AGENDA ITEM 2

BOARD MEMORANDUM

TO: Board of Regents, State of Iowa

FROM: Pamela Elliott Cain

DATE: April 20, 2005 GSN

SUBJ: University of Iowa Hospitals and Clinics Trustee Report

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Recommended Actions:

1. Discuss UIHC issues.
2. Consider a FY 2006 hospital rate increase of 9.5%.
3. Adopt a resolution to commend employees of Wal-Mart and Sam's Club for their strong commitment to families of Iowa and for their abiding commitment to the Children's Miracle Network and the Children's Hospital of Iowa at the University of Iowa Hospitals and Clinics (page 3).
4. Approve the minutes from the March 14, 2005, UIHC Executive Board Committee (Attachment E).

Executive Summary:

The agenda for the UIHC Trustees Report consists of the following:

1. The UIHC Director's report (Attachment A);
2. An update on FY 2005 UIHC operations, programs, finances, and institutional scorecard, as of February 2005 (Attachment B);
3. Strategic plan update (Attachment C); and
4. FY 2006 budget review (Attachment D).

The Board, as UIHC Trustees, is requested to adopt a resolution (page 3) to publicly acknowledge employees from Wal-Mart and Sam's Clubs from across Iowa and the region for exemplary fundraising as volunteers for 17 years benefiting Children's Miracle Network at the Children's Hospital of Iowa at University of Iowa Hospitals and Clinics.

The Board is also asked to approved the minutes from the last UIHC Executive Committee meeting, held March 14, 2005.

Directors Report

Attachment A includes a detailed listing of the various topics scheduled for discussion at the May meeting of the Board of Regents as trustees for the University of Iowa Hospitals and Clinics. Topics include:

- Strategic planning
- Recruitment
- Economic impact of UIHC
- Medicaid issues/Indigent patient care program
- Score card areas
- Financial strength
- Community engagement

FY 2005 Update

Attachment B compares year-to-date data for UIHC through February 28, 2005,:

- With benchmarks for the four institutional score cards (work place of choice, pursuing excellence, improving efficiencies, and financial strength)
- Financial results to FY 2003 and FY 2004 at the same point in the fiscal year
- Accounts receivables to FY 2003 and FY 2004 at the same point in the fiscal year
- Case mix index for all acute inpatients to FY 2001, FY 2002, FY 2003, and FY 2004 at the same point in the fiscal year.

Strategic Plan

Attachment C identifies the UIHC strategic planning process and outlines the following sections:

- "Where are we?" – environmental assessment summary
- "Where do we want to be?" – organizational direction
- "How will we get there?"– strategy development

Appendix materials are included but are not scheduled to be presented.

Budget Review

Attachment D outlines:

- Brief review of key operating indicators for FY 2005
- Review budget issues for FY 2006:
    - Budget assumptions for operating revenues include:
        - Volume growth (inpatient and outpatient)
        - Gross charge increase of 9.5%
    - Budget assumptions for operating expenses include:
        - Salary base increases between 2.0% to 4.35%
        - Medical supplies and drugs increases from 4 to 8%
        - Utilities increase of 7.5%
        - University administrative services increase of 4.5%
    - Estimated operating margin of 3.0%
    - Sale of $75 million in revenue bonds
- Approval of gross charge increase for FY 2006 of 9.5%

RESOLUTION
of the
Board of Regents, State of Iowa
May 5, 2005

WHEREAS, the employees of Wal-Mart and Sam's Clubs from across Iowa and the region have done exemplary fundraising as volunteers for 17 years benefiting Children's Miracle Network at the Children's Hospital of Iowa at University of Iowa Hospitals and Clinics and the thousands of regional families who receive superior care at Iowa's only academic medical center and

WHEREAS, during the past two years their volunteer efforts have raised over $1 million to benefit children and families at the Children's Hospital of Iowa and

WHEREAS, the volunteers from Wal-Mart and Sam's Club emphasized the importance of providing a place for families to stay inside the hospital complex to be close to their patients consistent with the family-centered care philosophy of Children's Hospital of Iowa, they directed Children's Miracle Network to develop the Children's Hospital of Iowa Family Suite, a sixteen-room hotel inside the hospital. The Children's Hospital of Iowa Family Suite is an extension of the Helen K. Rossi Guest House which serves adult patient family population and

WHEREAS, the volunteers from Wal-Mart and Sam's Club understand the complexity of patients seen at Children's Hospital of Iowa and the financial burdens that these patient families experience by being away from home and work, their fundraising efforts for the future will partially focus on underwriting one-half of the cost of the nightly stays at the Children's Hospital of Iowa Family Suite.

