

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
February 19, 2004**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, February 19, 2004
12:30 - 3:30 p.m.

Medical Center Dining Conference Rooms 1, 2 and 3

Committee Members:

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

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|---|-------------|
| I. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell) | |
| A. Clinical Presentation - Surgical Management of Pituitary Tumors (Mr. Howell to introduce Edward R. Laws, Jr., M.D.; Dr. Laws to present) | 1 |
| B. School of Nursing Plan for Addressing the Nursing Shortage (Mr. Howell to introduce Dean B. Jeanette Lancaster; Dean Lancaster to report) | 2 |
| C. Vice President's Remarks | 7 |
| D. Finance, Write-offs and Operations (Mr. Howell to introduce Mr. Larry L. Fitzgerald and Ms. Margaret M. Van Bree - Mr. Fitzgerald to report on Finance and Write-offs; Ms. Van Bree to report on Operations) | 8 |
| E. Capital Projects | 21 |
| F. Institutional Targets for Patient Satisfaction (Mr. Howell to introduce Ms. Patricia L. Cluff; Ms. Cluff to report) | 24 |
| II. REPORT BY THE PRESIDENT OF THE CLINICAL STAFF OF THE MEDICAL CENTER (Dr. Beller) | 27 |

III. 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 information pertaining to the operations of the Medical Center, where disclosure at this time would adversely affect the competitive position of the Medical Center, specifically:
 - Strategic site and facilities planning to further the operational goals of the Medical Center in accordance with the strategic and market development initiatives of the Health System Decade Plan, including consideration of investing of public funds and acquisition of real property where public discussion would adversely affect the Medical Center's bargaining position;
 - Competitive benchmarking and proprietary patient survey data; and
 - Consultation with legal counsel regarding the Medical Center's joint venture with HealthSouth, and the Medical Center's compliance with relevant federal reimbursement regulations and accreditation standards, which will also involve proprietary business information of the Medical Center and evaluation of the performance of specific Medical Center 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), (3), (6), (7), and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 19, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Clinical Presentation - Surgical Management of Pituitary Tumors

ACTION ITEM: None

BACKGROUND: Edward R. Laws, Jr., M.D. is a surgeon in the Department of Neurological Surgery, with specific clinical interests in pituitary surgery, neuro-oncology, epilepsy surgery and peripheral nerve surgery.

DISCUSSION: The Pituitary Center at the University of Virginia Health System represents a unique multi-disciplinary unit. In one coordinated visit patients can receive expert opinions from a pituitary endocrinologist and a pituitary neurosurgeon, and consultations from Neuro-ophthalmology, Gamma knife radiosurgery and Radiation oncology as necessary. The Health System offers same-day MRI imaging and endocrine laboratory testing. The Health System's Pituitary Center, located in the Diabetes Clinic in the new Medical Office Building at Fontaine, evaluates and treats more patients with pituitary disorders and does more pituitary surgery (more than 4,000 cases) than any place else in the world. The collegial working relationship contributes greatly to patient satisfaction and outstanding outcomes. Dr. Laws' presentation will focus on the success of surgical management of pituitary tumors.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 19, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.B. School of Nursing Plan for
Addressing the Nursing Shortage

ACTION REQUIRED: None

BACKGROUND: From time to time, the Medical Center has reported to the Medical Center Operating Board (and to the Health Affairs Committee prior to the creation of the Medical Center Operating Board) on the nationwide nursing shortage and its impact at the University of Virginia. This report will describe recent efforts undertaken at the University of Virginia to address the shortage.

DISCUSSION: Virginia, as well as the entire nation, stands on the threshold of what many demographers and labor forecasters predict will become an even worse shortage of nurses, larger in numbers and extended in duration, than the nation and Virginia have ever experienced. Virginia is already in the bottom 40 percent of states in the ratio of nurse to population; the Virginia ratio of 772 registered nurses to 100,000 people compares to a national rate of 872 and ratios of 856 and 858 in Maryland and North Carolina respectively. Last year, nationally, 11,000 qualified applicants were turned away from nursing schools. Why is that? Not enough faculty, not enough clinical sites, and insufficient space in nursing school facilities.

What is the University of Virginia School of Nursing doing to address the shortage? Here is what the School of Nursing has done to date:

1. With University support, we enlarged our one large classroom to accommodate 119 students. Because of a lack of faculty, we do not section our courses. Thus, we need classrooms sufficiently large to hold the entire class.
2. We have negotiated new clinical relationships with Augusta Medical Center, Martha Jefferson Hospital, and Western State Hospital where they, like the University of Virginia Medical Center, support clinical faculty. The support from the Medical Center, however, is

considerably more generous.

