

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
December 5, 2002**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, December 5, 2002

12:30 - 3:15 p.m.

Medical Center Conference Dining Rooms 1, 2 and 3

Committee Members:

Edwin Darracott Vaughan, Jr. M.D., Chair
John P. Ackerly, III William H. Goodwin, Jr.
William G. Crutchfield, Jr. Katherine L. Smallwood, M.D.
Eugene V. Fife Elizabeth A. Twohy
John I. Gallin, M.D.

Ex Officio Members:

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

AGENDA

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I. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell)	
A. Vice President's Remarks	1
B. Finance and Operations (Mr. Larry Fitzgerald to report on Finance; Mr. Howell to report on Operations)	2
C. Capital Projects	11
II. REPORTS BY THE PRESIDENT OF THE CLINICAL STAFF OF THE MEDICAL CENTER (Dr. Beller)	
A. Elections of Clinical Staff Representatives to the Clinical Staff Executive Committee	14
B. Standing Committees of the Clinical Staff Executive Committee	15
III. COMPLIANCE TRAINING AND REPORT (Mr. Ralph Traylor)	

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 strategic redeployment and compensation of personnel, and discussion of the appointment, reassignment, performance and evaluation of specific employees of the Medical Center and the evaluation of performance of departments of the Medical Center that will necessarily include discussion of the performance of specific employees.

Discussion of proprietary business-related information pertaining to business development, marketing and fundraising for the Cancer Center and the Children's Medical Center of the University of Virginia Medical Center, disclosure of which would adversely affect the competitive position of the Medical Center.

Consultation with legal counsel on departments' performance in compliance with regulatory, licensing and accreditation requirements, which will necessarily involve discussion of the performance of individuals and include proprietary business-related information, disclosure of which would adversely affect the competitive position of the Medical Center.

The relevant exemptions to the Virginia Freedom of Information Act for all of these are provided for in Section 2.2-3711 (A) (1), (7), (8) and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 5, 2002

COMMITTEE: Medical Center Operating Board

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

ACTION REQUIRED: None

DISCUSSION: The Vice President and Chief Executive Officer of the Medical Center will inform the Medical Center Operating Board of recent events that do not require formal action, but of which it should be made aware.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 5, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.B. Finance and Operations

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial and operations report and reviews it with the Vice President and Chief Executive Officer before submitting the report to the Medical Center Operating Board. This report covers the first quarter of Fiscal Year 2003.

DISCUSSION:

FINANCE

Fiscal Year 2003 continues to surpass expectations with an operating margin that is above budget as of the end of the first quarter (i.e., September 30, 2002.) Total operating revenue is above budget, while expenses and full-time equivalent employees are below budget.

For Fiscal Year 2003, discharges are 2.4 percent below budget and 1.5 percent above prior year. Patient days are 2.6 percent below budget, and .8 percent below prior year. Length of stay is 5.5 days, which is below both budget and prior year. Discharges for several services, including TCV surgery and gynecology, are below prior year while discharges for pediatric surgery, neurosurgery and general surgery are above prior year. Outpatient visits are 2.7 percent above budget and 3.7 percent above prior year on an average daily visit basis. Same day patients are 14.8 percent above prior year.

Total operating revenue for Fiscal Year 2003 is 4.2 percent above budget and 10.4 percent above prior year. An average rate increase of 5 percent went into effect on July 1, 2002. Fiscal Year 2003 operating revenue also includes several prior year items identified through the revenue cycle process. The most significant of these is \$4.3 million in Electrophysiology Lab revenue not previously captured because of Medicare billing changes.

Total operating expenses for Fiscal Year 2003 are .2 percent below the \$145.9 million budget and 3.4 percent over prior year expenses. Salaries, wages and purchased services are below both budget and prior year expenses. Medical supplies are above both budget and prior year expenses.

