

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
HEALTH AFFAIRS COMMITTEE
SEPTEMBER 11, 2001**

HEALTH AFFAIRS COMMITTEE

Tuesday, September 11, 2001
10:00 a.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. Health Care Professional Workforce (Mr. Sandridge to introduce Ms. Pamela Cipriano; Ms. Cipriano to report) | 1 |
| B. Medical Center Financial Report as of June 30, 2001 (Mr. Sandridge to introduce Mr. Larry Fitzgerald; Mr. Fitzgerald to report) | 2 |
| II. EXECUTIVE SESSION | |
| Discussion of the appointment, assignment, performance and evaluation of prospective candidates and specific Medical Center employees and departments which will also necessarily involve consideration of the performance of specific employees; as well as proprietary business information and development strategies where disclosure at this time would be detrimental to the competitive position of the Medical Center. | |
| An evaluation of a possible investment in a health-care joint venture providing specialized therapies. | |
| Consideration of the status of contract negotiations with legal counsel regarding sale of University interests in a managed care joint venture, involving consideration of personnel and proprietary business data of the Medical Center where public disclosure at this time would adversely affect the Medical Center's competitive position. | |

Consideration with legal counsel of Medical Center departments' compliance with legal regulatory and licensing requirements which will also necessarily involve discussion of the performance of specific individuals.

Evaluation of cost estimates for proposed purchase or lease of major equipment.

The relevant exemptions to the Virginia Freedom of Information Act are authorized in Sections 2.1-344 (A) (1), (5), (6), (7), (8) and (23) and Section 11-52 of the Code of Virginia.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.A. Health Care Professional Workforce

BACKGROUND: A top priority of the Medical Center is to maximize use of inpatient beds. This requires recruitment of additional staff to re-open beds that have been closed because of renovation or staff shortages. It also involves maintaining an appropriate complement of staff in support departments. Nationwide personnel shortages in the health professions continue to increase competition for recruitment and retention, which means higher expenses for the same work force.

DISCUSSION: Ms. Pam Cipriano, Chief Clinical Officer, will discuss the current status of the clinical work force, and give a progress report on recruitment, retention, and recognition of the staff. She also will address bed availability and patient flow issues.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2001

COMMITTEE: Health Affairs Committee

AGENDA ITEM: I.B. University of Virginia Medical Center
Financial Report as of June 30, 2001

BACKGROUND: The Medical Center prepares a financial report and reviews it with the Executive Vice President and Chief Operating Officer before submitting it to the Health Affairs Committee of the Board of Visitors. The Health Services Foundation (HSF) prepares and presents financial statements to the Vice President and Provost for the Health System.

OVERALL DISCUSSION: Overall the financial statements reflect a series of broad operational issues such as the following:

- The patient discharge figures declined in Fiscal Year 2001 as compared to Fiscal Year 2000 by 1.9 percent because fewer beds were available as a result of the nursing shortage. In order to maintain a safe ratio of nursing personnel to staff beds, especially intensive care beds, the Medical Center closed beds during Fiscal Year 2001. Progress toward opening beds, however, has been made: adult beds averaged 374 in December 2000, and averaged 399 in June 2001.
- Personnel costs including contract labor, which accounted for 55 percent of the Medical Center's operating expenses in Fiscal Year 2001, increased in a number of ways associated with the nursing shortage. The rate of pay increased above what was budgeted. The overtime pay in Fiscal Year 2001 was 37 percent (\$1.7 million) above Fiscal Year 2000 spending. The contracted labor cost was 36 percent (\$5.7 million) above budget, primarily because of the use of traveling nurses. The Medical Center was forced to retain these expensive traveling nurses to keep as many beds open as possible.
- Supply cost increased primarily because of the increase in pharmaceutical costs and growth in surgery admissions.

These broad operational issues are affecting all hospitals across the country in varying degrees. The total reduction to operating income directly related to the caregiver shortage was over \$10 million in Fiscal Year 2001.

DETAILED DISCUSSION: Discharges from the Medical Center for Fiscal Year 2001 were below budget by 2.2 percent, and below Fiscal Year 2000 by 1.9 percent. The Psychiatry and Surgery service lines experienced the most significant increases in discharges over last year, while the Neurology and Pediatrics service lines experienced the most significant decline in discharges. Patient days were .5 percent below budget and .2 percent above prior year. Average length of stay and case mix index were both higher than budget and higher than prior year.

Net operating revenue for Fiscal Year 2001 was 4.3 percent above budget and 11.6 percent above prior year. The increases in revenue were primarily the result of lower indigent care write-offs, the conversion of the outpatient clinics to provider based entities, the increase of the case mix index and the opening of the Augusta Dialysis Center.

Total operating expenses for Fiscal Year 2001 were 6.6 percent over the \$503.9 million budget and 13.7 percent over prior year expenses. Salaries and wages, Medical Center contracts, supplies (medical and other) and purchased services were higher than budget and higher than prior year.

The number of full-time equivalent employees (FTEs) was 158 above budget and 554 above prior year. The increase in salaries and FTEs over the prior year was primarily the result of University and Health Services Foundation employees transferring to the Medical Center's payroll with the conversion to provider-based clinics in Fiscal Year 2001. Hospital and clinic FTEs were:

	<u>FY 2000</u>	<u>FY 2001</u>	<u>2001 Budget</u>
Hospital FTEs	4,322	4,600	4,473
Clinic FTEs	102	378	347
Total	<u>4,424</u>	<u>4,978</u>	<u>4,820</u>
Annualized			
Salary and Wage	\$38,059	\$40,337	\$39,164
Cost per FTE			

The salary and wage cost per FTE increased because of salary adjustments made in:

July 2000	Retention and recruitment bonus
September 2000	Minimum wage range adjustment
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

Medical Center contracts were above budget primarily because of payments to physicians for medical direction being greater than budgeted. The higher cost of pharmaceuticals was a contributing factor to the increased medical supplies expense. Pharmaceuticals expense for Fiscal Year 2001 was \$6.0 million (16.7 percent) higher than prior year. Filling nursing vacancies by contracting with traveling nurses was a contributing factor to the increased purchased services expense. Traveler's expense was \$3.0 million (70 percent) higher than prior year.