3. The Medical Center has endowed a professorship in the Nursing School, and its first holder is Courtney Lyder, who is prepared both in Gerontology and Wound Care. In addition, the Medical Center supports the salaries of two undergraduate faculty in the School of Nursing, and provides other financial support for the academic effort.
4. We have increased the entering class of students in our undergraduate program for college graduates by 50% (to be fully effective in the Fall of 2004).
5. Because the faculty shortage is even more severe than the practicing nurse shortage, we have taken seriously our responsibility to prepare the next generation of faculty. To this end, we have redesigned some of our master's programs as well as our program for registered nurses to obtain the BSN degree and we have increased enrollments in the programs RN to BSN, MSN and PhD.
6. We are working with the other 12 baccalaureate and higher degree programs in Virginia to advocate for more State support for workforce development in nursing and to reduce duplication in our programs.

What more could we do? The School of Nursing could increase by 50% the entering class of baccalaureate students coming directly from high school.

Our applicant pool is large, and we are turning away about 5 students out of every 6 applicants to the undergraduate program.

Fall 2003 Admissions Statistics (undergraduate - all tracks)

| | |
|--|-----|
| Total number of applicants: | 601 |
| Total number offered admission: | 180 |
| Total number to matriculate: | 135 |
| Total number rejected outright: | 421 |
| Total number of qualified applicants rejected: | 50+ |

(because of limitations of space and faculty to instruct them)

| | |
|---------------------------------------|--------------------------------------|
| RN to BSN | 2nd Year Transfers |
| Applicants: 30 | Applicants: 75 external, 30 internal |
| Offers: 25 | Offers: 15 external, 13 internal |
| 21 accepted, 18 enrolled | 28 enrolled |
| | |
| Traditionals | Second Degrees |
| Applicants: 284 | Applicants: 182 |
| Offers: 20 early decision, 43 regular | Offers: 54 + 10 off of waiting list |
| 48 enrolled | 40 enrolled |
| | |

BSN GRADUATES

May 2001: 90
 May 2002 : 102
 May 2003: 99

Graduate Nursing Admissions

| | 2001-2002 | 2002-03 |
|--------------------------------|-----------|---------|
| # of MSN applications | 60 | 104 |
| # of MSN accepted | 53 | 68 |
| # actually enrolled | 30 | 60 |
| | | |
| # of Post-Masters applications | 23 | 12 |
| # of Post-Masters accepted | 22 | 8 |
| # actually enrolled | 17 | 7 |
| | | |
| # of PhD applications | 20 | 24 |
| # of PhD accepted | 13 | 12 |
| # actually enrolled | 8 | 10 |

Why the School of Nursing cannot take more students? The School of Nursing's recent specialty accreditation visit summed it up: Not enough faculty and not enough space.

- To educate the size of our student body and having lost revenue over the years for some faculty positions, we now have an unbalanced ratio of full-time faculty to part-time faculty. At present, we have 46 full-time faculty and 33 part-time faculty. Even with these numbers, we do not have adequate faculty to accommodate growth in the undergraduate program since we need one faculty per eight students in the clinical area.

FULL-TIME FACULTY

| | DIVISIONS | | | TOTAL |
|------------------------|------------------|--------------|--------------|--------------|
| | ASCA | FCMHS | ADMIN | |
| Tenured | | | | |
| Professor | 3 | 1 | 1 | 5 |
| Associate Professor | 3 | 7 | 1 | 11 |
| Tenure Track | | | | |
| Associate Professor | 1 | 0 | 0 | 1 |
| Assistant Professor | 3 | 1 | 0 | 4 |
| General Faculty | | | | |
| Associate Professor | 3 | 1 | 0 | 4 |
| Assistant Professor | 4 | 8 | 0 | 12 |
| Instructor | 2 | 4 | 0 | 6 |
| Lecturer | 0 | 0 | 3 | 3 |
| TOTAL | 19 | 22 | 5 | 46 |

Excludes Alumni and Development faculty

**PART-TIME AND SINGLE COURSE FACULTY
AND FACULTY WITH JOINT APPOINTMENTS
Spring Semester 2003**

| | DIVISIONS | | | TOTAL |
|-----------------------|-----------|-----------|----------|-----------|
| | ASCA | FCMHS | ADMIN | |
| Part-time Faculty | | | | |
| Professor | 1 | 0 | 0 | 1 |
| Associate Professor | 0 | 1 | 0 | 1 |
| Assistant Professor | 0 | 1 | 0 | 1 |
| Instructor | 0 | 2 | 0 | 2 |
| Lecturer | 0 | 0 | 1 | 1 |
| | | | | |
| Single Course Faculty | | | | |
| Professor | 0 | 0 | 0 | 0 |
| Associate Professor | 0 | 0 | 0 | 0 |
| Assistant Professor | 1 | 1 | 0 | 2 |
| Instructor | 11 | 11 | 0 | 22 |
| Lecturer | 0 | 0 | 0 | 0 |
| | | | | |
| Joint Faculty Appt. | | | | |
| Professor | 1 | 0 | 0 | 1 |
| Associate Professor | 2 | 0 | | 2 |
| Assistant Professor | 0 | 0 | | 0 |
| Instructor | 0 | 0 | | 0 |
| Lecturer | 0 | 0 | 0 | 0 |
| | | | | |
| TOTAL | 16 | 16 | 1 | 33 |

Excludes Alumni and Development faculty. Part-time, single course, and joint appointment faculty are general (term, non-tenure track) appointments with the exception of one tenured faculty who moved from full- to part-time prior to retirement in May 2003.

