

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
MEDICAL CENTER
OPERATING BOARD
March 13, 2003**

UNIVERSITY OF VIRGINIA
MEDICAL CENTER OPERATING BOARD

Thursday, March 13, 2003

2:00 - 4:00 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

	<u>PAGE</u>
I. REPORTS BY THE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MEDICAL CENTER (Mr. Howell)	
A. Vice President's Remarks	1
B. Finance, Write-offs and Operations (Mr. Larry Fitzgerald to report on Finance and Write-offs; 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. Clinical Staff President's Remarks	14
B. Access Mini Grants (Dr. Beller to introduce Dr. Jonathon D. Truwit; Dr. Truwit to report)	15

III. EXECUTIVE SESSION

- ACTION ITEM - To consider proposed personnel actions regarding the appointment, reappointment, resignation, assignment, performance, and credentialing of specific medical staff and health care professionals, as provided for in Section 2.2-3711 (A) (1) of the Code of Virginia.
- Discussion of proprietary, business-related information pertaining to 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, disclosure of which would adversely affect the competitive position of the Medical Center.

Discussion of proprietary, business-related contract negotiations regarding Nutrition and Environmental Services procurement, and the Medical Center's existing purchasing contractual relationship with Novation, disclosure of which would adversely affect the competitive position of the Medical Center.

Consultation with legal counsel on both pending and threatened litigation and compliance with regulatory, licensing and accreditation requirements, which will also 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.

Discussion of proprietary, business-related information pertaining to the operations of the Medical Center, involving strategic and business development initiatives with the School of Medicine, 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), (6), (7), and (23) of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: March 13, 2003

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: March 13, 2003

COMMITTEE: Medical Center Operating Board

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

ACTION REQUIRED: None

BACKGROUND: The Medical Center prepares a financial and operations report, including write-offs of bad debt and indigent care, and reviews it with the Executive Vice President and Chief Operating Officer before submitting the report to the Medical Center Operating Board of the Board of Visitors.

DISCUSSION:

FINANCE

Fiscal Year 2003 continues to surpass expectations with an operating margin which is above budget. Total operating revenue is above budget, while expenses and full-time equivalent employees are below budget.

Through December 2002, admissions are 2.6 percent below budget and .4 percent above prior year. Patient days are 2.7 percent below budget, and 1.1 percent above prior year. Length of stay is 5.7 days, which is above both budget and prior year. Admissions for neurosurgery and general surgery are above prior year, while admissions for orthopaedics and transplant are below prior year. Outpatient visits are 2.9 percent below budget and 1.7 percent above prior year on an average daily visit basis. Same day patients are 6.0 percent above prior year.

Total operating revenue for the first six months of Fiscal Year 2003 is 3.6 percent above budget and 7.1 percent above prior year. An average rate increase of 5 percent went into effect on July 1, 2002. Total operating revenue also includes several non-recurring transactions. Fiscal Year 2003 net operating revenue includes \$2.5 million related to services provided in Fiscal Year 2002. Fiscal Year 2002 net operating revenue includes \$1.4 million for Fiscal Years 1993 and 1995 Medicare disproportionate share (DSH) settlements.

Total operating expenses for Fiscal Year 2003 are .1 percent below the \$292.8 million budget and .4 percent above prior year expenses. Salaries and wages and purchased services are below both budget and prior year expenses. Supplies and contracts are above both budget and prior year expenses.

The number of full-time equivalent employees (FTEs) is 210 below budget and 269 below prior year. Hospital and clinic FTEs are:

	<u>FY 2002</u>	<u>FY 2003</u>	<u>2003 Budget</u>
Hospital FTEs	4,825	4,520	4,727
Clinic FTEs	<u>448</u>	<u>521</u>	<u>487</u>
Total	5,273	5,004	5,214
Annualized			
Salary and Wage	\$42,550	\$43,482	\$42,731
Cost per FTE			

The Fiscal Year 2003 operating margin is 6.6 percent, which is above both the budgeted margin of 3.2 percent and the prior year's 0.4 percent margin.

