

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
May 12, 2005**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, May 12, 2005

12:30 - 3:30 p.m.

Medical Center Dining Conference Rooms 1, 2 and 3

Committee Members:

E. Darracott Vaughan, Jr. M.D., Chair
Thomas F. Farrell, II
Eugene V. Fife
Randy J. Koporc
Vincent J. Mastracco, Jr.
Lewis F. Payne
Gordon F. Rainey, Jr.
Katherine L. Smallwood, M.D.
Edward J. Stemmler, M.D.

Ex Officio Members:

Arthur Garson, Jr., M.D.
John B. Hanks, M.D.
R. Edward Howell
Leonard W. Sandridge

AGENDA

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IV. EXECUTIVE SESSION

- ACTION ITEMS - To consider (a) 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, and (b) investment of public funds by the Medical Center in a proprietary off-site joint venture for the delivery of health care, where disclosure at this time will adversely affect the competitive bargaining position of the Medical Center, as provided for in Section 2.2-3711(A)(6) and (23) 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 financial, resource, market and development considerations and efforts regarding the Medical Center and the School of Medicine, which are linked to the Health System strategic decade plan;
 - Confidential information and data related to patient safety in clinical care, for the purpose of improving patient care at the Medical Center;
 - Discussion of performance issues regarding an environmental services contract, and alternative options, in consultation with legal counsel, where disclosure would adversely affect the negotiating strategy of the Medical Center; and
 - Consultation with legal counsel regarding the Medical Center's compliance with relevant federal reimbursement regulations, licensure 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), (6), (7), (23) and (30) of the Code of

Virginia. The meeting of the Medical Center Operating Board is further privileged under Section 8.01-581.17 of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 12, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.A. Fiscal Year 2006 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 of Visitors acts on the proposed operating budget based on a recommendation for approval from the Medical Center Operating Board.

DISCUSSION: The Medical Center's 2005-2006 fiscal plan has been developed to include aspects of the Decade Plan developed by the Medical Center and the School of Medicine while considering the challenge of providing patient care, teaching, and research services in an increasingly changing health care industry. The cost associated with providing quality patient care will continue to be subjected to pressures because of increases in medical supply, pharmaceutical, and medical device expenses as well as a shortage of healthcare workers. In addition, in Fiscal Year 2006, 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 senior management developing basic budget assumptions such as admissions, length of stay, number of employees, and inflation. It continues with a budget forum which includes most Medical Center managers and ends with each operating unit providing a cumulative operating and capital budget that contains service demand forecasts, required full-time equivalent personnel, and non-labor expenses.

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 2006 budget for IHIMS is \$1.0 million and the capital cost is \$6.8 million.

Previous increases in capital investment for the hospital expansion and all other capital activity will result in additional depreciation expense of \$9.8 million for Fiscal Year 2006. The budget provides operating room capacity at 23 rooms, an increase of two rooms from the previous budget. The Medical Center's 2005-2006 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 2006 admissions are budgeted at the same number as the 2005 budgeted level. However, this represents an increase of 6.8 percent from Fiscal Year 2005 projected levels. The growth will result from increased operating room capacity and additional bed capacity from increasing the number of available inpatient beds and lowering patient length of stay from 5.8 days to 5.6 days, which is the historical average patient length of stay. Outpatient service demand is expected to grow by 3.2 percent consistent with previous years and industry trends. The following table includes historical and projected patient volumes:

	<u>Budget</u> <u>2004-2005</u>	<u>Forecasted</u> <u>2004-2005</u>	<u>Budget</u> <u>2005-2006</u>
Discharges	30,405	28,460	30,405
Adjusted Discharges	48,811	48,539	52,302
Average length of stay	5.6	5.8	5.6
Patient days	171,147	165,055	171,147
Clinic & ER visits	615,239	633,973	654,324

Revenues: The Medical Center's Fiscal Year 2006 budgeted payer mix remains consistent with that of 2005. One of the Medical Center's largest challenges is the unwillingness of payers, especially government payers, to increase their payments commensurate with the increases in medical delivery costs. Growth in revenues will be realized as a result of the full year impact of the two new operating rooms, added beds, additional bed capacity because of the reduction of patient length of stay, and emerging new diagnostic and testing procedures.

