

**UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS  
MEETING OF THE  
MEDICAL CENTER  
OPERATING BOARD  
May 3, 2004**

UNIVERSITY OF VIRGINIA  
MEDICAL CENTER OPERATING BOARD

Monday, May 3, 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.	Gordon F. Rainey, Jr.
William G. Crutchfield, Jr.	Thomas A. Saunders, III
Eugene V. Fife	Katherine L. Smallwood, M.D.
Lewis F. Payne	Edward J. Stemmler, 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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#### 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 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:
  - Consideration of investing of public funds for purchase of an ambulatory surgery center, and related acquisition of real property by lease or purchase, and for possible purchase of an off-site outpatient care facility, where public discussion would adversely affect the Medical Center's bargaining position;
  - Competitive benchmarking and proprietary patient survey and quality data; and
  - Consultation with legal counsel regarding 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: May 3, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Fiscal Year 2005 Medical Center  
Operating Budget

BACKGROUND: The Medical Center's operating budget is consolidated with the University's overall operating budget. At its June 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 2004-2005 fiscal plan has been developed to include aspects of the 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 2005, the Medical Center expects to continue its growth in surgery and to care for patients with high acuity illnesses.

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, where overall budget parameters are established, and ends with each operating unit providing a 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.

The Fiscal Year 2004 operating income is projected to be \$34.7 million.

The Medicare Prescription Drug and Modernization Act of 2003 (MMA) is the most significant new health care legislation in a number of years. MMA directly ties together Medicare payments to providers with the reporting by providers of

quality data. Overall MMA will provide increased Medicare payment to the Medical Center, although in large part, this represents a recoupment of indirect medical education funding to payment levels of three years ago. It also provides an opportunity, which is not included in the budget, to decrease drug costs by as much as \$5 million by authorizing pharmaceutical companies to extend the favorable public service pricing for outpatient drugs to inpatient drugs.

The Medical Center continues to modernize and integrate information technology services through the Integrated Health Information Management System (IHIMS) project. Incremental operating cost in the Fiscal Year 2005 budget for IHIMS is \$2.5 million and the capital cost is \$8.3 million.

Previous increases in capital investment for the hospital expansion and all other capital activity will result in an additional depreciation expense of \$2.1 million for Fiscal Year 2005. The budget includes continuation of two Modular Operating Rooms plus the addition of two operating rooms to increase Medical Center overall capacity from 19 to 23 rooms. The Medical Center's 2004-2005 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.

BUDGET AND OPERATING ASSUMPTIONS

Market conditions: For Fiscal Year 2005, total discharges are projected to grow 4.7 percent from Fiscal Year 2004 projected levels, primarily as a result of new capacity from the two new operating rooms and additional beds brought into service. Patient days are expected to increase overall by 3.4 percent and outpatient service demand is expected to grow by 3.9 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:

	<u>Actual</u> 2002-2003	<u>Forecasted</u> 2003-2004	<u>Budget</u> 2004-2005
Discharges	27,459	29,040	30,405
Adjusted Discharges	46,344	47,645	50,643
Average length of stay	5.6	5.7	5.6
Patient days	155,034	165,596	171,147
Clinic & ER visits	598,663	607,460	631,239

Revenues: The Medical Center's Fiscal Year 2005 budgeted payer mix remains consistent with that of 2004. 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 expanded capacity in operating rooms, beds, and radiology equipment and the opening of the new Fontaine Medical Office Building.

Rate changes: The Medical Center proposes a rate increase of slightly more than 9 percent, which is commensurate with inflationary impacts on expenses.

Expenses: Expenses from operations are projected to increase by \$58.1 million. Expenses per adjusted discharge increase 2.3 percent from \$13,893 to \$14,218. We anticipate that expense per adjusted discharge included in the budget will be approximately equal to the academic medical center median expense as shown in the University Health System Consortium Operational Data Base.