We have a creative and enthusiastic faculty who want to be part of the nursing shortage solution. We stand ready to work for solutions but we cannot do it without the help of others.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 19, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.C. 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: February 19, 2004

COMMITTEE: Medical Center Operating Board

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

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial 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. In addition, the Medical Center provides an update of significant operations of the Medical Center occurring since the last Medical Center Operating Board meeting.

DISCUSSION:

FINANCE

The first half of Fiscal Year 2004 ended with an operating margin of 5.5 percent, which was above the budget of 3.9 percent. Total operating revenue was above budget and the prior year. Total operating expenses were slightly below budget but above prior year.

For the first half of Fiscal Year 2004, inpatient admissions were 7.6 percent above budget and 9.3 percent above prior year. Patient days were 7.5 percent above budget and 9.3 percent above prior year. Length of stay was 5.6 days, which was equal to budget. With the exception of psychiatry and urology, admissions for most hospital services were above prior year. The most significant increases in inpatient admissions occurred in neurology, neurosurgery, pediatrics, general surgery and orthopaedics. Same day patients were 17.6 percent below budget and 20.9 percent below prior year. The Medical Center adopted a new process to improve the appropriateness of classifying patients between admissions and same day status which has resulted in classifying some patients as admissions who historically would have been classified as a same day patient.

Total operating revenue for the first half of Fiscal Year 2004 was 1.4 percent above budget and 11.1 percent above prior year.

Total operating expenses for the first half of Fiscal Year 2004 were .4 percent below the \$329.5 million budget and 12.2 percent above prior year expenses. Salaries and wages were below budget but above prior year expenses. Supplies and contracts were above both budget and prior year expenses. Purchased services were below budget but above prior year expenses.

The number of full-time equivalent employees (FTEs) was 156 below budget and 174 above prior year. FTEs and salary and wage cost per FTE were:

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>2004 Budget</u> |
|------------------------------|----------------|----------------|----------------|--------------------|
| FTEs | 5,273 | 5,004 | 5,178 | 5,334 |
| Annualized | | | | |
| Salary and Wage Cost per FTE | \$42,550 | \$43,482 | \$45,730 | \$44,397 |

The operating margin through the first six months of Fiscal Year 2004 was 5.5 percent, which is above the budgeted margin of 3.9 percent but below the operating margin for the first half of the prior year of 6.5 percent.

OTHER FINANCIAL ISSUES

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) is generally considered the most significant change made to the Medicare program since its inception in 1965. MMA is much broader than the prescription drug benefit as it effects Managed Care Medicare, provider reimbursement, health care regulations such as Emergency Medical Treatment and Labor Act (EMTALA), and Medicaid. Overall the financial impact of MMA on hospitals and physicians is favorable. As an example, the Medicare reimbursement to the Medical Center should increase by \$3.6 million through Fiscal Year 2006 from the increase to the Indirect Medical Education Adjustment. MMA couples the reporting of quality data to Medicare payments, which gives significant momentum to an industry trend. The senior

management of the Medical Center is reviewing each provision of MMA and establishing action plans to optimize the opportunities provided.

The hospital industry has recently been criticized for its billing and collection practices to uninsured patients especially those with low income. Citing "significant public health and consumer protection issues", a Congressional committee has launched a formal investigation into hospital billing and collection practices. The collection policies followed by the Medical Center and Virginia Commonwealth University Health System (VCU) are approved each year by the Director of the Virginia Department of Medical Assistance Services (DMAS). The current policy is to write-off all amounts owed by individuals at or below 100 percent of the HHS Poverty Guidelines and a portion of all amounts owed by individuals with income between 100 percent and 200 percent of the HHS Poverty Guidelines. We have followed the current policy for a number of years. What seems to be emerging across the industry is the recommendation for all hospitals to adopt a policy very similar to what the Virginia academic medical centers have historically followed.

Mr. Howell has made an offer to the American Hospital Association to be an industry leader in designing solutions to the growing problems of the uninsured. We believe the Medical Center's history of providing indigent care could serve as a model for others. We also initiated discussions with VCU to extend our write-off policy to individuals with income up to 300 percent of the HHS Poverty Guideline. Both institutions and DMAS would be required to agree to the Medical Center's proposal.