Rate changes: The Medical Center proposes a rate increase of 8 percent to 9.9 percent, which is commensurate with rate

increases we believe will generally be implemented in the hospital industry.

Expenses: Expenses from operations are projected to increase by \$77.5 million. Expenses per adjusted discharge increase 2.6 percent from \$15,145 to \$15,537. 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 2006 budget includes 6,012 FTEs, an increase of 115 FTEs from current Fiscal Year 2005 projections of 5,897 FTEs. On an adjusted discharge basis FTEs will drop from 44.35 in Fiscal Year 2005 to 41.95 in Fiscal Year 2006, 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, employee market adjustments, and internal alignment adjustments.
- The impact of increasing surgical case volume as accommodated by 23 operating rooms.
- The full year realization of operations for Lynchburg Dialysis.
- Facility expansions such as the Core Lab.
- Required expenses related to the Decade Plan and IHIMS.
- Expansion of the Radiology imaging joint venture.
- Expansion of services of the Virginia Ambulatory Services Center.
- Continued construction of the hospital expansion which will be close to completion by the end of fiscal year 2006.

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.
- Failure to achieve the reduction in patient length of stay.
- Possible leadership change in Internal Medicine.
- 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.

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

(in millions)	Actual 2003-2004	Projected 2004-2005	Budgeted 2005-2006
Total operating revenue	\$702.0	\$777.9	\$853.2
Operating expense	\$664.0	\$735.1	\$812.6
Operating income	\$38.0	\$42.8	\$40.5
Non-operating gain/(loss)	\$7.8	\$18.6	\$18.0
Total margin	\$45.8	\$61.4	\$58.5
Operating income percent	5.4%	5.5%	4.8%

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 \$65.3 million be authorized for capital requirements to be allocated as follows:

Medical Equipment	\$20.4
Facility Improvements	13.8
Information Systems	14.8
Radiology	11.0
Contingency	<u>5.3</u>
Total	\$65.3

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 2006 MEDICAL CENTER OPERATING BUDGET

WHEREAS, the Medical Center Operating Board has reviewed the Fiscal Year 2006 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 2006 Medical Center operating budget.

Schedule A
University of Virginia - Medical Center
Projected Fiscal Plan
2005-2006

	2003-2004 Actual	2004-2005 Forecast	2005-2006 Budget
Revenues			
Total Gross Charges	\$ 1,141,277,382	\$ 1,386,754,636	\$ 1,600,267,692
Less Deductions:			
Indigent Care Deduction (net of DSH payment)	27,210,717	31,623,711	45,576,700
Contractual Deduction	427,489,092	596,032,114	720,849,750
Total Deductions	454,699,808	627,655,825	766,426,450
Net Patient Revenue	686,577,573	759,098,811	833,841,243
Miscellaneous Revenue	15,397,773	18,751,271	19,342,445
Total Revenue	701,975,346	777,850,082	853,183,688
Expenses			
Expenses from Operations			
Operating Expenses	600,593,123	661,076,983	722,503,810
Depreciation and Amortization	37,655,652	41,458,809	51,218,155
Interest Expense	4,338,040	4,898,222	6,728,606
Bad Debt	21,376,370	27,661,721	32,156,853
Total Expenses from Operations	663,963,186	735,095,734	812,607,424
Operating Income	38,012,160	42,754,348	40,576,263
Other Gains and Losses			
Investment Income	14,443,306	18,973,177	18,660,779
Net gain from Affiliates	2,264,481	1,271,389	1,271,389
Loss on Fixed Assets	(1,213,409)	(173,995)	(173,995)
Other	(7,680,086)	(1,428,327)	(1,806,401)
Total Other Gains and Losses	7,814,292	18,642,244	17,951,772
Revenues and Gains in Excess of Expenses	\$ 45,826,452	\$ 61,396,592	\$ 58,528,035
Statistics			
Admissions or Discharges	29,164	28,460	30,405
Patient Days of Care	167,622	165,055	171,147
Clinic and Emergency Room Visits (Excluding Acquired Practices)	624,696	633,973	654,324
Average Length of Stay	5.74	5.80	5.63

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 12, 2005

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 does not meet during the summer. 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 spring and fall 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 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 does not meet between spring and the fall of each year;

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, July and August meetings each year; 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 12, 2005

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.A. Clinical Presentation - Buchanan Recipient - Neurological Sleep Lab

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: In July 2004, 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.