Staffing: The Medical Center's Fiscal Year 2005 budget includes 5,695 FTEs, an increase of 146 FTEs from staffing at the current Fiscal Year 2004 projections of 5,549 FTEs and 353 FTEs greater than Fiscal Year 2003. On an adjusted discharge basis FTEs will drop from 43.70 in Fiscal Year 2004 to 43.09 in Fiscal Year 2005 reflecting fewer FTEs required to treat the volume growth.

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, make changes to operations. Also, management will continue to identify and implement process improvement strategies that will allow for operational streamlining and cost efficiencies.

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

- Salary adjustments for employees and residents of 3.5 percent, \$.5 million additional salary increases for residents required to maintain salary competitiveness, \$.9 million for employee market adjustments, and \$.6 million for internal alignment salary adjustments.
- Introduction of two new operating rooms in addition to continuing two modular operating rooms.
- Increased number of beds in the Medical Center.

- Facility expansions such as the Fontaine Medical Office Building.
- Required expenses related to the Decade Plan and IHIMS.
- Expansion of the Radiology imaging joint venture.

The major risk factors that impact the ability to accomplish the fiscal plan include:

- Nationwide shortage in healthcare workers that could negatively impact our ability to staff expanded capacity especially when we consider that our biggest need is for operating room personnel which are some of the more difficult skills to recruit.
- Medical leadership vacancies in key areas such as Hematology/Oncology, Radiology, Cardiology and Psychiatry.
- Maintaining an adequate number of physicians in areas experiencing a national shortage such as Radiology, Anesthesia, and Hematology/Oncology.
- New CMS and other regulatory reimbursement changes.
- Advancements in medical technology that could alter expenses and/or revenues very quickly.
- Inflation for medical devices and pharmaceutical goods that could exceed the budget assumptions.
- Enhanced scrutiny by Federal regulators in areas such as medical records, billing, coding and contractual agreements.
- An unfavorable decision by CMS with respect to the OIG audit of DMAS.

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

(in millions)	<u>Actual</u> <u>2002-2003</u>	<u>Projected</u> <u>2003-2004</u>	<u>Budgeted</u> <u>2004-2005</u>
Total operating revenue	\$652.3	\$696.6	\$757.9
Operating expense	\$614.5	\$661.9	\$720.0
Operating income	\$37.8	\$34.7	\$37.9
Non-operating gain/(loss)	\$2.2	\$19.7	\$13.8
Total margin	\$40.1	\$54.4	\$51.7
Operating income percent	5.8%	5.0%	5.0%

Capital Plan: Funds available to meet capital requirements are derived from operating cash flows, funded depreciation reserve and interest income. The Medical Center faces many challenges regarding 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 \$62.5 million be authorized for capital requirements.

ACTION REQUIRED: Approval by the Medical Center Operating Board, and to be forwarded to the Finance Committee for further consideration. The Finance Committee will make the final recommendation to the full Board.

RECOMMENDATION REGARDING FISCAL YEAR 2005 MEDICAL CENTER OPERATING BUDGET

WHEREAS, the Medical Center Operating Board has reviewed the Fiscal Year 2005 Medical Center operating budget;

RESOLVED that the Medical Center Operating Board approves and recommends to the Finance Committee and to the Board of Visitors approval of the Fiscal Year 2005 Medical Center operating budget.