With the approval of the Executive Vice President and Chief Operating Officer, as well as the Chair of the Medical Center Operating Board, patient charges at the Medical Center were increased on average .6 percent on January 1, 2004. After careful comparison of our charges to benchmarks, the increases were primarily focused on pharmaceuticals. Routine room, radiology, and operating room charges were not increased. It is projected that the Fiscal Year 2005 budget will include an annual charge increase.

WRITE-OFF OF BAD DEBTS AND INDIGENT CARE

Indigent care charges totaling \$27.0 million for the period July 1, 2003 through December 31, 2003 have been written off. Recoveries during this period totaled \$5.8 million.

Bad debt charges totaling \$9.2 million for the first six months of the fiscal year have been written off. During this same period, \$5.8 million was recovered through suits, collection agencies, and Virginia refund set-off.

OPERATIONS

The University of Virginia Medical Center was selected as a Solucient 100 Top Hospitals: Cardiovascular Benchmark for Success for 2003. The award acknowledges the outstanding performance of the Heart Center in providing care to patients treated for high risk, high cost and high volume services such as acute myocardial infarction and congestive heart failure as well as patients undergoing percutaneous transluminal coronary angioplasty and coronary artery bypass graft procedures. To qualify, hospitals must perform well across seven performance areas that indicate high-quality outcomes and efficient management of care.

The winter flu season presented many challenges across the nation, and the experience in Charlottesville was consistent with the national picture. The Medical Center saw its first cases in early November, and numbers grew rapidly each week peaking the third week in December. The Medical Center confirmed 294 cases by laboratory testing although the number was in fact larger as routine testing was halted to outpatients in December when it was necessary to ensure the availability of rapid flu testing kits. Of the 294 cases, 88 were admitted to the hospital, swelling the number of patients in isolation each day in December and early January.

The biggest challenge in the country was the lack of vaccine for high-risk patients. Fortunately, the Medical Center was able to provide 600 doses to the Health Department to benefit patients throughout the local health districts. Health Department Medical Director, Dr. Susan McCloud, thanked the Medical Center publicly in a letter to the editor published recently in the local paper, the Daily Progress. Our staff also exercised their responsibility to minimize risk and Employee Health vaccinated 3,758 employees. In the face of adversity, we were pleased to be able to help the community, and serve those who were ill enough to require hospitalization. Locally and nationally there has been, and continues to be, a rapid decline of new cases.

A current focus of the organization has been to respond to the increased demand for surgical services. To date, the volume in the operating room is running 9% above last year's numbers. The current hospital expansion project will increase the total number of operating rooms from 19 to 24 by 2006. As an interim measure to meet the demand, two modular operating rooms were opened in August of 2003. In addition, the Medical Center is in the planning stage to increase the number of the operating rooms providing extended hours later in the day.

The Medical Center has engaged a consulting firm to work with management to validate the demand for surgical services in light of the hospital expansion project and the project faculty recruitment plans of the surgical departments. The consultant's report has validated the need for all 24 operating rooms and has recommended that the two modular operating rooms remain in order to meet the projected demand. A Certificate of Public Need will be sought to expand the number of operating rooms. Current initiatives are underway to recruit staff in surgical services and central sterile supply. This represents a significant challenge given the current work force market, and the Medical Center has engaged specialized recruiters to recruit operating room nurses and surgical technicians.

In conjunction with the expansion of surgical services and in recognition of increased demand for inpatient beds by all services, the Medical Center has begun the construction of a Pre-Admission/Post-Discharge Unit in the first floor of the Primary Care Center to improve patient flow during the day. Currently, patients awaiting admission to an inpatient unit may be waiting in the Emergency Room or Lobby until an inpatient bed is vacated and the room is cleaned. The Pre-Admission/Post-Discharge Unit will provide a more comfortable place for the patient to wait and this will allow staff to monitor and treat the patient while the inpatient room is being prepared. Likewise, patients waiting for transportation home after an inpatient stay may be transferred to the Pre-Admission/Post-Discharge Unit, thereby freeing up an inpatient bed.

In January, the Heart Center began offering cardiac catheterization and non-invasive cardiology services on Saturdays. This should provide more timely services to patients, decrease the length of stay for patients admitted on Fridays, and improve patient flow throughout the unit.

As of January, Continuum Health, the Medical Center's home health agency, is partnering with UVA-HealthSouth to provide outpatient therapy services to home health patients. Prior to January, outpatient therapy services were outsourced to a regional therapy company.

In December, the Medical Records Department was relocated from five separate areas into a new consolidated space in 1222 JPA Building. The new location will provide privacy and security of records, increase record storage space, eliminate duplication of tasks, reduce internal transportation of documents and improve communication among the team. Also in December, a Way Finding Taskforce was appointed to develop a plan for signage and improved directional communication to patients.