WRITE-OFF OF BAD DEBITS AND INDIGENT CARE

Indigent care charges totaling \$37.3 million for the period July 1, 2002, through December 31, 2002, have been written off. Recoveries during this period amounted to \$4.1 million.

The estimated cost of indigent care in Fiscal Year 2002 amounted to \$47.3 million of which 86% was funded through the Medicaid special disproportionate share payments. The cost of indigent care for Fiscal Year 2003 is estimated to be \$52.9 million, of which 77% will be funded through the Medicaid special disproportionate share payments.

Bad debt charges totaling \$17.5 million for the first half of Fiscal Year 2003 have been written off. During this same period, \$5.5 million was recovered through suits, collection agencies, and Virginia refund set-off.

OPERATIONS

For the first six months of Fiscal Year 2003, labor expenses were 2.2 percent (210 FTEs) below budget, and 3.6 percent (269 FTEs) below the expenses for the first six months of Fiscal Year 2002. On a volume-adjusted basis, labor dollars were 1.8 percent below budget. The cost of the traveler (contract) health care professionals was \$1.3 million for the first six months of Fiscal Year 2003 versus \$4.5 million in the first six months of Fiscal Year 2002. While significantly below prior year, traveler expenses are \$400 thousand over budget for this Fiscal Year, mostly because of unanticipated use of contract labor by Radiology. The Medical Center has adopted a number of processes and standards to manage expenses more efficiently, and we believe their effectiveness was shown in the financial performance for the first six months of Fiscal Year 2003.

The Medical Center is experiencing increases in costs from technology advances such as drug-eluting stents for cardiology patients. This is a trend that is likely to continue. Most of our managed care contracts include provisions for price increases related to technology changes. However, Medicare and Medicaid payment metrics have always been slow to recognize such changes.

We have been advised that health care costs to the Medical Center for Medical Center employees will increase approximately 25 percent effective January 1, 2003. This is a nationwide trend, but it represents an unanticipated increase in expense to the Medical Center. We will consider some changes to our employee health benefit program to help mitigate the impact of the increased costs.

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

Description	Most Recent Three Fiscal Years			Budget/Target
	Dec FY01	Dec FY02	Dec FY03	Dec FY03
Net patient revenue	\$263.7	\$286.1	\$306.3	\$296.9
Other revenue	<u>4.2</u>	<u>6.4</u>	<u>7.0</u>	<u>5.5</u>
Total operating revenue	<u>\$267.9</u>	<u>\$292.5</u>	<u>\$313.3</u>	<u>\$302.4</u>
Operating expenses	239.1	271.8	272.9	271.1
Depreciation	16.0	17.1	17.4	19.3
Interest expense	<u>2.4</u>	<u>2.3</u>	<u>2.2</u>	<u>2.4</u>
Total operating expenses	<u>\$257.5</u>	<u>\$291.2</u>	<u>\$292.5</u>	<u>\$292.8</u>
Operating income (loss)	<u>\$10.4</u>	<u>\$1.3</u>	<u>\$20.8</u>	<u>\$9.6</u>
Non-operating income (loss)	<u>\$3.7</u>	(\$7.0)	<u>\$4.9</u>	<u>\$5.2</u>
Net income (loss)	<u>\$14.1</u>	(\$5.7)	<u>\$25.7</u>	<u>\$14.8</u>
Principal payment	\$2.1	\$2.2	\$2.3	\$2.3

Note: Net patient revenue includes the following non-recurring items:

- FY03 includes \$2.5 million net impact of services rendered in FY02.
- FY02 includes \$1.4 million net impact for 1993 and 1995 Medicare DSH settlements