**Schedule A**  
**University of Virginia - Medical Center**  
**Projected Fiscal Plan**  
**2004-2005**

	2002-2003 Actual	2003-2004 Forecast	2004-2005 Budget
<b>Revenues</b>			
Total Gross Charges	\$ 962,831,721	\$ 1,106,649,023	\$ 1,267,435,042
Less Deductions:			
Indigent Care Deduction (net of DSH payment)	28,625,596	38,496,620	45,011,673
Contractual Deduction	296,101,072	383,191,161	477,636,659
Total Deductions	324,726,667	421,687,781	522,648,332
Net Patient Revenue	638,105,054	684,961,242	744,786,710
Miscellaneous Revenue	14,227,250	11,623,407	13,139,354
<b>Total Revenue</b>	<b>652,332,303</b>	<b>696,584,649</b>	<b>757,926,063</b>
<b>Expenses</b>			
Expenses from Operations			
Operating Expenses	551,107,603	600,113,370	650,340,024
Depreciation and Amortization	36,063,660	36,660,854	38,711,525
Interest Expense	4,455,058	4,191,345	4,730,212
Bad Debt	22,859,711	20,943,681	26,282,983
Total Expenses from Operations	614,486,032	661,909,250	720,064,743
<b>Operating Income</b>	<b>37,846,272</b>	<b>34,675,400</b>	<b>37,861,320</b>
Other Gains and Losses			
Investment Income	14,402,344	17,957,113	14,294,128
Net gain from Affiliates	1,573,935	2,789,583	1,035,000
Loss on Fixed Assets	(962,141)	35,051	(125,000)
Other	(12,809,388)	(1,096,122)	(1,422,381)
Total Other Gains and Losses	2,204,751	19,685,625	13,781,747
<b>Revenues and Gains in Excess of Expenses</b>	<b>\$ 40,051,022</b>	<b>\$ 54,361,024</b>	<b>\$ 51,643,067</b>
<b>Statistics</b>			
Admissions or Discharges	27,459	29,040	30,405
Patient Days of Care	155,034	165,596	171,147
Clinic and Emergency Room Visits (Excluding Acquired Practices and Freestanding Clinics)	598,663	607,460	631,239
Average Length of Stay	5.60	5.70	5.63

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 3, 2004

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 2004. 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 2004;

RESOLVED, the Medical Center Operating Board delegates to its Chair 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 as recommended to him by the Credentials Committee and the Clinical Staff Executive Committee from their May, June and July 2004 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 3, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.A. Clinical Presentation - Buchanan  
Recipient - Atrial Fibrillation Center

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 approximately \$2.3 million, and the Medical Center is using a matching funds approach to utilize this money for new clinical programs for a total funding of up to \$5 million. Funding will be provided for a maximum of three (3) years for each new clinical program.

DISCUSSION: On October 1, 2003, a call for proposals was sent to all School of Medicine clinical department chairs for submissions of Letters of Intent describing proposed clinically differentiating programs the Medical Center should fund.

Twenty-three Letters of Intent were received from various departments and they were reviewed by the Programs Committee which consisted of seven physicians representing seven different clinical areas. The Committee was chaired by Dr. Frederick Wooten and Ms. Margaret Van Bree.

The Committee selected eleven programs to move to the next stage of consideration, but two proposals subsequently were withdrawn by the principal investigators.

At the next stage an assessment was done for the market and financial viability of each of the nine surviving programs which were:

- Atrial Fibrillation Center
- Tomoblade: Whole Body Stereotactic Radiosurgery
- Center of Lung Disease Services (COLDS) at UVA Pediatrics
- Endovascular Treatment of Aorto-iliac Aneurysms
- Human Clinical Islet Cell Transplantation Program
- COPD: A Comprehensive Patient Centric Program
- High-dose Interleukin-2 Program
- Nocturnal Home Hemodialysis
- Improved Community Cancer Diagnosis through Telementoring

In order to receive funding, the programs had to demonstrate that an 11% return on investment and 7% net operating margin in the 3<sup>rd</sup> and final year of funding could be achieved. Programs had to be clearly unique and set the University of Virginia Medical Center apart from other academic medical centers and hospitals in the area.