NOW THEREFORE, BE IT RESOLVED that the Board of Regents, State of Iowa expresses its own deep appreciation to the employees of Wal-Mart and Sam's Club for their strong commitment to families of Iowa and for their abiding commitment to the Children's Miracle Network and the Children's Hospital of Iowa at the University of Iowa Hospitals and Clinics.

BE IT FURTHER RESOLVED that the Board commends these dedicated volunteers for their longstanding and continuing support to the children served by Children's Hospital of Iowa.

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University of Iowa Hospitals and Clinics

Director's Report

May 4, 2005
Vinton, Iowa
3:30 – 5:30 p.m.

I. STRATEGIC PLANNING

II. RECRUITMENT

III. ECONOMIC IMPACT OF UIHC

IV. MEDICAID ISSUES/INDIGENT PATIENT CARE PROGRAM

V. PURSUING EXCELLENCE
- Clinical Trials Task Force
- NCI Site Visit
- Bar-Code Scanning for Blood Transfusion Process
- Outreach Clinics
- CMS/Hospital Compare Data
- IHI 100,000 Lives Campaign
- Robotic Surgery

VI. WORKPLACE OF CHOICE
- National Hospital Week - Staff Recognition
- Joint Diversity Steering Committee Report
- 100 Best Nurses In Iowa
- UIHC Night - Women's Basketball

VII. IMPROVING EFFICIENCIES
- Product Evaluation Committee
- New Vendor Policy
- Collaboration on Mail Service

University of Iowa Hospitals and Clinics

Director's Report

May 4, 2005
Vinton, Iowa
3:30 – 5:30 p.m.

VIII. FINANCIAL STRENGTH
- New Clinical Initiatives
- Center of Excellence
- Update on Caring Fund

IX. COMMUNITY ENGAGEMENT
- AHA Heart Gala and Heart Walk
- AAMC Task Force on Clinical Research
- United Way of Johnson County

X. OTHER
- Center of Excellence Grand Opening - June 17, 2005
- Kiwanis Club Pediatric Chaplain Endowment
- Dance Marathon Results
- Helen Rossi Guest House Addition - Wal-Mart Donation
- New Friends of UIHC Chair and Vice-Chair
- New Board Communication Tool

University of Iowa Hospitals and Clinics

INSTITUTIONAL SCORE CARD

WORKPLACE OF CHOICE			
	FY 2004	2/28/05 Year-to-date	Benchmark
Employee turnover rate (annualized)*	10.4%	12.4%	10.0%
Employee vacancy rate	7.4%	2.9%	7.0%
RN turnover rate (annualized)*	9.4%	14.0%	9.0%
RN vacancy rate	4.9%	5.9%	5.0%
Employee commitment	3.21	3.23	3.50
On-time completed appraisals	98.8%	97.2%	100%

* Includes transfers within the university

University of Iowa Hospitals and Clinics

INSTITUTIONAL SCORE CARD

PURSUING EXCELLENCE

	FY 2004	2/28/05 Year-to-date	Benchmark
Patient reported overall hospital rating	86.1%	86.6%	86.6%*
Patient likelihood to recommend to others	91.6%	91.6%	90.5%*
OP-Appt scheduled < 14 days or as desired	78.7%	76.4%	80.0%
Medication safety index	96.0%	96.0%	100%
JCAHO core measures: Pneumonia care	(a)	72.3%*	90.0%
Observed/expected mortality ratio	0.93	0.81*	1.00

* = data availability lags

(a) New metric

University of Iowa Hospitals and Clinics

INSTITUTIONAL SCORE CARD

IMPROVING EFFICIENCIES			
	FY 2004	2/28/05 Year-to-date	Benchmark
Observed/expected LOS ratio	0.98	1.19	1.00
Paid hours per adjusted discharge*	176.4	170.4	135.5
Cost per adjusted discharge*	$9,105	$9,054	$8,902
Payroll cost per adjusted discharge*	$4,767	$4,843	$4,164
Supply cost per adjusted discharge*	$1,969	$1,853	$1,991
Medication cost per adjusted discharge*	$501	$507	$532