Thirteen Letters of Intent were received from various departments and they were reviewed by the Buchanan Endowment Programs Committee which consisted of seven physicians representing seven different clinical areas, along with representatives of the Medical Center. The Committee was chaired by Dr. Frederick Wooten and Ms. Margaret Van Bree.

In order to receive funding, the programs had to demonstrate that an 11% return on investment over a three year period and 7% net operating margin in the 3rd 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 Buchanan Endowment Programs Committee recommended that the Neurological Sleep Lab program 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 goal of this project is the establishment of a neurological sleep lab combining polysomnography (PSG) and electro-encephalography (EEG) to study the effects of primary neurological diseases on sleep. This program will be distinguished from current pulmonary-based and community-based sleep labs. The emphasis of this sleep lab will be the application of multi-modality polygraphy in order to provide dual emphasis on the quantification of sleep along with detailed EEG and seizure detection. The combination will permit evaluation of the interaction of sleep with the neurological fields of epilepsy and seizures, Parkinson's disease, neurodegenerative dementias, behavioral-neuropsychiatric disorders, narcolepsy-cataplexy and REM behavior disorder.

In addition, the Buchanan Endowment Awards for New Clinical Programs endorsed the development of a Center for Minimally Invasive Spine Surgery, pending refinement of the business plan for this program. Programs in Cutaneous Surgery and Female Pelvic Floor Medicine were identified as having significant merit and will be resubmitted in next year's cycle.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 12, 2005

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 12, 2005

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 2005 ended with an operating margin of 5.3 percent which was above the goal of 4.5 percent. Total operating revenue and operating expenses were above budget and the prior year.

Through February of Fiscal Year 2005, inpatient admissions were 5.2 percent below budget and 1.5 percent below prior year. Patient days were 2.1 percent below budget and .4 percent above prior year. Length of stay was 5.81 days, which was above the 5.63 day budgeted length of stay. Case mix index of 1.92 is significantly above both budget and prior year and is contributing to the increased length of stay. Admissions have decreased from prior year for several hospital services, including internal medicine (cardiology, gastroenterology), orthopedics, pediatrics and psychiatry. The most significant increase in inpatient admissions over prior year was realized in neurosurgery. The decrease in admissions continues to be offset by an increase in same day patients. The number of same day patients has increased by 18.8 percent over budget and 20.9 percent over prior year.

Net patient service revenue for the first eight months of Fiscal Year 2005 was .8 percent above budget and was 11.0 percent above prior year. An average rate increase of 9.5

percent was implemented on July 1, 2004. Other operating revenue was 17.8 percent above budget and 63.0 percent above prior year partly due to money received for the cafeteria renovation and a legal settlement with a pharmaceutical company.

Total operating expenses through February of Fiscal Year 2005 were .3 percent above the \$490.1 million budget and 11.4 percent above prior year expenses. Salaries and wages were above budget and above prior year expenses, although fringe benefit expenses were below budget. Supplies and contracts were above both budget and prior year expenses. Purchased services were below budget but above prior year.

The number of full-time equivalent employees (FTEs) on payroll was 50 below budget and 367 above prior year. The Fiscal Year 2005 FTEs include 125 FTEs for Lynchburg Dialysis and Virginia Ambulatory Surgery Center that are not included in the prior year FTEs. FTEs and salary and wage cost per FTE were:

	<u>FY 2004</u>	<u>FY 2005</u>	<u>2005 Budget</u>
FTEs-Payroll	5,257	5,624	5,674
Annualized Salary and Wage Cost per FTE	\$45,832	\$47,237	\$45,940
Contract Labor FTEs	309	294	282
Total FTEs	5,566	5,918	5,956

OTHER FINANCIAL ISSUES

The Medical Center provider agreement with Anthem provides for payments in excess of our financial goals through December 31, 2009. However, we negotiated with Anthem a payment increase of approximately one percent in excess of payment increases provided by the provider agreement. Our negotiation position was based on unanticipated cost increases in certain areas, primarily spine surgery. Additionally the Medical Center enjoyed the highest score among all participating hospitals in the Anthem Quality Hospital Improvement Program (QHIP) for the first

reporting year. As a result, our inpatient payments will increase .95 percent beyond what they would have otherwise increased. The cash payment to the Medical Center from QHIP will be shared with the faculty and staff in some manner as it was earned as a result of a collaborative effort by the Medical Center and its employees and clinical faculty.