Using these criteria, the Programs Committee recommended that three programs receive funding. The Vice President and Chief Executive Officer of the Medical Center and the Dean of the Medical School and Vice President have made the final decision and concurred with the Committee's recommendations. The three programs are:

- Atrial Fibrillation Center: The Division of Cardiovascular Medicine will use these funds for a comprehensive source for education, medical and surgical treatments, clinical research and outcome management of atrial fibrillation (AF). AF is the most common sustained abnormal heart rhythm, with a two-fold mortality rate and five times stroke rate. Much of the treatment will focus on radiofrequency ablation to cure AF.
- Tomoblade: Whole Body Stereotactic Radiosurgery: The Department of Radiation Oncology will use these funds for development of a whole body stereotactic radiosurgery program for ablation of multi-organ metastatic cancer utilizing the Helical Tomotherapy radiotherapy treatment unit. This program enlarges our geographic radiation oncology patient capture basin beyond that achievable for conventionally fractionated radiotherapy, and reduces the duration of treatment from several weeks to 1-3 treatments.

This program will distinguish the University of Virginia Department of Radiation Oncology as national leaders in the development of extracranial radiosurgery.

- COPD: A Comprehensive Patient Centric Program:  
The Division of Pulmonary and Critical Care Medicine will use these funds to recruit a pulmonary specialist who focuses on chronic obstructive pulmonary disease (COPD), the 4<sup>th</sup> leading cause of chronic morbidity and mortality in the United States. The program is designed to improve patient education, resources, and therapies; serve as a base for clinical research; and increase surgical volumes. The program offers an opportunity to attract more elderly patients suffering from this condition and improve the reputation of University of Virginia in this area.

#### BUCHANAN ENDOWMENT PILOT PROJECT

In addition to these projects, the Buchanan Endowment and the Medical Center jointly will fund one pilot project:

Human Islet Cell Transplantation for Diabetes Mellitus:  
The goal of this proposal is to expand the University of Virginia's capability to deliver health care services to the diabetic population of Virginia. The immediate intent is to perform a specific number of islet cell transplants to determine the clinical effectiveness of this approach to managing the treatment of the acute diabetic. Islet transplantation can restore insulin production in Type 1 diabetes and affords the opportunity to investigate beta cell development and function, as well as stem cell therapeutic options. It is anticipated that islet transplant will reduce or eliminate patient dependence upon insulin injections and pumps, in addition to reducing other diabetic complications.

While the Human Islet Cell Transplantation proposal is clearly clinically differentiating and bridges the gap between basic science, clinical science and clinical practice, it does not meet the pre-established financial parameters for Buchanan award funding described above. Thus, this program will receive pilot funding to cover ten (10) human islet cell transplantations, for a period not to exceed three (3) years. Thereafter, the Medical Center will evaluate the program for continued funding.

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 3, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.B. 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 3, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.C. 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 of the University before submitting the report to the Medical Center Operating Board. 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 eight months of Fiscal Year 2004 ended with an operating margin of 5.0 percent, which was above the goal of 3.6 percent. Total operating revenue was above budget and above the prior year. Total operating expenses were slightly above budget and above prior year.

Through the first eight months of Fiscal Year 2004, inpatient admissions were 6.8 percent above budget and 8.9 percent above prior year. Patient days were 8.7 percent above budget and 9.6 percent above prior year. Length of stay was 5.7 days, which was above the 5.6 day budgeted length of stay. 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, general surgery, orthopaedics and pediatrics. Same day patients were 17.0 percent below budget and 18.5 percent below prior year. The Medical Center adopted a new process to improve the appropriateness of classifying patients between admissions and same day status that has resulted in classifying some patients as admissions who historically would have been classified as a same day patient. While the number of same day patients has declined, inpatient admissions with a one-day length of stay have increased by 26 percent over the prior year.

Total operating revenue for the first eight months of Fiscal Year 2004 was 1.5 percent above budget and 11.2 percent above prior year.