* = Case mix index adjusted

University of Iowa Hospitals and Clinics

INSTITUTIONAL SCORE CARD

FINANCIAL STRENGTH

	FY 2004	2/28/05 Year-to-date	Benchmark
Market share (inpatient)	6.7%	7.3%*	7.0%
Operating margin	1.6%	2.7%	3.0%
Acute admissions (excludes newborns)	25,384	16,568	17,618
Clinic visits (main campus)	669,045	437,863	423,807
Major surgical procedures	20,644	13,580	14,303
Net days in accounts receivable	72	64	65
Bad debt as % of net patient revenue	8.83%	7.42%	6.30%
Earnings before interest, taxes, depreciation, and amortization	$51,572,935	$44,131,817	$47,304,765

* = data available semi-annually

University of Iowa Hospitals and Clinics

INSTITUTIONAL SCORE CARD

July 1, 2004 – February 28, 2005

Financial Strength

Workplace Of Choice

Employee turnover rate 80.4%

Employee vacancy rate 100%

RN turnover rate 64.1%

RN vacancy rate 84.8%

Employee committment 92.3%

On-time completed appraisals 97.2%

Overall hospital rating 100%

Likelihood of recommendation to others 100%

OP-Appt scheduled <14 days or desired 95.5%

Medication safety index 96.0%

Pneumonia care 80.3%

Observed/ expected mortality ratio 100%

Observed/ expected LOS ratio 84.1%

Paid hours per adjusted discharge 79.5%

Cost per adjusted discharge 98.3%

Payroll cost per adjusted discharge 86.0%

Supply cost per adjusted discharge 100%

Medication cost per adjusted discharge 100%

Market share 100%

Operating margin 90.0%

Acute admissions 94.0%

Net days in A/R 100%

Bad debt as a % of net patient revenue 84.9%

EBITDA 93.3%

Improved Efficiencies

Pursuing Excellence

Note: Percentages represent the degree of benchmark attainment.

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

FY 2005 Institutional Score Card Definitions

WORKPLACE OF CHOICE		
Indicator	*Source*/Description	Benchmark
On-time appraisals	*Human Resources* - % evaluations completed less than 30 days after due date.	JCAHO Target
Employee turnover rate	*Human Resources* - Total number of terms / total number employees.	Institutional target
Employee vacancy rate	*Human Resources* - Total number of actively recruited positions / total number of allocated positions.	Institutional target
RN turnover rate	*Human Resources* - Total number of RN terms / total number of RNs.	Institutional target
RN vacancy rate	*Human Resources* - Number of actively recruited RN positions over the total number of allocated RN positions.	Institutional target
Employee committment	*Human Resources* - Employee survey 1-4, 1=Strongly dissatisfied, 2=Dissatisfied, 3=Satisfied, 4=Strongly Satisfied.	Institutional target
PURSUING EXCELLENCE		
Indicator	*Source*/Description	Benchmark
Patient reported overall hospital rating	*CORM* - Press-Ganey Patient Satisfaction Survey % of inpatient adults responding good or very good.	UHC peer group median
Patient liklihood to recommend to others	*CORM* - Press-Ganey Patient Satisfaction Survey % of inpatient adults responding good or very good.	UHC peer group median
Appt sched < 14 days or desired	*CORM* - Patient Satisfaction Survey % patients responding appt sched times < 14 days or as desired.	Institutional target
Medication safety index	*Pharmacy* - Index of various medication safety measures based on the nine categories of the ASHP Best Practice Self-Assessment Tool.	Institutional target
JCAHO core measures: Pneumonia care	*CORM* - Number of patients who received JCAHO pneumonia process of care measures / number of patients eligible for JCAHO pneumonia process of care measures.	Institutional target
Observed/expected mortality ratio	*CORM* - Observed mortality rate for 100% acute discharges / UHC risk-adjusted expected mortality rate.	UHC expected
IMPROVING EFFICIENCIES		
Indicator	*Source*/Description	Benchmark
Observed/expected LOS ratio	*CORM*- UIHC observed LOS /UHC peer group median observed LOS. Excludes observation, recovery, and custodial days and newborns.	UHC per group median
Paid hours per adjusted discharge	*FAS* - Total paid hours + contracted hours worked / ((gross patient charges/total gross inpatient charges) *(total patient discharges excluding newborns) *case mix index).	ACTION 50th percentile
Cost per adjusted discharge	*FAS* - Operating costs / ((gross patient charges/total gross inpatient charges) *(total patient discharges excluding newborns) *case mix index).	ACTION 50th percentile
Payroll cost per adj discharge	*FAS* - Payroll costs / ((gross patient charges/total gross inpatient charges) *(total patient discharges excluding newborns) *case mix index).	ACTION 50th percentile
Supply cost per adjusted discharge	*FAS* - Supply costs / ((gross patient charges/total gross inpatient charges) *(total patient discharges excluding newborns) *case mix index).	ACTION 50th percentile
Medication cost per adjusted discharge	*Pharmacy* - Pharmacy medication costs / ((total gross patient charges / gross inpatient charges) * (total patient discharges excluding newborns) *case mix index).	Current Budget
FINANCIAL STRENGTH		
Indicator	*Source*/Description	Benchmark
Market share (inpatient)	*JOMC* - Market share of Acute inpatient discharges excluding MDC 19 (mental disease), 20 (alcohol/drug) and 25 (HIV). Source Iowa Hosp Assoc. Data available semi-annually.	Institutional target
Operating margin	*FAS* - Operating income divided by net operating revenue.	Current Budget
Acute admissions	*FAS* - Number of acute adult & pediatric patients admitted. Excludes normal newborns.	Current Budget
Clinic visits (UIHC only)	*FAS* - Total number of UIHC clinic visits. Excludes Outreach and CMS.	Current Budget
Major surgical procedures	*FAS* - Total number of surgical procedures in Main OR, ASC and TURs.	Current Budget
Net days in A/R	*FAS* - Net patient accounts receiveable / (net patient charges / days in period).	Institutional target
Bad debt as a % of gross revenue	*FAS* - Bad debt expense / gross patient charges.	Moody's Aa median
EBITDA	*FAS* - Revenue - expenses (excluding interest, tax, depreciation, and amortization).	Current Budget