WRITE-OFF OF BAD DEBTS AND INDIGENT CARE

Indigent care charges totaling \$67.1 million for the period July 1, 2004 through February 28, 2005 have been written off. Recoveries during this period totaled \$19.0 million.

Bad debt charges totaling \$24.7 million for the first eight months of the fiscal year have been written off. During this same period, \$9.2 million was recovered through suits, collection agencies, and Virginia refund set-off.

OPERATIONS REPORT

The University of Virginia Medical Center has once again been named a Solucient 100 Top Hospital. The Medical Center is the only hospital in Virginia to receive this ranking. UVa has been named a top 100 hospital six times since the rankings were started 12 years ago. Only 10 hospitals on this year's list had a comparable record. This ranking is based on nine clinical, financial, and operating-efficiency measures, such as mortality and infection rates, average length of stay, operating profit margins and expense per discharge. As a hospital that has been ranked more than four times, the Medical Center has been designated one of Solucient's "best" benchmark hospitals.

The Medical Center continues to work on issues related to patient flow to better accommodate patient admissions to the Medical Center. Specific efforts are directed at increasing capacity of inpatient beds and managing patient length of stay. By the end of May 2005, an additional 8 inpatient beds will be added to the bed complement through the reallocation of 7 inpatient beds from the General Clinical Research Center and opening of one more General Medicine bed. Performance Improvement teams continue to work

on timely discharges of inpatients to create additional bed capacity.

Several departments will occupy new patient care space during the months of April and June. The new and expanded Pediatric Intensive Care Unit (PICU) was occupied on April 15th. This renovation increased the capacity of PICU beds from 11 to a maximum of 16 beds, with the expectation of opening 3 of these additional beds by the end of 2005. The former PICU unit will be part of the expanded Neonatal Intensive Care Unit (NICU). The Pediatric Clinic is slated to move from the second floor of the Primary Care Center to the fourth floor of the Primary Care Center in May. The vacated second floor space will provide expansion space for the Heart Center diagnostic testing and clinics. In the new Hospital Expansion Project, Radiology is expected to occupy new angiography rooms as part of the expansion of the interventional radiology. In the summer, the Medical Center will install an MRI scanner adjacent to an interventional suite for additional imaging capacity. Surgical Pathology and Autopsy will relocate from the West Complex to new space on the third and first floors of the Hospital Expansion Project in April. In addition, in May the core clinical laboratory functions will relocate from the second floor of the University Hospital to the newly constructed building located at 11th and Main Streets. Laboratory specimens will be transported between the University Hospital and the new building via a pneumatic tube and courier transport.

In January the Joint Commission on Accreditation of Healthcare Organizations conducted a survey of the stroke program at the Medical Center and awarded the program special certification. The program was also recognized as a "better performer" by the University Health System Consortium. The Virginia Ambulatory Surgery Center, Inc, (VASI) completed an accreditation survey with Accreditation Association for Ambulatory Health Care in October 2004. A final accreditation decision has been deferred pending additional information.

The University of Virginia recognized the Health System for its outstanding service to others in 2004 through our involvement in the United Way Day of Caring and our success in the Commonwealth of Virginia Campaign. During the Day of Caring the Health System fielded a team of 218 faculty and staff who traveled to 27 community agencies and completed projects while contributing 1600 volunteer hours valued at \$26,032. This represents a record increase of 17% in

participation over 2003, which was an all time high year for the Health System. Employees actively participated in community service activities such as painting, landscaping, and reading to children.

In the 2004 employees giving campaign for the Commonwealth of Virginia Campaign, the Medical Center also had a record year, raising \$132,545 from 930 donors to support regional community service agencies. Combined with the School of Medicine's total, the Health System raised \$325,623. The Medical Center received the 2004 Campaign Spirit Award for noteworthy accomplishment in the Campaign.