The Medical Center management team completed performance appraisals for 4,414 employees for the evaluation period from November 2002 through December 2003. The rating distribution and proposed percentage increase is as follows:

| PFP Rating | Need Improvement | Commendable | Peak | Outstanding |
|----------------------|------------------|-------------|--------|-------------|
| PFP Percent Increase | 0.0% | 2.25% | 4.0% | 5.5% |
| PFP Distribution | .91% | 44.47% | 45.60% | 9.02% |
| Number of Employees | 40 | 1963 | 2013 | 398 |

The rating distribution is similar to last year's where the distribution was 1.10% "Needs Improvement", 49.20% "Commendable", 41.46% "Peak", and 8.24% "Outstanding".

Finally, the Medical Center has been host to three international health care executives in 2004. In January, the CEO of the American Hospital in Montevideo, Uruguay spent one week with senior executives learning about contemporary health administration issues as part of her experiences as a Humphrey Fellow at the University of North Carolina. In January and February, the Medical Center hosted two executives from Australia for five weeks as part of an executive exchange program between the University HealthSystem Consortium and the Health Round Table.

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

| Description | Most Recent Three Fiscal Years | | | Budget/Target |
|-----------------------------|--------------------------------|----------------|----------------|----------------|
| | Dec FY02 | Dec FY03 | Dec FY04 | Dec FY04 |
| Net patient revenue | \$286.1 | \$306.3 | \$341.8 | \$335.1 |
| Other revenue | <u>6.2</u> | <u>6.5</u> | <u>5.7</u> | <u>7.6</u> |
| Total operating revenue | <u>\$292.3</u> | <u>\$312.8</u> | <u>\$347.5</u> | <u>\$342.7</u> |
| Operating expenses | 271.8 | 272.9 | 307.9 | 307.2 |
| Depreciation | 17.1 | 17.4 | 18.3 | 20.0 |
| Interest expense | <u>2.3</u> | <u>2.2</u> | <u>2.1</u> | <u>2.3</u> |
| Total operating expenses | <u>\$291.2</u> | <u>\$292.5</u> | <u>\$328.3</u> | <u>\$329.5</u> |
| Operating income (loss) | <u>\$1.1</u> | <u>\$20.3</u> | <u>\$19.2</u> | <u>\$13.2</u> |
| Non-operating income (loss) | (\$6.4) | <u>\$4.2</u> | <u>\$14.2</u> | <u>\$4.1</u> |
| Net income (loss) | <u>(\$5.3)</u> | <u>\$24.5</u> | <u>\$33.4</u> | <u>\$17.3</u> |
| Principal payment | \$2.1 | \$2.3 | \$3.0 | \$3.0 |

University of Virginia Medical Center
Balance Sheet
(Dollars in Millions)

| Description | Most Recent Three Fiscal Years | | |
|---|--------------------------------|----------------|----------------|
| | Dec FY02 | Dec FY03 | Dec FY04 |
| Assets | | | |
| Operating cash and investments | \$32.6 | \$65.8 | \$90.6 |
| Patient accounts receivables | 81.2 | 76.6 | 99.1 |
| Property, plant and equipment | 230.4 | 242.6 | 263.9 |
| Depreciation reserve and other investments | 184.1 | 207.2 | 246.3 |
| Endowment Funds | 38.5 | 87.8 | 101.0 |
| Other assets | <u>47.8</u> | <u>44.4</u> | <u>50.8</u> |
| Total Assets | <u>\$614.6</u> | <u>\$724.4</u> | <u>\$851.7</u> |
| Liabilities | | | |
| Current portion long-term debt | \$4.2 | \$4.5 | \$6.1 |
| Accounts payable & other liab | 46.7 | 71.7 | 108.1 |
| Long-term debt | 88.7 | 87.9 | 119.4 |
| Accrued leave and other LT liab | <u>17.2</u> | <u>17.5</u> | <u>25.5</u> |
| Total Liabilities | <u>\$156.8</u> | <u>\$181.6</u> | <u>\$259.1</u> |
| Fund Balance | <u>\$457.8</u> | <u>\$542.8</u> | <u>\$592.6</u> |
| Total Liabilities & Fund Balance | <u>\$614.6</u> | <u>\$724.4</u> | <u>\$851.7</u> |

University of Virginia Medical Center
Financial Ratios

| Description | Most Recent Three Fiscal Years | | | Budget/Target |
|----------------------------------|--------------------------------|----------|----------|---------------|
| | Dec FY02 | Dec FY03 | Dec FY04 | Dec FY04 |
| Operating margin (%) | 0.4% | 6.5% | 5.5% | 3.9% |
| Total margin (%) | -1.9% | 7.7% | 9.2% | 5.0% |
| Current ratio (x) | 2.2 | 1.9 | 1.7 | 4.0 |
| Days cash on hand (days) | 149.4 | 186.7 | 190.6 | 190.0 |
| Gross accounts receivable (days) | 73.6 | 68.4 | 68.6 | 60.0 |
| Average payment period (days) | 34.2 | 51.0 | 67.8 | 30.6 |
| Annual debt service coverage (x) | 3.2 | 9.8 | 10.5 | 7.5 |
| Debt-to-capitalization (%) | 16.2% | 13.9% | 16.8% | 20.0% |
| Capital expense (%) | 6.7% | 6.7% | 6.2% | 6.8% |