Total operating expenses for the first eight months of Fiscal Year 2004 were .1 percent above the \$441.0 million budget and 12.5 percent above prior year expenses. Salaries and wages and 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 83 below budget and 210 above prior year. FTEs and salary and wage cost per FTE were:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>2004 Budget</u>
FTEs	5,027	5,237	5,320
Annualized			
Salary and Wage	\$43,029	\$46,007	\$44,542
Cost per FTE			

OTHER FINANCIAL ISSUES

The Medical Center is continuing its efforts to provide national leadership on the issue of billing and collection practices to uninsured patients especially those with low income. Ed Howell was interviewed for an article in Trustee magazine on this subject. In addition, the Medical Center is examining with Virginia Commonwealth University and the Department of Medical Assistance the options to extend the indigent care policy to an expanded group of near poverty patients.

One of the provisions of The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) permits pharmaceutical companies to sell drugs for inpatient use to hospitals such as the University of Virginia Medical Center that have a high percentage of indigent patients at the public service prices. Historically this favorable pricing has been available only for outpatient drugs. The large pharmaceutical companies have not agreed to provide the lower prices to qualifying hospitals. The Medical Center is pursuing this cost saving opportunity through efforts nationally and locally. The potential annual savings to the Medical Center could be as high as \$5 million.

Another provision of MMA provides for loans for cancer center development that have the potential to be forgiven. The Medical Center is determining how to apply for a cancer center development loan, although the total amount available nationally is only \$200 million.

#### WRITE-OFF OF BAD DEBTS AND INDIGENT CARE

Indigent care charges totaling \$59.2 million for the period July 1, 2003, through February 29, 2004, have been written off. Recoveries during this period totaled \$9.6 million.

Bad debt charges totaling \$17.2 million for the first eight months of the fiscal year have been written off. During this same period, \$9.1 million was recovered through suits, collection agencies, and Virginia refund set-off.

#### OPERATIONS

As indicated in the Finance report, patient volumes continue to be strong through February. In addition to the inpatient admissions described above, Emergency Room visits are 1.4 percent above budget, while Clinic visits are 2.9 percent below the budget target. The number of full-time equivalent employees (FTEs) is 210 above the prior year total FTEs but remains 83 below budget.

In conjunction with the expansion of surgical services and in recognition of increased demand for inpatient beds by all services, on April 19<sup>th</sup> the Medical Center opened the Patient Transition Unit (PTU) on the first floor of the Primary Care Center. The purpose of the PTU is to improve patient flow during the day. Currently, patients awaiting admission to an inpatient unit may be waiting in the Emergency Room, a clinic, or the Lobby until an inpatient bed is vacated and the room is cleaned. The PTU will provide a more comfortable place for the patient to wait, as well as allowing 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 PTU, thereby freeing up an inpatient bed.

Two outpatient centers relocated to new space during the month of March. The outpatient services of the Department of Otolaryngology-Head and Neck Surgery relocated to the

Fontaine Medical Office Building. The expanded area includes endoscopic diagnostic equipment, the Outpatient Facial and Reconstructive Cosmetic Surgery Center, the Vestibular and Balance Center and the Cochlear Implant Center. In addition, the Infusion Center opened a new expanded center in the West Complex. The new center includes more private areas for patients receiving treatment and an outdoor garden terrace.

The Medical Center launched a new website, [www.uvahealth.com](http://www.uvahealth.com), designed to help patients and health consumers easily find in-depth, current and peer-reviewed information on thousands of medical conditions, tests and procedures. Each topic is covered in English and Spanish and is periodically reviewed by outside medical experts. In addition, each topic area automatically links with profiles of University of Virginia doctors who have expertise in a particular area.

The University of Virginia recognized the Health System for its outstanding service to others in 2003 through our involvement in the United Way Day of Caring and our success in the Commonwealth of Virginia Campaign (CVC). During the Day of Caring the Health System fielded a team of 133 faculty and staff who traveled to 16 community agencies and completed 20 projects while contributing 616 volunteer hours valued at \$11,430. This represents a record increase of 530% in participation over 2002. Employees actively participated in community service activities such as painting, landscaping, and reading to children. For this exceptional commitment to outstanding service, the Health System received a University of Virginia Community Spirit Award.