The number of full-time equivalent employees (FTEs) is 158 below budget and 175 below prior year. Hospital and clinic FTEs are:

	<u>FY 2002</u>	<u>FY 2003</u>	<u>2003 Budget</u>
Hospital FTEs	4,792	4,559	4,700
Clinic FTEs	<u>435</u>	<u>493</u>	<u>510</u>
Total	5,227	5,052	5,210
Annualized			
Salary and Wage	\$42,350	\$43,440	\$42,705
Cost per FTE			

The Fiscal Year 2003 operating margin through September is 7.9 percent, which is above both the budgeted margin of 3.8 percent and the prior year's 1.6 percent margin.

OPERATIONS

For the first quarter of Fiscal Year 2003, labor expenses were .9 percent (158 FTEs) below budget, and 1.3 percent (175 FTEs) below the expenses for the first quarter of Fiscal Year 2002. On a volume-adjusted basis, labor dollars were 2.7 percent below budget. The cost of the traveler (contract) health care professionals was \$600 thousand for the first quarter of Fiscal Year 2003 versus \$2.4 million in the first quarter of Fiscal Year 2002, yet this area is 21 percent over budget for this fiscal year.

As reported previously, the Medical Center has adopted national benchmarking standards (HBSI) for operations and budget purposes. The standard of minimum performance for all areas (other than the Operating Room) is the HBSI 50th percentile, and some areas within the Medical Center were identified as not

being in compliance with these requirements. To facilitate our efforts to meet these standards without the necessity of employee lay-offs, Medical Center employees in positions eliminated under the HBSI standards have been and will continue to be offered positions that were included in the fiscal year 2003 budget but were vacant. As of November 6, 2002, sixty-eight employees were placed in the realignment program.

During the reassignment effort, we have made adjustments to the employee position control system to enhance its usefulness as a management tool. This system will become an increasingly important tool in our continuing effort to maintain the number of employees at a level consistent with management-established standards.

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

Description	Most Recent Three Fiscal Years			Budget/Target
	Sept 01	Sept 02	Sept 03	Sept 03
Net patient revenue	\$130.7	\$140.7	\$155.4	\$148.9
Other revenue	<u>2.2</u>	<u>2.5</u>	<u>2.7</u>	<u>2.8</u>
Total operating revenue	<u>\$132.9</u>	<u>\$143.2</u>	<u>\$158.1</u>	<u>\$151.7</u>
Operating expenses	116.1	131.2	135.7	135.1
Depreciation	7.8	8.5	8.7	9.6
Interest expense	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>
Total operating expenses	<u>\$125.1</u>	<u>\$140.9</u>	<u>\$145.6</u>	<u>\$145.9</u>
Operating income (loss)	<u>\$7.8</u>	<u>\$2.3</u>	<u>\$12.5</u>	<u>\$5.8</u>
Non-operating income (loss)	<u>\$1.5</u>	(<u>\$9.8</u>)	<u>\$3.1</u>	<u>\$2.6</u>
Net income (loss)	<u>\$9.3</u>	(<u>\$7.5</u>)	<u>\$15.6</u>	<u>\$8.4</u>
Principal payment	\$1.1	\$1.1	\$1.2	\$1.2