University of Virginia Medical Center
Operating Statistics

| Description | Most Recent Three Fiscal Years | | | Budget/Target |
|-------------------------|--------------------------------|--------------|--------------|---------------|
| | Dec FY02 | Dec FY03 | Dec FY04 | Dec FY04 |
| Admissions | 13,363 | 13,411 | 14,661 | 13,630 |
| Patient days | 74,685 | 75,526 | 82,559 | 76,796 |
| SS/PP Patients | 3,792 | 4,076 | 3,225 | 3,915 |
| Average length of stay | 5.6 | 5.7 | 5.6 | 5.6 |
| Clinic visits | 258,354 | 266,752 | 275,925 | 282,622 |
| ER visits | 29,112 | 28,957 | 30,368 | 29,167 |
| Medicare case mix index | 1.8851 | 1.9059 | 1.8200 | 1.9075 |
| Net Revenue by Payor | | | | |
| Medicare % | 39.7% | 36.9% | 35.9% | 33.5% |
| Medicaid % | 13.1% | 12.3% | 15.1% | 15.7% |
| Managed care % | 6.3% | 6.0% | 8.4% | 6.8% |
| Commercial % | 9.5% | 10.6% | 10.7% | 12.8% |
| Other | <u>31.3%</u> | <u>34.2%</u> | <u>29.9%</u> | <u>31.3%</u> |
| Total | 100% | 100% | 100% | 100% |
| FTE's | 5,273 | 5,004 | 5,178 | 5,334 |

University of Virginia Medical Center
SUMMARY OF OPERATING STATISTICS AND FINANCIAL PERFORMANCE MEASURES
 Fiscal Year to Date with Comparative Figures for Prior Year to Date - December 31, 2003

OPERATING STATISTICAL MEASURES - December 2003

ADMISSIONS and CASE MIX - Year to Date

| | FY 03 | FY 04 | % Change |
|------------------------|--------|--------|----------|
| ADMISSIONS: | | | |
| Surgical | 5,362 | 5,690 | 6.1% |
| Medical | 5,181 | 5,895 | 13.8% |
| Transplant | 69 | 78 | 13.0% |
| Obstetrics | 748 | 775 | 3.6% |
| Pediatrics | 1,102 | 1,329 | 20.6% |
| Psychiatric | 949 | 894 | (5.8%) |
| Subtotal Acute | 13,411 | 14,661 | 9.3% |
| Short Stay | 4,076 | 3,225 | (20.9%) |
| Total Admissions | 17,487 | 17,886 | 2.3% |
| CASE MIX INDEX: | | | |
| All Acute Inpatients | 1.7407 | 1.7032 | (2.2%) |
| Medicare Inpatients | 1.9059 | 1.8200 | (4.5%) |

OTHER INSTITUTIONAL MEASURES - Year to Date

| | FY 03 | FY 04 | % Change |
|--------------------------|---------|---------|----------|
| ACUTE INPATIENTS: | | | |
| Inpatient Days | 75,526 | 82,559 | 9.3% |
| Average Length of Stay | 5.7 | 5.6 | (1.8%) |
| Average Daily Census | 410 | 449 | 9.5% |
| Births | 689 | 742 | 7.7% |
| OUTPATIENTS: | | | |
| Clinic Visits | 266,752 | 275,925 | 3.4% |
| Average Daily Visits | 2,356 | 2,475 | 5.1% |
| Emergency Room Visits | 28,957 | 30,368 | 4.9% |
| SURGICAL CASES | | | |
| Inpatient | 6,246 | 6,712 | 7.5% |
| Outpatient | 1,303 | 1,512 | 16.0% |
| Total | 7,549 | 8,224 | 8.9% |

OPERATING FINANCIAL MEASURES - December 2003

REVENUES and EXPENSES - Year to Date

| | FY 03 | FY 04 | % Change |
|------------------------|-------------|-------------|----------|
| NET REVENUES: | | | |
| Total Patient Rev. | 288,691,599 | 324,210,090 | 12.3% |
| Appropriations | 17,560,171 | 17,560,171 | 0.0% |
| Misc Revenue | 6,558,981 | 5,696,771 | (13.1%) |
| Total | 312,810,751 | 347,467,032 | 11.1% |
| EXPENSES: | | | |
| Salaries and Wages | 133,617,351 | 147,733,355 | 10.6% |
| Supplies and Contracts | 82,127,228 | 95,292,201 | 16.0% |
| Purchased Services | 45,436,098 | 53,247,895 | 17.2% |
| Bad Debts | 11,678,249 | 11,579,719 | (0.8%) |
| Depreciation | 17,351,498 | 18,302,267 | 5.5% |
| Interest Expense | 2,247,815 | 2,115,949 | (5.9%) |
| Total | 292,458,239 | 328,271,386 | 12.2% |
| Operating Margin | 20,352,512 | 19,195,646 | (5.7%) |
| Operating Margin % | 6.5% | 5.5% | (15.1%) |
| Non-Operating Revenue | 4,169,585 | 14,171,120 | 239.9% |
| Net Income | 24,522,097 | 33,366,766 | 36.1% |