In the 2003 employees giving campaign for the CVC, the Medical Center also had a record year, raising \$113,000 in just over six weeks to support regional community service agencies. Combined with the School of Medicine's total, the Health System raised \$288,500. Nine Health System campaign volunteers were recognized with individual campaign spirit awards for their exceptional dedication to community service through the CVC.

The Medical Center continues to hold Employee Forums on a bimonthly schedule. The March Employee Forum focused on the building and program expansions throughout the Health System. The May Employee Forum will feature the services of the University of Virginia Children's Medical Center.

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

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb FY02	Feb FY03	Feb FY04	Feb FY04
Net patient revenue	\$385.7	\$409.6	\$456.6	\$447.2
Other revenue	<u>7.4</u>	<u>7.9</u>	<u>7.8</u>	<u>10.2</u>
Total operating revenue	<u>\$393.1</u>	<u>\$417.5</u>	<u>\$464.4</u>	<u>\$457.4</u>
Operating expenses	363.0	366.3	414.1	411.3
Depreciation	22.6	23.1	24.4	26.6
Interest expense	<u>3.1</u>	<u>2.9</u>	<u>2.8</u>	<u>3.1</u>
Total operating expenses	<u>\$388.7</u>	<u>\$392.3</u>	<u>\$441.3</u>	<u>\$441.0</u>
Operating income (loss)	<u>\$4.4</u>	<u>\$25.2</u>	<u>\$23.1</u>	<u>\$16.4</u>
Non-operating income (loss)	(\$3.7)	<u>\$7.1</u>	<u>\$16.5</u>	<u>\$5.4</u>
Net income (loss)	<u>\$0.7</u>	<u>\$32.3</u>	<u>\$39.6</u>	<u>\$21.8</u>
Principal payment	\$2.8	\$3.1	\$4.0	\$4.0

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

Description	Most Recent Three Fiscal Years		
	Feb FY02	Feb FY03	Feb FY04
<b>Assets</b>			
Operating cash and investments	\$30.7	\$75.4	\$66.8
Patient accounts receivables	86.0	84.1	117.3
Property, plant and equipment	228.8	243.8	271.3
Depreciation reserve and other investments	186.0	207.7	242.4
Endowment Funds	91.0	88.9	102.8
Other assets	<u>49.6</u>	<u>42.8</u>	<u>49.5</u>
<b>Total Assets</b>	<u>\$672.1</u>	<u>\$742.7</u>	<u>\$850.1</u>
<b>Liabilities</b>			
Current portion long-term debt	\$4.2	\$4.5	\$6.6
Accounts payable & other liab	51.7	83.4	97.9
Long-term debt	88.7	87.0	120.0
Accrued leave and other LT liab	<u>17.2</u>	<u>17.1</u>	<u>26.7</u>
<b>Total Liabilities</b>	<u>\$161.8</u>	<u>\$192.0</u>	<u>\$251.2</u>
<b>Fund Balance</b>	<u>\$510.3</u>	<u>\$550.7</u>	<u>\$598.9</u>
<b>Total Liabilities &amp; Fund Balance</b>	<u>\$672.1</u>	<u>\$742.7</u>	<u>\$850.1</u>

University of Virginia Medical Center  
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb FY02	Feb FY03	Feb FY04	Feb FY04
Operating margin (%)	1.1%	6.0%	5.0%	3.6%
Total margin (%)	0.2%	7.6%	8.2%	4.7%
Current ratio (x)	2.1	1.8	1.8	4.0
Days cash on hand (days)	148.4	191.2	174.1	190.0
Gross accounts receivable (days)	74.1	69.6	67.0	60.0
Average payment period (days)	37.3	58.1	61.2	30.6
Annual debt service coverage (x)	4.5	9.8	9.8	7.3
Debt-to-capitalization (%)	14.8%	13.6%	16.7%	20.0%
Capital expense (%)	6.6%	6.6%	6.2%	6.7%