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

Description	9/30/2000	9/30/2001	9/30/2002
Assets			
Operating cash and investments	\$43.8	\$66.4	\$18.5
Patient accounts receivables	78.3	88.3	97.9
Other current assets	34.5	12.9	14.9
Property, plant and equipment	216.7	228.4	236.2
Depreciation reserve investments	157.9	169.7	205.5
Other assets	<u>18.0</u>	<u>12.3</u>	<u>12.3</u>
Total Assets	<u>\$549.2</u>	<u>\$578.0</u>	<u>\$585.3</u>
Liabilities			
Current portion long-term debt	\$4.1	\$4.3	\$4.5
Accounts payable & other liab	35.3	55.2	36.8
Long-term debt	93.2	88.7	85.2
Accrued leave and other LT liab	<u>13.8</u>	<u>18.5</u>	<u>19.3</u>
Total Liabilities	<u>\$146.4</u>	<u>\$166.7</u>	<u>\$145.8</u>
Fund Balance	<u>\$402.8</u>	<u>\$411.3</u>	<u>\$439.5</u>
Total Liabilities & Fund Balance	<u>\$549.2</u>	<u>\$578.0</u>	<u>\$585.3</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Sept 01	Sept 02	Sept 03	Sept 03
Operating margin (%)	5.9%	1.6%	7.9%	3.8%
Total margin (%)	6.9%	-5.6%	9.7%	5.4%
Current ratio (x)	4.0	2.8	3.2	4.0
Days cash on hand (days)	107.8	111.5	102.5	190.0
Gross accounts receivable (days)	80.7	78.3	69.8	60.0
Average payment period (days)	20.5	27.4	18.4	30.6
Annual debt service coverage (x)	8.1	1.0	10.9	8.2
Debt-to-capitalization (%)	18.8%	17.7%	16.2%	20.0%
Capital expense (%)	7.2%	6.9%	6.8%	7.4%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Sept 01	Sept 02	Sept 03	Sept 03
Discharges	7,026	6,704	6,803	6,972
Patient days	37,866	38,178	37,854	38,861
SS/PP Patients	1,468	1,813	2,081	1,583
Average length of stay	5.5	5.7	5.5	5.6
Clinic visits	124,439	127,522	134,530	131,028
ER visits	14,225	14,556	15,150	14,701
Medicare case mix index	1.8928	1.8757	1.8311	1.9558
Net Revenue by Payor				
Medicare %	39.1%	40.1%	37.1%	35.1%
Medicaid %	14.1%	12.7%	10.5%	10.5%
Blue Cross %	14.9%	16.7%	18.4%	16.8%
Managed care %	13.7%	13.5%	14.5%	13.5%
Self-pay, Commercial & other %	<u>18.2%</u>	<u>17.1%</u>	<u>19.4%</u>	<u>24.1%</u>
Total	100%	100%	100%	100%
FTE's	4,695	5,227	5,052	5,210

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 - September 30, 2002

OPERATING STATISTICAL MEASURES - September 2002

ADMISSIONS and CASE MIX - Year to Date

	FY 02	FY 03	% Change
ADMISSIONS:			
Surgical	2,394	2,509	4.8%
Medical	2,893	2,833	(2.1%)
Transplant	42	37	(11.9%)
Obstetrics	332	360	8.4%
Pediatrics	554	563	1.6%
Psychiatric	489	501	2.5%
Subtotal Acute	6,704	6,803	1.5%
Short Stay	1,813	2,081	14.8%
Total Admissions	8,517	8,884	4.3%
CASE MIX INDEX:			
All Acute Inpatients	1,6873	1,7281	2.4%
Medicare Inpatients	1,8757	1,8311	(2.4%)

OTHER INSTITUTIONAL MEASURES - Year to Date

	FY 02	FY 03	% Change
ACUTE INPATIENTS:			
Inpatient Days	38,178	37,854	(0.8%)
Average Length of Stay	5.7	5.5	(3.5%)
Average Daily Census	415	411	(1.0%)
Births	337	339	0.6%
OUTPATIENTS:			
Clinic Visits	127,522	134,530	5.5%
Average Daily Visits	2,255	2,339	3.7%
Emergency Room Visits	14,556	15,150	4.1%
SURGICAL CASES			
Inpatient	3,115	3,243	4.1%
Outpatient	668	602	(9.9%)
Total	3,783	3,845	1.6%