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

Description	Most Recent Three Fiscal Years		
	Dec FY01	Dec FY02	Dec FY03
Assets			
Operating cash and investments	\$56.8	\$32.6	\$65.8
Patient accounts receivables	84.2	81.2	76.6
Property, plant and equipment	225.3	230.4	242.6
Depreciation reserve investments	172.2	184.1	207.3
Other assets	<u>18.9</u>	<u>37.8</u>	<u>18.8</u>
Total Assets	<u>\$557.4</u>	<u>\$566.1</u>	<u>\$611.1</u>
Liabilities			
Current portion long-term debt	\$4.0	\$4.2	\$4.5
Accounts payable & other liab	39.2	42.9	51.6
Long-term debt	93.2	88.7	87.9
Accrued leave and other LT liab	<u>13.1</u>	<u>17.2</u>	<u>17.5</u>
Total Liabilities	<u>\$149.5</u>	<u>\$153.0</u>	<u>\$161.5</u>
Fund Balance	<u>\$407.9</u>	<u>\$413.1</u>	<u>\$449.6</u>
Total Liabilities & Fund Balance	<u>\$557.4</u>	<u>\$566.1</u>	<u>\$611.1</u>

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budget/Target
	Dec FY01	Dec FY02	Dec FY03	Dec FY03
Operating margin (%)	3.9%	0.4%	6.6%	3.2%
Total margin (%)	5.2%	-2.0%	8.1%	4.8%
Current ratio (x)	3.3	2.4	2.5	4.0
Days cash on hand (days)	178.7	149.4	186.8	190.0
Gross accounts receivable (days)	84.3	73.6	68.4	60.0
Average payment period (days)	32.9	31.6	37.5	30.6
Annual debt service coverage (x)	7.2	3.0	10.1	7.8
Debt-to-capitalization (%)	18.6%	17.7%	16.4%	20.0%
Capital expense (%)	7.1%	6.7%	6.7%	7.4%

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budget/Target
	Dec FY01	Dec FY02	Dec FY03	Dec FY03
Admissions	13,728	13,363	13,413	13,770
Patient days	75,489	74,685	75,527	77,657
SS/PP Patients	3,005	3,792	4,020	3,029
Average length of stay	5.6	5.6	5.7	5.6
Clinic visits	247,926	258,354	264,737	273,730
ER visits	27,815	29,112	28,960	28,828
Medicare case mix index	1.9093	1.8851	1.8988	1.9362
Net Revenue by Payor				
Medicare %	37.5%	38.9%	36.0%	36.0%
Medicaid %	14.4%	13.1%	12.3%	11.7%
Managed care %	7.0%	6.3%	6.0%	6.1%
Commercial %	9.3%	9.5%	10.6%	9.8%
Other	<u>31.8%</u>	<u>32.1%</u>	<u>35.1%</u>	<u>36.4%</u>
Total	100%	100%	100%	100%
FTE's	4,809	5,273	5,004	5,214

University of Virginia Medical Center
SUMMARY OF OPERATING STATISTICS AND FINANCIAL PERFORMANCE MEASURES
 Fiscal Year to Date with Comparative Figures for Prior Year to Date - December 31, 2002

OPERATING STATISTICAL MEASURES - December 2002

ADMISSIONS and CASE MIX - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
ADMISSIONS:			
Surgical	4,786	5,154	7.7%
Medical	5,705	5,413	(5.1%)
Transplant	85	68	(20.0%)
Obstetrics	724	727	0.4%
Pediatrics	1,097	1,103	0.5%
Psychiatric	966	948	(1.9%)
Subtotal Acute	13,363	13,413	0.4%
Short Stay	3,792	4,020	6.0%
Total Admissions	17,155	17,433	1.6%
CASE MIX INDEX:			
All Acute Inpatients	1.6870	1.7381	3.0%
Medicare Inpatients	1.8851	1.8988	0.7%