OTHER INSTITUTIONAL MEASURES - Year to Date

| | FY 03 | FY 04 | % Change |
|--|-------------|-------------|----------|
| NET REVENUE BY PAYOR: | | | |
| Medicare | 106,629,785 | 116,238,728 | 9.0% |
| Medicaid | 35,481,821 | 49,062,073 | 38.3% |
| Managed Care | 17,297,762 | 27,285,367 | 57.7% |
| Commercial Insurance | 30,692,716 | 34,734,307 | 13.2% |
| Anthem | 45,677,278 | 57,398,896 | 25.7% |
| Southern Health | 14,063,370 | 14,665,398 | 4.3% |
| Tricare CHAMPUS | 3,939,125 | 2,731,577 | (30.7%) |
| Other | 34,909,742 | 22,093,744 | (36.7%) |
| Total Paying Patient Rev. | 288,691,599 | 324,210,090 | 12.3% |
| Managed Care | 17,297,762 | 27,285,367 | 57.7% |
| Non-Managed Care | 271,393,837 | 296,924,723 | 9.4% |
| Total Paying Patient Rev. | 288,691,599 | 324,210,090 | 12.3% |
| OTHER: | | | |
| Collection % of Gross Billings | 65.47% | 62.17% | (5.0%) |
| Days of Revenue in Receivables (Gross) | 68.4 | 68.6 | 0.3% |
| Cost per CMI & OP-Adj Discharge | 6,831 | 7,510 | 9.9% |
| Cost per CMI & OP-Adj Day | 1,213 | 1,334 | 9.9% |
| Cost per Outpatient Visit | 68.69 | 77.71 | 13.1% |
| Total F.T.E.'s | 5,004 | 5,178 | 3.5% |
| F.T.E.'s Per Adjusted Occupied Bed | 7.28 | 7.04 | (3.3%) |

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
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
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

**MEDICAL CENTER
ACCOUNTS COMMITTEE REPORT**

(Includes All Business Units)
(Dollars in Thousands)

| | Year to Date December <u>2003-04</u> | Annual Activity | |
|---|--|-----------------------------|----------------|
| | | Estimated <u>2003-04</u> | <u>2002-03</u> |
| <u>INDIGENT CARE (IC)</u> | | | |
| Net Charge Write-Off | 38,566 | 87,190 | 69,241 |
| Percentage of Net Write-Offs to Revenue | 7.02% | 7.90% | 7.19% |
| Net Medical Center IC Charges Factored to Cost | 25,848 | 51,695 | 48,888 |
| Medicaid Unreimbursed Cost | (403) | (806) | (371) |
| Total Indigent Care Cost | 25,445 | 50,889 | 48,517 |
| State Appropriation | 0.00 | 0.00 | 0.00 |
| Medicaid Disproportionate Share Adjustment Payment (Note 1) | 23,265 | 46,530 | 46,680 |
| Total Indigent Care Cost Funding | 23,265 | 46,530 | 46,680 |
| Total Indigent Care Cost Funding as % of Total Indigent Care Cost | 91% | 91% | 96% |
| Unfunded Indigent Cost | 2,179 | 4,359 | 1,837 |
| | | | |
| | Year to Date December <u>2003-04</u> | Annual Activity | |
| | | Estimated <u>2003-04</u> | <u>2002-03</u> |
| <u>BAD DEBT</u> | | | |
| Net Charge Write-Offs | 11,580 | 26,569 | 22,860 |
| Percentage of Net Write-Offs to Revenue | 2.11% | 2.41% | 2.37% |

Notes:

