

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
HEALTH AFFAIRS COMMITTEE
NOVEMBER 15, 2001**

HEALTH AFFAIRS COMMITTEE
Thursday, November 15, 2001
10:00 a.m. - 1:00 p.m.
Hospital Dining Conference Rooms 1,2,3

Committee Members:

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

AGENDA

	<u>PAGE</u>
I. REPORTS BY THE EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER (Mr. Sandridge)	
A. Vice President's Remarks	1
B. Physician Practice Organizations at Other Universities - Summary (Mr. Sandridge to introduce Mr. Harry J. G. van Beek and Mr. Marc Dettmann; Messrs. van Beek and Dettmann to report)	2
C. Performance Improvement Report (Mr. Sandridge to introduce Mr. William E. Carter; Mr. Carter to report)	3
D. Augusta Dialysis Follow-up Report	4
E. Recruitment and Retention Update (Mr. Sandridge to introduce Ms. Pamela Cipriano; Ms. Cipriano to report)	6
F. Medical Center Financial Report as of September 30, 2001 (Mr. Sandridge to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report)	7
G. Compliance Training (Mr. Sandridge to introduce Mr. Ralph Traylor; Mr. Traylor to conduct the training)	13
II. EXECUTIVE SESSION	
• Discussion of the appointment, assignment, performance, and evaluation of prospective candidates and specific individuals and departments which will also necessarily involve consideration of the performance of specific individuals, and discussion and evaluation of proprietary business information and patient base development strategies regarding a health care venture and affiliation, where disclosure would adversely affect the Medical Center's competitive position, and negotiation of	

reimbursement terms in future provider contracts for medical services. The relevant exemptions to the Virginia Freedom of Information Act are found in Sections 2.2-3711(A), (1), (8), (20) and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.A. Vice President's Remarks

ACTION REQUIRED: None

DISCUSSION: The Executive Vice President and Chief Operating Officer will inform the 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: November 15, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.B. Physician Practice Organizations
at Other Universities - Summary

ACTION REQUIRED: None

BACKGROUND: At the October 18, 2001, meeting of the Health Affairs Committee, officials of the University of Virginia Health Services Foundation (HSF), the physician practice plan of the faculty of the School of Medicine, made a presentation summarizing HSF's activities and reviewing its financial situation. During the discussion, a question was raised about how physician practice plans are organized at other universities. HSF representatives promised to make a presentation on this topic at a future Health Affairs Committee meeting.

DISCUSSION: Mr. Marc Dettmann, the Chief Executive Officer of the HSF, will discuss: (1) the characteristics of physician faculty practice plans which distinguish one plan from another, (2) the strengths and weaknesses of the types of plans, (3) the organizational trends from data covering all medical school plans over the last decade, (4) a recently published analysis of such plans, and (5) conclusions about HSF and future trends.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.C. Performance Improvement Report

ACTION REQUIRED: None

BACKGROUND: In January 2000, the Health System embarked on Phase II of its Performance Improvement initiative designed to enhance operational efficiency and revenue capture. Phase I, which ran from July to November 1999, involved an assessment by a health care consulting firm on the cost reduction and revenue enhancement opportunities within the Health System. The Analysis covered the institution's clinical operations and administrative support areas, as well as its revenue cycle and supply chain. The firm's findings were outlined to the Board of Visitors during an executive session at the November 17, 1999 Health Affairs Committee meeting.

DISCUSSION: Since the Board of Visitor's meeting in March 2001, the Performance Improvement Project has shifted its emphasis to revenue enhancement efforts. Discussion will focus on an overview of this project.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2001

COMMITTEE: Health Affairs

AGENDA ITEM: I.D. Augusta Dialysis Follow-Up Report

ACTION REQUIRED: None

BACKGROUND: In February 2000, the Board of Visitors approved the acquisition of Augusta Dialysis, a 4,790 square foot, sixteen-station outpatient dialysis treatment center. The purchase was completed in May 2000, and the first full year of operation concluded June 30, 2001.

The Medical Center sought this purchase as part of its overall strategy to expand this particular business line. Other dialysis facilities already owned or controlled by the Medical Center include those in Orange County and Zion's Crossroads.

DISCUSSION: As shown below, the income from net treatment revenue less direct expenses has well exceeded the pro forma. Even factoring in indirect expenses (which were not provided in the original analysis) demonstrates that this acquisition is performing according to plan. The negative variance in expenses between the first year actual and the re-stated pro forma is largely attributable to two factors: a) higher personnel costs associated with servicing a higher volume of patients; and b) providing more acute care than anticipated.

