. Systems-Based Practice

Another major change has been the introduction of national duty hour standards for resident work. Beginning in July 2003 no resident may work more than 80 hours per week, be on duty for more than 30 hours per day or have less than one day off in seven (averaged over four weeks).

Historically, most of the decisions on resident training have been made at the individual program level. In order to reverse and coordinate these changes, the institutional role in graduate medical education is being strengthened and enhanced.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.G. Performance Improvement

ACTION REQUIRED: None

BACKGROUND: The Joint Commission on Accreditation of Healthcare Organizations and the Medicare Conditions of Participation requires the Medical Center to maintain a quality program for clinical care, known as Performance Improvement.

DISCUSSION: The goal of the Medical Center's Performance Improvement program is to enhance the quality of clinical care at the Medical Center by ensuring that the organization designs processes well and systematically monitors, analyses, and improves patient outcomes.

Milestones in the Performance Improvement program for 2002 included the introduction of a new patient satisfaction survey process, the development and implementation of a new system wide pain management program and satisfactory completion of the Joint Commission on Accreditation of Healthcare Organizations survey with no Performance Improvement recommendations.

For 2003 there are five main components of the Performance Improvement plan:

1. Patient Safety
2. Staffing Effectiveness
3. Patient Satisfaction
4. Patient Flow
5. Patient Outcomes

Patient Safety is a particularly important issue for UVA. The Medical Center has been actively engaged in improving patient safety for many years. We encourage risk recognition focusing on processes and systems, and our policies support organizational learning and the sharing of knowledge.

The principle patient safety goals for 2003 are:

1. Patient Identification
2. Patient Restraint

3. Patient Falls
4. Medication Safety
5. Environmental and Equipment Safety
6. Communication

As part of our quality enhancement and risk management processes, we rely heavily on root cause analyses based on quality reporting mechanisms. The analysis of "near misses" gives insight into risks involved and provides direction on the approaches to improve care.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 8, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: III. Clinical Staff President's Remarks

ACTION REQUIRED: None

DISCUSSION: The President of the Clinical Staff of the Medical Center will inform the Medical Center Operating Board of recent events regarding the Clinical Staff, of which the Medical Center Operating Board should be made aware, but which do not require formal action.