University of Virginia Medical Center  
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb FY02	Feb FY03	Feb FY04	Feb FY04
Admissions	17,754	17,824	19,413	18,178
Patient days	99,641	101,022	110,700	101,813
SS/PP Patients	5,263	5,286	4,307	5,191
Average length of stay	5.6	5.7	5.7	5.6
Clinic visits	349,108	352,590	366,574	377,464
ER visits	38,754	38,017	39,509	38,955
Medicare case mix index	1.9065	1.8882	1.8161	1.9075
Net Revenue by Payor				
Medicare %	39.7%	37.1%	34.9%	33.5%
Medicaid %	12.7%	11.9%	14.2%	15.7%
Managed care %	7.2%	6.8%	8.7%	6.8%
Commercial %	9.8%	11.0%	10.8%	12.8%
Other	<u>30.6%</u>	<u>33.2%</u>	<u>31.3%</u>	<u>31.3%</u>
Total	100%	100%	100%	100%
FTE's	5,311	5,027	5,237	5,320

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 - February 29, 2004

**OPERATING STATISTICAL MEASURES - February 2004**

<b>ADMISSIONS and CASE MIX - Year to Date</b>			
	<u>FY 03</u>	<u>FY 04</u>	<u>% Change</u>
<b>ADMISSIONS:</b>			
Surgical	6,811	7,068	3.8%
Medical	7,266	8,263	13.7%
Transplant	110	116	5.5%
Obstetrics	942	1,026	8.9%
Pediatrics	1,471	1,753	19.2%
Psychiatric	1,224	1,187	(3.0%)
Subtotal Acute	17,824	19,413	8.9%
Short Stay	5,286	4,307	(18.5%)
Total Admissions	23,110	23,720	2.6%
<b>CASE MIX INDEX:</b>			
All Acute Inpatients	1.7349	1.7074	(1.6%)
Medicare Inpatients	1.8882	1.8161	(3.8%)

<b>OTHER INSTITUTIONAL MEASURES - Year to Date</b>			
	<u>FY 03</u>	<u>FY 04</u>	<u>% Change</u>
<b>ACUTE INPATIENTS:</b>			
Inpatient Days	101,022	110,700	9.6%
Average Length of Stay	5.7	5.7	0.0%
Average Daily Census	416	454	9.1%
Births	894	964	7.8%
<b>OUTPATIENTS:</b>			
Clinic Visits	352,590	366,574	4.0%
Average Daily Visits	2,332	2,465	5.7%
Emergency Room Visits	38,017	39,509	3.9%
<b>SURGICAL CASES</b>			
Inpatient	8,562	9,137	6.7%
Outpatient	1,514	1,765	16.6%
Total	10,076	10,902	8.2%

**OPERATING FINANCIAL MEASURES - February 2004**

<b>REVENUES and EXPENSES - Year to Date</b>			
	<u>FY 03</u>	<u>FY 04</u>	<u>% Change</u>
<b>NET REVENUES:</b>			
Total Patient Rev.	386,216,333	433,227,269	12.2%
Appropriations	23,413,559	23,413,561	0.0%
Misc Revenue	7,925,246	7,748,938	(2.2%)
Total	417,555,138	464,389,768	11.2%
<b>EXPENSES:</b>			
Salaries and Wages	177,927,059	200,150,308	12.5%
Supplies and Contracts	113,527,055	127,957,656	12.7%
Purchased Services	59,325,508	71,967,618	21.3%
Bad Debts	15,521,973	13,962,454	(10.0%)
Depreciation	23,058,298	24,440,570	6.0%
Interest Expense	2,976,250	2,794,230	(6.1%)
Total	392,336,143	441,272,836	12.5%
Operating Margin	25,218,995	23,116,932	(8.3%)
Operating Margin %	6.0%	5.0%	(17.6%)
Non-Operating Revenue	7,108,776	16,457,083	131.5%
Net Income	32,327,771	39,574,015	22.4%