	Original Pro Forma	Re-Stated Pro Forma	1st Year Actual	Variance to Pro Forma
Net Treatment Revenue	\$2,243,321	\$2,116,571	\$3,807,894	\$1,691,323
Direct Expenses	\$1,537,388	\$1,537,388	\$2,086,529	(\$549,141)
Net Income Before Indirect Expenses	\$705,933	\$579,183	\$1,721,365	\$1,142,182
Indirect Expenses	Not provided	Not provided	\$1,135,813	(\$1,135,813)

Net Income (excl. Depr. And Amort.)	\$705,933	\$579,183	\$585,552	\$6,369
--	------------------	------------------	------------------	----------------

CONCLUSION: After one year, the decision to acquire Augusta Dialysis appears justified. Thus far the pro forma has sufficiently modeled the key business variables and actual results have met or exceeded the targets.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.E. Recruitment and Retention Update

ACTION REQUIRED: None

BACKGROUND: Maintaining a sufficient work force to provide maximum inpatient bed availability, and services to patients from across the globe in all settings is a top priority of the Medical Center. This is a challenge given work force shortages and increasing economic competition for these scarce resources.

DISCUSSION: Ms. Pamela Cipriano, Chief Clinical Officer, will provide periodic progress reports on recruitment, retention, recognition of staff, and bed availability issues. She will respond to questions following her presentation.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.F. Medical Center Financial Report
as of September 30, 2001

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial report and reviews it with the Executive Vice President and Chief Operating Officer before submitting the report to the Health Affairs Committee of the Board of Visitors.

DISCUSSION: The first quarter of Fiscal Year 2002 was not up to expectations. Overall, volume was below budget and labor cost was above budget. If these trends continue, financial performance in Fiscal Year 2002 will continue to be below expectations.

Adjusted discharges for Fiscal Year 2002 are below budget by 3.1 percent, and below Fiscal Year 2001 by .8 percent. A trend is evident in that inpatient gross revenue is below budget and outpatient gross revenue is above budget. This is significant to the Medical Center because inpatient volume is profitable and outpatient volume tends to not be profitable.

Net operating revenue for Fiscal Year 2002 is 5.0 percent below budget and 7.8 percent above prior year. The increase in revenue over prior year is primarily the result of the conversion of the outpatient clinics to provider-based clinics. This conversion occurred on August 1, 2000, so is not reflected in revenue for July 2000. In addition, gross charges for the Medical Center increased an average of 15 percent on July 1, 2001.

Total operating expenses for Fiscal Year 2002 are .6 percent below the \$141.8 million budget and 12.6 percent over prior year expenses. Salaries and wages are higher than both budget and prior year. Medical center contracts are higher than budget, but below prior year expenses.

Purchased services and supplies are higher than prior year, but below the Fiscal Year 2002 budget.

The number of full-time equivalent employees (FTEs) is 131 above budget and 549 above prior year. The increase in FTEs over prior year is the result of University and HSF employees transferring to the Medical Center's payroll and successful efforts to increase FTEs to permit the opening of more beds. Hospital and clinic FTEs were:

	<u>FY 2001</u>	<u>FY 2002</u>	<u>2002 Budget</u>
Hospital FTEs	4,370	4,800	4,688
Clinic FTEs	<u>325</u>	<u>444</u>	<u>425</u>
Total	4,695	5,244	5,113
Annualized			
Salary and Wage	\$39,305	\$42,212	\$41,150
Cost per FTE			

The salary and wage cost per FTE in Fiscal Year 2002 is higher than in the prior year because of several salary adjustments made during Fiscal Year 2001:

October 2000	Implemented enhanced shift differential program
November 2000	Holiday/premium pay adjustment Equity increases to market rates
January 2001	4 percent pay for performance increase
March 2001	Internal equity alignment increases for health care professionals

The operating margin for Fiscal Year 2002 is 1.6 percent, which is below both the budgeted margin of 6.0 percent and the prior year's 5.9 percent margin.