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
ACUTE INPATIENTS:			
Inpatient Days	74,685	75,527	1.1%
Average Length of Stay	5.6	5.7	1.8%
Average Daily Census	406	410	1.0%
Births	654	688	5.2%
OUTPATIENTS:			
Clinic Visits	258,354	264,737	2.5%
Average Daily Visits	2,300	2,340	1.7%
Emergency Room Visits	29,112	28,960	(0.5%)
SURGICAL CASES			
Inpatient	6,177	6,326	2.4%
Outpatient	1,334	1,223	(8.3%)
Total	7,511	7,549	0.5%

OPERATING FINANCIAL MEASURES - December 2002

REVENUES and EXPENSES - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
NET REVENUES:			
Total Patient Rev.	268,503,061	288,691,600	7.5%
Appropriations	17,560,170	17,560,170	0.0%
Misc Revenue	6,431,000	7,004,662	8.9%
Total	292,494,230	313,256,431	7.1%
EXPENSES:			
Salaries and Wages	138,610,994	133,617,351	(3.6%)
Supplies and Contracts	74,826,081	82,127,228	9.8%
Purchased Services	49,069,368	45,436,098	(7.4%)
Bad Debts	9,304,439	11,678,249	25.5%
Depreciation	17,069,733	17,351,498	1.7%
Interest Expense	2,330,294	2,247,815	(3.5%)
Total	291,210,909	292,458,239	0.4%
Operating Margin	1,283,321	20,798,192	1520.7%
Operating Margin %	0.4%	6.6%	1413.2%
Non-Operating Revenue	(6,996,734)	4,903,337	(170.1%)
Net Income	(5,713,413)	25,701,529	(549.8%)

OTHER INSTITUTIONAL MEASURES - Year to Date

	<u>FY 02</u>	<u>FY 03</u>	<u>% Change</u>
NET REVENUE BY PAYOR:			
Medicare	104,366,766	103,959,570	(0.4%)
Medicaid	35,290,828	35,481,821	0.5%
Managed Care	17,019,728	17,297,762	1.6%
Commercial Insurance	25,514,404	30,692,716	20.3%
Blue Cross	37,798,674	45,677,278	20.8%
Southern Health	12,006,543	14,063,370	17.1%
Tricare CHAMPUS	2,565,800	3,939,125	53.5%
Continuum	2,274,880	2,670,215	17.4%
Other	31,665,438	34,909,743	10.2%
Total Paying Patient Rev.	268,503,061	288,691,600	7.5%
Managed Care	17,019,728	17,297,762	1.6%
Non-Managed Care	251,483,333	271,393,838	7.9%
Total Paying Patient Rev.	268,503,061	288,691,600	7.5%
OTHER:			
Collection % of Gross Billings	73.08%	65.47%	(10.4%)
Days of Revenue in Receivables (Gross)	71.6	70.5	(1.5%)
Cost per CMI & OP-Adj Discharge	7,085	6,856	(3.2%)
Cost per CMI & OP-Adj Day	1,268	1,218	(4.0%)
Cost per Outpatient Visit	68.10	70.98	4.2%
Total F.T.E.'s	5,273	5,004	(5.1%)
F.T.E.'s Per Adjusted Occupied Bed	7.96	7.28	(8.5%)

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: March 13, 2003

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				
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				
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	\$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)
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: March 13, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.A. Clinical Staff President's Remarks

ACTION REQUIRED: None

DISCUSSION: The President of the Clinical Staff of the Medical Center will inform the Medical Center Operating Board of recent events regarding the Clinical Staff, of which the Medical Center Operating Board should be made aware, but which do not require formal action.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: March 13, 2003

COMMITTEE: Medical Center Operating Board

AGENDA ITEM: II.B. Access Mini Grants

ACTION REQUIRED: None

BACKGROUND: The Medical Center and the School of Medicine are funding certain mini grants for clinical faculty to be used to improve clinical access.

DISCUSSION: Dr. Jonathon D. Truwit, Associate Dean for Clinical Affairs, will report on the 12 awarded mini grants designed to improve clinical access to the Medical Center and its clinics. The Medical Center and the School of Medicine are jointly funding the access mini grants for a total cost of \$510,000.