<b>OTHER INSTITUTIONAL MEASURES - Year to Date</b>			
	<u>FY 03</u>	<u>FY 04</u>	<u>% Change</u>
<b>NET REVENUE BY PAYOR:</b>			
Medicare	143,342,209	151,216,358	5.5%
Medicaid	45,896,932	61,630,796	34.3%
Managed Care	26,080,421	37,814,829	45.0%
Commercial Insurance	42,508,230	46,783,380	10.1%
Anthem	58,305,246	77,022,256	32.1%
Southern Health	18,506,830	22,161,569	19.7%
Tricare CHAMPUS	5,374,901	3,463,280	(35.6%)
Other	46,201,564	33,134,800	(28.3%)
Total Paying Patient Rev.	386,216,333	433,227,268	12.2%
Managed Care	26,080,421	37,814,829	45.0%
Non-Managed Care	360,135,912	395,412,439	9.8%
Total Paying Patient Rev.	386,216,333	433,227,268	12.2%
<b>OTHER:</b>			
Collection % of Gross Billings	65.47%	62.17%	(5.0%)
Days of Revenue in Receivables (Gross)	69.6	67.0	(3.7%)
Cost per CMI & OP-Adj Discharge	7,013	7,629	8.8%
Cost per CMI & OP-Adj Day	1,237	1,338	8.1%
Cost per Outpatient Visit	69.83	78.95	13.0%
Total F.T.E.'s	5,027	5,237	4.2%
F.T.E.'s Per Adjusted Occupied Bed	7.27	7.04	(3.2%)

### **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  
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 February <u>2003-04</u>	Annual Activity	
		<u>Estimated 2003-04</u>	<u>2002-03</u>
<u>INDIGENT CARE (IC)</u>			
Net Charge Write-Off	52,741	87,190	69,241
Percentage of Net Write-Offs to Revenue	7.15%	7.90%	7.19%
Net Medical Center IC Charges Factored to Cost	34,463	51,695	48,888
Medicaid Unreimbursed Cost	<u>0</u>	<u>0</u>	<u>(371)</u>
Total Indigent Care Cost	<u>34,463</u>	<u>51,695</u>	<u>48,517</u>
Indirect Medical Education Payments	27,938	41,908	0.00
Medicaid Disproportionate Share Adjustment Payment	<u>6,525</u>	<u>9,787</u>	<u>46,680</u>
Total Indigent Care Cost Funding	<u>34,463</u>	<u>51,695</u>	<u>46,680</u>
Total Indigent Care Cost Funding as % of Total Indigent Care Cost	100%	100%	96%
Unfunded Indigent Cost	<u>0</u>	<u>0</u>	<u>1,837</u>
	Year to Date February <u>2003-04</u>	Annual Activity	
		<u>Estimated 2003-04</u>	<u>2002-03</u>
<u>BAD DEBT</u>			
Net Charge Write-Offs	<u>13,962</u>	<u>26,569</u>	<u>22,860</u>
Percentage of Net Write-Offs to Revenue	1.89%	2.41%	2.37%

Notes:

1. 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: May 3, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.D. Capital Projects

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
<b>UNDER CONSTRUCTION</b>				
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)
Critical Care Unit Expansion - Phase II 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 (Sept '04-revised)
<b>CONSTRUCTION COMPLETED</b>				
Infusion Center - expand existing outpatient cancer center clinic and infusion center.	\$1.25 M	Bonds	Jan '02	April '03 (March '04- revised) COMPLETE (Infusion) Mar '04
Clinical Office Building - Fontaine - fitout for Otolaryngology Clinic.	\$16.75 M	Bonds	Jan '02	Oct '03 (March '04-revised) (Otolaryngology)

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 3, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.E. Institutional Targets for Patient Satisfaction

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: May 3, 2004

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: III. Report by the President of the  
Clinical Staff

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.