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

Description	Most Recent Three Fiscal Years			
	Audited Sept. 00	Audited Sept. 01	Unaudited Sept. 02	Budgeted Sept. 02
Net patient revenue	\$112.5	\$130.7	\$140.7	\$147.6
Other revenue	<u>2.5</u>	<u>2.2</u>	<u>2.5</u>	<u>3.2</u>
Total operating revenue	<u>\$115.0</u>	<u>\$132.9</u>	<u>\$143.2</u>	<u>\$150.8</u>
Operating expenses	101.8	116.1	131.2	131.8
Depreciation	7.5	7.8	8.5	8.8
Interest expense	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>
Total operating expenses	<u>\$110.5</u>	<u>\$125.1</u>	<u>\$140.9</u>	<u>\$141.8</u>
Operating income (loss)	<u>\$4.5</u>	<u>\$7.8</u>	<u>\$2.3</u>	<u>\$9.0</u>
Non-operating income (loss)	<u>\$2.0</u>	<u>\$1.5</u>	<u>(\$9.8)</u>	<u>\$2.3</u>
Net income (loss)	<u>\$6.5</u>	<u>\$9.3</u>	<u>(\$7.5)</u>	<u>\$11.3</u>
Debt principal	\$1.0	\$1.1	\$1.1	\$1.1

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

Description	Audited 9/30/1999	Audited 9/30/2000	Unaudited 9/30/2001
Assets			
Operating cash and investments	\$91.4	\$43.8	\$66.4
Patient accounts receivables	48.4	62.9	80.1
Other current assets	22.4	49.9	21.2
Property, plant and equipment	219.9	216.7	228.4
Depreciation reserve investments	138.4	157.9	169.6
Other assets	<u>17.9</u>	<u>18.0</u>	<u>12.3</u>
Total Assets	<u>\$538.4</u>	<u>\$549.2</u>	<u>\$578.0</u>
Liabilities			
Current portion long-term debt	\$3.8	\$4.1	\$4.2
Accounts payable & other liab	55.0	35.3	55.2
Long-term debt	93.0	93.2	88.7
Accrued leave and other LT liab	<u>12.2</u>	<u>13.8</u>	<u>18.6</u>
Total Liabilities	<u>\$164.0</u>	<u>\$146.4</u>	<u>\$166.7</u>
Fund Balance	<u>\$374.4</u>	<u>\$402.8</u>	<u>\$411.3</u>
Total Liabilities & Fund Balance	<u>\$538.4</u>	<u>\$549.2</u>	<u>\$578.0</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budgeted
	Audited Sept. 00	Audited Sept. 01	Unaudited Sept. 02	Sept. 02
Operating margin (%)	3.9%	5.9%	1.6%	6.0%
Total margin (%)	5.6%	6.9%	-5.6%	7.4%
Current ratio (x)	2.8	4.0	2.8	4.0
Days cash on hand (days)	210.0	162.5	168.1	190.0
Gross accounts receivable (days)	73.3	80.8	78.3	80.0
Average payment period (days)	52.5	30.9	41.3	30.6
Annual debt service coverage (x)	7.1	8.1	1.0	9.3
Debt-to-capitalization (%)	19.9%	18.8%	17.7%	20.0%
Capital expense (%)	7.9%	7.2%	6.9%	7.1%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budgeted Sept. 02
	Sept. 00	Sept. 01	Sept. 02	
Discharges	6,994	7,026	6,707	7,204
Patient days	36,508	37,866	38,179	39,333
Average length of stay	5.2	5.5	5.7	5.5
Clinic visits	120,198	124,439	126,574	128,803
ER visits	14,132	14,225	14,557	14,813
Medicare case mix index	1.7549	1.8928	1.8992	1.8586
Utilization by Payor Class				
Medicare %	37.1%	39.1%	39.5%	37.5%
Medicaid %	12.0%	14.1%	11.1%	10.9%
Blue Cross %	16.5%	14.9%	16.2%	13.6%
Managed care %	13.2%	13.7%	12.0%	11.5%
Self-pay, Commercial & other %	<u>21.3%</u>	<u>18.2%</u>	<u>21.1%</u>	<u>26.6%</u>
Total	100%	100%	100%	100%
FTE's	4,382	4,695	5,244	5,113

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.G. Compliance Training

ACTION REQUIRED: None

BACKGROUND: The University of Virginia Medical Center recently entered into a Corporate Compliance Agreement with the Office of Inspector General - U.S. Department of Health and Human Services. This agreement requires the training of staff and management of the University of Virginia Medical Center including the Health Affairs Committee of the Board of Visitors.

DISCUSSION: The training consists of an overview of the Corporate Compliance Agreement plus a review of the Compliance Code of Conduct of the University of Virginia Health System. Mr. Ralph Traylor, Interim Corporate Compliance Officer, will make the presentation. At the end of the presentation, members of the Health Affairs Committee will be asked to sign a training attestation form found in the back of the Compliance Code of Conduct booklet.