OPERATING FINANCIAL MEASURES - September 2002

REVENUES and EXPENSES - Year to Date

	FY 02	FY 03	% Change
NET REVENUES:			
Total Patient Rev.	131,936,243	146,614,308	11.1%
Appropriations	8,780,085	8,780,085	0.0%
Misc Revenue	2,506,556	2,696,386	7.6%
Total	143,222,884	158,090,779	10.4%
EXPENSES:			
Salaries and Wages	68,485,390	67,589,054	(1.3%)
Supplies and Contracts	35,387,800	39,848,698	12.6%
Purchased Services	23,386,665	22,820,606	(2.4%)
Bad Debts	3,928,474	5,453,501	38.8%
Depreciation	8,504,492	8,700,777	2.3%
Interest Expense	1,164,422	1,191,967	2.4%
Total	140,857,243	145,604,603	3.4%
Operating Margin	2,365,641	12,486,176	427.8%
Operating Margin %	1.6%	7.9%	393.6%
Non-Operating Revenue	(9,828,538)	3,121,770	(131.8%)
Net Income	(7,462,897)	15,607,946	(309.1%)

OTHER INSTITUTIONAL MEASURES - Year to Date

	FY 02	FY 03	% Change
NET REVENUE BY PAYOR:			
Medicare	53,610,185	44,196,929	(17.6%)
Medicaid	20,447,370	20,750,771	1.5%
Managed Care	9,793,534	7,405,664	(24.4%)
Commercial Insurance	13,589,375	17,103,170	25.9%
Other	34,495,779	57,157,774	65.7%
Total Paying Patient Rev.	131,936,243	146,614,308	11.1%
Managed Care	9,793,534	7,405,664	(24.4%)
Non-Managed Care	122,142,709	139,208,644	14.0%
Total Paying Patient Rev.	131,936,243	146,614,308	11.1%
OTHER:			
Collection % of Gross Billings	73.02%	65.57%	(10.2%)
Days of Revenue in Receivables (Gross)	78.3	69.8	(10.9%)
Cost per CMI & OP-Adj Discharge	6,986	6,866	(1.7%)
Cost per CMI & OP-Adj Day	1,227	1,234	0.6%
Cost per Outpatient Visit	67.95	72.04	6.0%
Total F.T.E.'s	5,227	5,052	(3.3%)
F.T.E.'s Per Adjusted Occupied Bed	7.85	7.21	(8.2%)

Assumptions - Operating Statistical Measures

Admissions and Case Mix Assumptions

Admissions include all admissions except normal newborns
Pediatric surgery cases are included in Pediatrics admissions
Obstetrics surgery cases are included in Obstetrics admissions
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
Outpatient surgical cases do not include those performed at VASC

Assumptions - Operating Financial Measures

Revenues and Expenses Assumptions:

Medicaid out of state is included in Medicaid
Medicaid HMOs are included in Medicaid
Physician portion of DSH is included in Other
Trigon is included in Other
Non-recurring revenue is included

Other Institutional Measures Assumptions

Collection % of Gross Billings includes appropriations
Days of Revenue in Receivables (Gross) is the BOV definition
Cost per CMI & OP-Adj Discharge and Day uses Medicare CMI to adjust
Costs for Cost per Outpatient Visit come from clinic income statement
OP visits used in calculation of Cost per Outpatient Visit are provider based clinic visits only
FTEs are Medical Center FTEs only, does not include contract labor FTEs

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 5, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: I.C. Capital Projects Report

ACTION REQUIRED: None

BACKGROUND: The Medical Center is constantly improving and renovating its facilities. We will provide a status report of these capital projects at each Medical Center Operating Board meeting.

DISCUSSION: The current Medical Center capital projects report is set forth in the following table.