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

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb 03	Feb 04	Feb 05	Feb 05
Net patient revenue	\$409.6	\$456.6	\$506.7	\$502.7
Other revenue	<u>7.9</u>	<u>7.7</u>	<u>12.6</u>	<u>10.7</u>
Total operating revenue	<u>\$417.5</u>	<u>\$464.4</u>	<u>\$519.3</u>	<u>\$513.4</u>
Operating expenses	366.3	414.1	461.3	460.9
Depreciation	23.1	24.4	27.2	26.1
Interest expense	<u>2.9</u>	<u>2.8</u>	<u>3.2</u>	<u>3.2</u>
Total operating expenses	<u>\$392.3</u>	<u>\$441.3</u>	<u>\$491.7</u>	<u>\$490.1</u>
Operating income (loss)	<u>\$25.2</u>	<u>\$23.1</u>	<u>\$27.6</u>	<u>\$23.3</u>
Non-operating income (loss)	<u>\$7.1</u>	<u>\$16.5</u>	<u>\$17.7</u>	<u>\$9.2</u>
Net income (loss)	<u>\$32.3</u>	<u>\$39.6</u>	<u>\$45.3</u>	<u>\$32.4</u>
Principal payment	\$3.1	\$4.0	\$4.6	\$4.0

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

Description	Most Recent Three Fiscal Years		
	Feb-03	Feb-04	Feb-05
Assets			
Operating cash and investments	\$75.4	\$66.8	\$99.4
Patient accounts receivables	84.1	117.3	121.4
Property, plant and equipment	243.8	271.3	314.4
Depreciation reserve and other investments	207.7	242.4	224.4
Endowment Funds	88.9	102.8	111.0
Other assets	<u>42.8</u>	<u>49.5</u>	<u>66.0</u>
Total Assets	<u>\$742.7</u>	<u>\$850.1</u>	<u>\$936.6</u>
Liabilities			
Current portion long-term debt	\$4.4	\$6.4	\$10.4
Accounts payable & other liab	83.4	97.9	117.6
Long-term debt	86.9	120.0	129.2
Accrued leave and other LT liab	<u>17.1</u>	<u>26.9</u>	<u>28.9</u>
Total Liabilities	<u>\$191.8</u>	<u>\$251.2</u>	<u>\$286.1</u>
Fund Balance	<u>\$550.9</u>	<u>\$598.9</u>	<u>\$650.5</u>
Total Liabilities & Fund Balance	<u>\$742.7</u>	<u>\$850.1</u>	<u>\$936.6</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb 03	Feb 04	Feb 05	Feb 05
Operating margin (%)	6.0%	5.0%	5.3%	4.5%
Total margin (%)	7.6%	8.2%	8.4%	6.2%
Current ratio (x)	1.8	1.8	1.7	2.0
Days cash on hand (days)	188.2	168.7	165.6	190.0
Gross accounts receivable (days)	67.8	67.4	63.9	60.0
Average payment period (days)	57.8	60.8	67.0	60.4
Annual debt service coverage (x)	9.8	9.8	9.7	8.6
Debt-to-capitalization (%)	15.8%	19.5%	19.3%	20.0%
Capital expense (%)	6.6%	6.2%	6.2%	6.0%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Feb 03	Feb 04	Feb 05	Feb 05
Admissions	17,824	19,410	19,114	20,170
Patient days	101,022	110,712	111,141	113,536
SS/PP Patients	5,286	4,319	5,222	4,396
Average length of stay	5.70	5.68	5.81	5.63
Clinic visits	352,590	367,419	388,037	375,578
ER visits	38,017	39,507	37,552	39,449
Medicare case mix index	1.8882	1.8149	1.9244	1.8333
Net Revenue by Payor				
Medicare %	37.1%	34.9%	35.5%	34.2%
Medicaid %	11.9%	14.2%	14.3%	14.1%
Managed care %	6.8%	8.7%	10.2%	8.7%
Commercial %	11.0%	10.8%	8.2%	9.3%
Other	<u>33.2%</u>	<u>31.3%</u>	<u>31.7%</u>	<u>33.7%</u>
Total	100.0%	100.0%	100.0%	100%
FTE's (including contract labor)	5,296	5,566	5,918	5,956