1. In addition to the Enhanced Disproportionate Share Adjustment payment above, \$5,494,594 was received and transferred to the School of Medicine to partially offset their indigent care costs.
2. A provision for bad debt write-offs is recorded for financial statement purposes based on the overall collectibility of the patient accounts receivable. This provision differs from the actual write-offs of bad debts which occurs at the time an individual account is written off.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 19, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.E. 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 |
|--|--|---|-------------------|--|
| UNDER CONSTRUCTION | | | | |
| Cancer Center-Infusion Center - expand existing outpatient cancer center clinic and infusion center. | \$1.25 M | Bonds | Jan '02 | April '03 (March '04- 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 (Aug '04-revised) |
| 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 (May '06 -revised) |
| Clinical Office Building - Fontaine - fitout for Otolaryngology Clinic. | Part of \$16.75 M in Completed Section | Bonds | Jan '02 | Oct '03 (Feb '04-revised) (Otolaryngology) |

| | | | | |
|---|---|--------------------------------------|---------|---|
| Critical Care Unit Expansion - Phase I additional 2 beds to the STICU in University Hospital | \$3.25 M (\$2.7 M - revised) Phase I and II | Medical Center Annual Capital Budget | Oct '00 | March '03 (April '04-revised) |
| CONSTRUCTION COMPLETED | | | | |
| 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) COMPLETED: June '03 |
| Critical Care Unit Expansion - Phase II additional 4 beds to the MICU in University Hospital | \$3.25 M (\$2.7 M - revised) Phase I and II | Medical Center Annual Capital Budget | Oct '00 | March '03 (Dec '03 - revised) COMPLETED: May '03 |
| Clinical Office Building - Fontaine - provide space for additional imaging and clinical care, including consolidation of the Endocrinology Clinic | \$16.75 M | Bonds | Jan '02 | June '03 (shell, imaging & Endocrinology) COMPLETED: June '03 |

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 19, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.F. Patient Satisfaction-Institutional Performance

ACTION REQUIRED: None

BACKGROUND: Patient satisfaction plays an important role when measuring and evaluating institutional performance. Patient satisfaction data represents the patient's perception of real events that transpired between providers and patients. The patient is the final arbiter of what the experience of care has been. The Medical Center actively measures, compares against benchmarks and reports patient satisfaction to monitor performance over time and to identify opportunities for improving service excellence. The Medical Center seeks to have the Medical Center Operating Board embrace this concept as a strategic approach to improving the patient experience.

DISCUSSION: The Medical Center engages patients as key participants in defining, assessing and improving quality through patient satisfaction measurement. Patient satisfaction has been integrated as a performance indicator for evaluating performance in order to achieve the goals of The Decade Plan.

The Medical Center currently uses a well-respected, independent hospital-industry vendor for patient satisfaction measurement and comparison with benchmarks - Press Ganey Associates. A sample of patients receives written surveys approximately 10 days after an outpatient visit or after discharge from an inpatient stay. The surveys use a five-point scale of responses ranging from "very poor" to "very good." The vendor reports results quarterly, which provides metrics on survey questions and key determinants of satisfaction.

In addition to monitoring results over time, the Medical Center benchmarks its patient satisfaction performance against regional hospitals, academic medical centers and the Press Ganey client base. Patient satisfaction results are

shared across the organization. Physicians, nurses, managers and many other staff are actively involved in programs to improve patient satisfaction.

The Medical Center will report two patient satisfaction metrics to the Medical Center Operating Board twice yearly - 1) overall rating of care, and 2) likelihood of recommending the Medical Center to potential patients - for both outpatient and inpatient populations.

The overall rating of care given at the Medical Center is a single-item indicator of the patient experience. It is a summary judgment of the care received, and an evaluation that the patient carries away from the Medical Center. The patient develops this evaluation based upon a sum of episodes, encounters and experiences, and also takes into account other variables during his or her time in care, such as dietary restrictions and perceived adequacy of hospital staffing.

The likelihood of recommending the Medical Center to others measures "positive word of mouth." It is the extent to which past customers say good things about the Medical Center. There is positive word of mouth when patients like what happened to them well enough to encourage others to use the facility's services. Responses to the questions about positive word of mouth can be considered as a "leading indicator" to predict future visits.

The Medical Center will report mean scores and compare "very good" performance with regional, academic and the Press Ganey national peer group for inpatients and outpatients over a rolling four-quarter period.

To date, the Medical Center performs consistently and favorably on both patient satisfaction indicators in inpatient and outpatient settings - overall rating of care and likelihood to recommend.

Press Ganey continues to monitor inpatient satisfaction over time. Their research shows a continuous decline in inpatient satisfaction over the past five years among all hospitals. In further analysis of the more than one million hospital inpatient surveys, Press Ganey reports the impact of the younger generation of patients, which is becoming more knowledgeable, demanding, critical and selective of their

health care providers. Based on Press Ganey's collective experience, they note that improvement of patient satisfaction performance requires consistent dedication and significant time. Press Ganey advises that a 0.2% improvement in a score over a 12-to-18 month period is a material improvement.

Improving patient satisfaction is not an exact science. By networking with other Press Ganey hospitals, the Medical Center is actively identifying best practices for improving patient satisfaction. An action plan will be developed, funded and implemented. The Medical Center will target continuous improvement in both outpatient and inpatient's overall rating of care by the end of fiscal year 2005. The Medical Center will report performance to the Medical Center Operating Board. In turn, the Medical Center Operating Board will be asked to support Medical Center management in the continuous improvement of patient satisfaction.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 19, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II. 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.