The operating margin for Fiscal Year 2001 was 2.7 percent, which was below the budgeted margin of 4.7 percent and the prior year's 4.5 percent margin.

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

Description	Most Recent Three Fiscal Years			
	Audited June 99	Audited June 00	Unaudited June 01	Budgeted June 01
Net patient revenue	\$459.0	\$476.2	\$538.0	\$517.3
Other revenue	<u>20.6</u>	<u>17.8</u>	<u>13.5</u>	<u>11.6</u>
Total operating revenue	<u>\$479.6</u>	<u>\$494.0</u>	<u>\$551.5</u>	<u>\$528.9</u>
Operating expenses	433.1	436.3	497.7	465.2
Depreciation	30.9	30.8	34.3	33.9
Interest expense	<u>5.5</u>	<u>4.9</u>	<u>4.8</u>	<u>4.8</u>
Total operating expenses	<u>\$469.5</u>	<u>\$472.0</u>	<u>\$536.8</u>	<u>\$503.9</u>
Operating income (loss)	<u>\$10.1</u>	<u>\$22.0</u>	<u>\$14.7</u>	<u>\$25.0</u>
Non-operating income (loss)	<u>(\$4.4)</u>	<u>\$2.9</u>	<u>\$6.8</u>	<u>\$5.5</u>
Net income (loss)	<u>\$5.7</u>	<u>\$24.9</u>	<u>\$21.5</u>	<u>\$30.5</u>
Debt principal	\$3.6	\$3.8	\$4.2	\$4.2

Note: Fiscal Year 2000 numbers have been adjusted from what was reported at the September 2000 Board meeting to take into account the audit adjustments made by the Auditor of Public Accounts.

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

Description	Audited 6/30/1999	Audited 6/30/2000	<u>Unaudited</u> 6/30/2001
Assets			
Operating cash and investments	\$59.3	\$61.9	\$34.5
Patient accounts receivables	48.4	52.7	74.2
Other current assets	32.9	29.6	38.6
Property, plant and equipment	216.0	219.2	230.3
Depreciation reserve investments	143.0	155.7	172.7
Other assets	<u>11.0</u>	<u>18.4</u>	<u>17.7</u>
Total Assets	<u>\$510.6</u>	<u>\$537.5</u>	<u>\$568.0</u>
Liabilities			
Current portion long-term debt	\$3.8	\$4.2	\$4.4
Accounts payable & other liab	32.5	32.9	41.5
Long-term debt	93.0	93.2	88.7
Accrued leave and other LT liab	<u>12.5</u>	<u>13.5</u>	<u>18.3</u>
Total Liabilities	<u>\$141.8</u>	<u>\$143.8</u>	<u>\$152.9</u>
Fund Balance	<u>\$368.8</u>	<u>\$393.7</u>	<u>\$415.1</u>
Total Liabilities & Fund Balance	<u>\$510.6</u>	<u>\$537.5</u>	<u>\$568.0</u>

Note: Fiscal Year 2000 numbers have been adjusted from what was reported at the September 2000 Board meeting to take into account the audit adjustments made by the Auditor of Public Accounts.

University of Virginia Medical Center
Financial Ratios

Description	Most Recent Three Fiscal Years			Budgeted
	Audited June 99	Audited June 00	Unaudited June 01	June 01
Operating margin (%)	2.1%	4.5%	2.7%	4.7%
Total margin (%)	1.2%	5.0%	3.9%	5.7%
Current ratio (x)	3.9	3.9	3.2	4.0
Days cash on hand (days)	172.7	185.1	154.7	190.0
Gross accounts receivable (days)	71.3	71.2	76.5	80.0
Average payment period (days)	30.2	30.8	33.3	30.6
Annual debt service coverage (x)	4.6	7.0	6.7	7.7
Debt-to-capitalization (%)	20.1%	19.1%	17.6%	20.0%
Capital expense (%)	7.8%	7.6%	7.3%	7.7%

Note: Fiscal Year 2000 numbers have been adjusted from what was reported at the September 2000 Board meeting to take into account audit adjustments made by the Auditor of Public Accounts.

University of Virginia Medical Center
Operating Statistics

Description	Most Recent Three Fiscal Years			Budgeted June 01
	June 99	June 00	June 01	
Discharges	28,992	28,214	27,676	28,285
Patient days	154,500	149,861	150,150	150,861
Average length of stay	5.4	5.3	5.5	5.3
Clinic visits	473,997	499,441	510,837	509,177
ER visits	57,711	57,239	56,688	56,504
Medicare case mix index	1.8372	1.8000	1.9050	1.8031
Utilization by Payor Class				
Medicare %	36.6%	38.6%	39.1%	37.0%
Medicaid %	13.3%	12.0%	11.4%	11.9%
Blue Cross %	14.4%	16.2%	16.3%	14.0%
Managed care %	13.1%	13.2%	12.7%	15.5%
Self-pay, Commercial & other %	<u>22.6%</u>	<u>20.0%</u>	<u>20.5%</u>	<u>21.6%</u>
Total	100%	100%	100%	100%
FTE's	4,548	4,424	4,978	4,820

Note: Fiscal Year 2000 numbers have been adjusted from what was reported at the September 2000 Board meeting to take into account audit adjustments made by the Auditor of Public Accounts.