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 28, 2005

OPERATING STATISTICAL MEASURES - February 2005

ADMISSIONS and CASE MIX - Year to Date

	<u>FY 04</u>	<u>FY 05</u>	<u>% Change</u>
<u>ADMISSIONS:</u>			
Surgical	8,467	8,560	1.1%
Medical	6,919	6,551	(5.3%)
Transplant	115	152	32.2%
Obstetrics	968	1,118	15.5%
Pediatrics	1,754	1,671	(4.7%)
Psychiatric	1,187	1,062	(10.5%)
Subtotal Acute	19,410	19,114	(1.5%)
Short Stay	4,319	5,222	20.9%
Total Admissions	23,729	24,336	2.6%
<u>CASE MIX INDEX:</u>			
All Acute Inpatients	1.6990	1.7529	3.2%
Medicare Inpatients	1.8149	1.9244	6.0%

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 04</u>	<u>FY 05</u>	<u>% Change</u>
<u>ACUTE INPATIENTS:</u>			
Inpatient Days	110,712	111,141	0.4%
Average Length of Stay	5.68	5.81	2.3%
Average Daily Census	454	457	0.7%
Births	962	1,039	8.0%
<u>OUTPATIENTS:</u>			
Clinic Visits	367,419	388,037	5.6%
Average Daily Visits	2,470	2,548	3.2%
Emergency Room Visits	39,507	37,552	(4.9%)
<u>SURGICAL CASES</u>			
Inpatient	9,137	9,264	1.4%
Outpatient	1,765	2,227	26.2%
Total	10,902	11,491	5.4%

OPERATING FINANCIAL MEASURES - February 2005

REVENUES and EXPENSES - Year to Date

	<u>FY 04</u>	<u>FY 05</u>	<u>% Change</u>
<u>NET REVENUES:</u>			
Paying Patient Revenue	433,227,269	474,283,102	9.5%
Appropriations	23,413,561	32,389,270	38.3%
Net Patient Service Revenue	456,640,830	506,672,372	11.0%
Other Operating Revenue	7,748,938	12,629,899	63.0%
Total	464,389,768	519,302,271	11.8%
<u>EXPENSES:</u>			
Salaries and Wages	200,150,306	220,706,706	10.3%
Supplies and Contracts	127,957,656	145,925,949	14.0%
Purchased Services	71,967,619	76,619,581	6.5%
Bad Debts	13,962,454	18,017,085	29.0%
Depreciation	24,440,570	27,238,305	11.4%
Interest Expense	2,794,230	3,182,199	13.9%
Total	441,272,835	491,689,825	11.4%
Operating Margin	23,116,933	27,612,446	19.4%
Operating Margin %	5.0%	5.3%	6.8%
Non-Operating Revenue	16,457,083	17,695,301	7.5%
Net Income	39,574,016	45,307,747	14.5%

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 04</u>	<u>FY 05</u>	<u>% Change</u>
<u>NET REVENUE BY PAYOR:</u>			
Medicare	151,216,358	168,407,132	11.4%
Medicaid	61,630,796	68,046,216	10.4%
Managed Care	37,814,829	48,193,707	27.4%
Commercial Insurance	46,783,380	39,113,950	(16.4%)
Anthem	77,022,256	86,119,016	11.8%
Southern Health	22,161,569	25,971,813	17.2%
Tricare CHAMPUS	3,463,280	3,275,992	(5.4%)
Other	33,134,800	35,155,275	6.1%
Total Paying Patient Revenue	433,227,268	474,283,102	9.5%
Managed Care	37,814,829	48,193,707	27.4%
Non-Managed Care	395,412,439	426,089,395	7.8%
Total Paying Patient Revenue	433,227,268	474,283,102	9.5%
<u>OTHER:</u>			
Collection % of Gross Billings	67.00%	54.85%	(18.1%)
Days of Revenue in Receivables (Gross)	67.4	63.9	(5.2%)
Cost per CMI & OP-Adj Discharge	7,615	7,921	4.0%
Cost per CMI & OP-Adj Day	1,335	1,362	2.0%
Cost per Outpatient Visit	79.17	75.54	(4.6%)
Total F.T.E.'s (including Contract Labor)	5,566	5,918	6.3%
F.T.E.'s Per Adjusted Occupied Bed	7.43	7.67	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