ATTACHMENT

**The University of Virginia Medical Center
Capital Projects Report**

Scope	Budget	Funding Source	BOV Approval Date	Projected Completion Date
PRE-CONSTRUCTION				
Hospital Expansion Project-horizantal 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	\$58 M	Bonds @ \$54 M Hospital Operating Revenues @ \$4 M	March '99	Sept '05 (Dec '05 - revised)
Breast Care Center-renovate 7,200 sq. ft. for a new Breast Care Center that combines breast imaging and breast cancer therapy	\$1.4 M	Bonds	Oct '00	April '03 (May '03-revised)

Cancer Center- Infusion Center - expand existing outpatient cancer center clinic and infusion center.	\$1.25 M	Bonds	Jan '02	March '03 (Dec '03- revised)
South Garage Expansion - provide 419 additional parking spaces to replace those lost by construction, potential loss of a leased lot and for reserved parking expansion.	\$8.5 M	Bonds	Oct '00	May '04
UNDER CONSTRUCTION				
Critical Care Unit Expansion - additional 9 beds to the MICU, TCV- PO and STICU in University Hospital	\$3.25 M	Medical Center Annual Capital Budget	Oct '00	March '03 (Dec '03- revised)
Clinical Office Building - Fontaine - provide space for additional imaging and clinical care, including consolidation of the Endocrinology Clinic and Otolaryngology Clinic.	\$16.75 M	Bonds	Jan '02	June '03 (Shell, Imaging & Endocrinology) Oct '03 (Otolaryngology)

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 5, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.A. Elections of the Clinical Staff
Representatives to the Clinical Staff
Executive Committee

ACTION REQUIRED: None

BACKGROUND: Elections of four (4) representatives from the Clinical Staff to the Clinical Staff Executive Committee were held in October. This report discusses the results of the election.

DISCUSSION: The Bylaws of the Clinical Staff of the University of Virginia Medical Center were amended in September to create the Clinical Staff Executive Committee to serve as the executive committee of the Clinical Staff and oversee the quality of the clinical care delivered within the Medical Center, delineate and adopt clinical policy within the Medical Center and serve as the liaison between the Clinical Staff and the Medical Center Operating Board.

The membership of the Clinical Staff Executive Committee is set forth in the Amended and Restated Clinical Staff Bylaws and includes four (4) active members of the Clinical Staff who are elected by the Clinical Staff for a term of three (3) years each. The following individuals were elected in October:

- Primary Care Representative: Mohan Nadkarni, M.D.
- Medical Specialties Representative: Robert S. Gibson, M.D.
- Surgical Representative: David R. Diduch, M.D.
- Hospital-Based Representative: Paul D. Mintz, M.D.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 5, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.B. Standing Committees of the Clinical Staff Executive Committee

ACTION REQUIRED: None

BACKGROUND: The Clinical Staff Executive Committee of the Medical Center is establishing certain Clinical Staff Standing Committees that will report to the Clinical Staff Executive Committee.

DISCUSSION: The Amended and Restated Bylaws of the Clinical Staff of the University of Virginia Medical Center, effective September 19, 2002, provide for a Bylaws Committee, a Credentials Committee, a Nominating Committee and such other Standing Committees as the Clinical Staff Executive Committee may designate from time to time.

The Clinical Staff Executive Committee will meet on November 26, 2002 and intends to designate the Clinical Staff Standing Committees at that time. Dr. George Beller, President of the Clinical Staff, will report on the decisions of the Clinical Staff Executive Committee.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: December 5, 2002

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: III. Compliance Training and Report

ACTION REQUIRED: None

BACKGROUND: On September 13, 2002, The University of Virginia Medical Center began the second year of a Corporate Compliance Agreement with the Office of Inspector General - U.S. Department of Health and Human Services. This Agreement requires the annual training of staff and management of the University of Virginia Medical Center, including the Medical Center Operating Board of the Board of Visitors.

DISCUSSION: The mandatory training reviews the Corporate Compliance Agreement, highlights changes to the Compliance Code of Conduct, and emphasizes significant compliance policies and regulatory initiatives. Mr. Ralph Traylor, Corporate Compliance Officer, will make the presentation. At the end of the training, each Medical Center Operating Board member will be asked to sign an attestation of compliance training. In addition, Mr. Traylor will update the Medical Center Operating Board on the completion of the first year of the Corporate Compliance Agreement.