MEDICAL CENTER

ACCOUNTS COMMITTEE REPORT

(Includes All Business Units)
(Dollars in Thousands)

	Year to Date	Annual Activity	
	Feb <u>2004-05</u>	Estimated <u>2004-05</u>	<u>2003-04</u>
<u>INDIGENT CARE (IC)</u>			
Net Charge Write-Off	54,181	85,627	72,953
Percentage of Net Write-Offs to Revenue	5.87%	6.65%	7.04%
Net Medical Center IC Charges Factored to Cost	25,278	44,239	43,276
Medicaid Unreimbursed Cost	0	0	0
Total Indigent Care Cost	25,278	44,239	43,276
State Allocation	20,171	32,293	31,701
Medicaid Disproportionate Share Adjustment Payment (Note 1)	4,081	10,105	9,787
Total Indigent Care Cost Funding	24,252	42,398	41,488
Total Indigent Care Cost Funding as % of Total Indigent Care Cost	96%	96%	96%
Unfunded Indigent Cost	1,027	1,845	1,787
		Annual Activity	
<u>BAD DEBT</u>		Estimated	
		<u>2004-05</u>	<u>2003-04</u>
Net Charge Write-Offs	18,017	26,599	21,376
Percentage of Net Write-Offs to Revenue	1.95%	2.07%	1.87%

Note:

Provisions for bad debt write-offs and indigent care write-offs are recorded for financial statement purposes based on the overall collectibility of the patient accounts receivable. These provisions differ from the actual write-offs of bad debts and indigent care which occur at the time an individual account is written off.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 12, 2005

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
PRE-CONSTRUCTION				
Clinical Office Building-Fontaine Ave. Planning and Design for 3rd floor fitout underway for Neurology & Digestive Health	\$ 16.75M	Bonds	Jan '03	Aug '05 (May '06 revised)
New Cancer Center - Facility space programming underway for consolidated and comprehensive Cancer Center on site of present West Parking Deck; Architect/Engineer selection completed.	\$55 M	Bonds and Outside Fundraising	Apr '04	2009
New Children's Hospital - Facility space programming complete; Currently awaiting completion of fundraising efforts before proceeding with detailed design work	\$48 M	Bonds and Outside Fundraising	Apr '04	TBD
University Hospital Additional Beds planning underway to increase inpatient bed capacity in University Hospital	\$25 M	TBD	TBD	TBD
Primary Care Center 1st Floor renovations to create new central registration hub; improve phlebotomy; and improve patient care services at main entrance; and relocate Medical Center Executive Offices	\$3.0 M	Medical Center Annual Capital Budget	TBD	Spring '06
UNDERCONSTRUCTION				
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. 14 new ORs completed; relocated Central Sterile Supply (CSS).	\$58.0 M (\$62.7 M-revised)	Bonds @ \$54 M (\$58.7 M - revised) Hospital Operating Revenues @ \$4 M	Mar '99	Sept '05 (May '06-revised)

Relocate Core Lab - Construction underway a facility to house core lab activities from Univ Hosp 2nd floor.	\$3.9 M	Bonds	Apr '04	Jan '05 (Feb '05 revised)
CONSTRUCTION COMPLETE				
NICU Expansion - Construction underway for major renovation of Univ Hosp 7th floor to accommodate an expanded Newborn Intensive Care Unit; construction for relocation of Pediatric Intensive Care Unit to Univ Hosp 7 West completed April 05.	\$3.8 M (\$5.05 M revised, incl. equip & furn)	Medical Center Annual Capital Budget and Outside Fundraising	Jan '03	Jan '06 (all phases)
Relocate University Medical Associates Clinic to 1222 JPA - Construction underway for complete renovation and fitout of 1222 JPA 3rd floor for UMA clinic; This project will provide other relocation opportunities and ultimate expansion of Heart Center clinics in Primary Care Center.	\$2.3 M	Medical Center Annual Capital Budget	Jan '03	Dec '04 (Jan '05 revised)

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: May 12, 2005

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.