University of Iowa Hospitals and Clinics

Comparative Financial Results for July through February

	July-Feb FY 2003*	July-Feb FY 2004	July-Feb FY 2005	% Change '04 to '05
NET REVENUES:				
Total Pay Patient Rev.	$344,855,311	$370,832,842	$391,294,251	5.5%
Appropriations	28,667,275	27,127,269	27,127,273	0.0%
Other Operating Rev.	23,634,813	24,631,674	26,105,465	6.0%
Total	$397,157,399	$422,591,785	$444,526,989	5.2%
EXPENSES:				
Salaries and Wages	$210,979,299	$226,281,566	$233,253,778	3.1%
General Expenses	148,685,276	164,478,745	167,141,396	1.6%
Depreciation	28,858,449	28,484,525	31,950,689	12.2%
Interest Expense	211,527	86,534	-	-100.0%
Total	$388,734,551	$419,331,370	$432,345,863	3.1%
Operating Margin	$8,422,848	$3,260,415	$12,181,126	273.6%
Operating Margin %	2.1%	0.8%	2.7%	237.5%

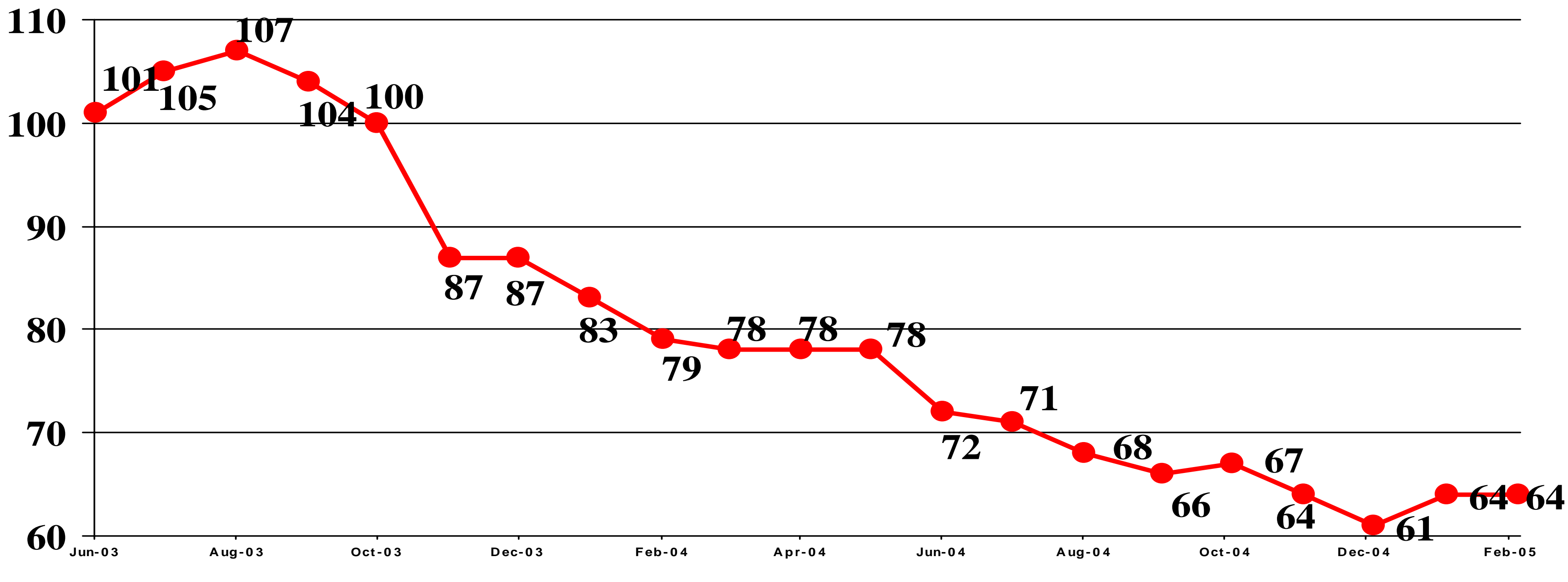
* Bad debts is no longer classified as an operating expense. Bad debt expense for prior fiscal years has been reclassified as an offset to net paying patient revenue in accordance with recent Governmental Accounting Standards Board interpretations.

University of Iowa Hospitals and Clinics

Comparative Accounts Receivable as of February 2005

	June 30, 2003	June 30, 2004	February 28, 2005	Median Moody's Aa Rating
Gross Accounts Receivable	$354,885,862	$293,860,815	$324,469,096	na
Net Accounts Receivable	$143,583,988	$110,344,338	$102,594,054	na

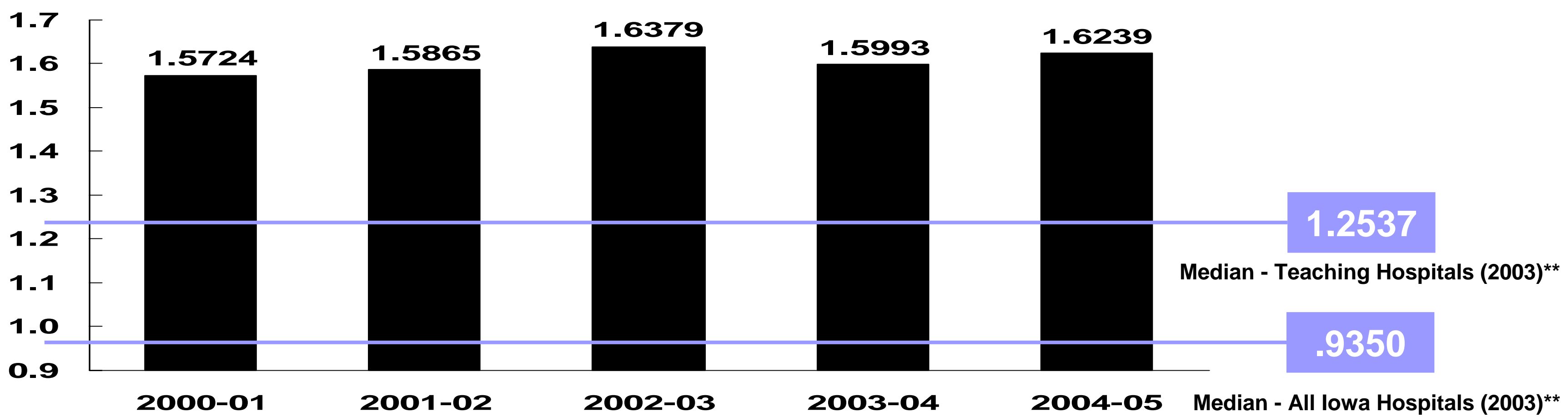
Net Days in AR	101	72	64	56



UNIVERSITY OF IOWA HOSPITALS AND CLINICS

CASE MIX INDEX - ALL ACUTE INPATIENTS*

JULY - FEBRUARY



* THE CASE MIX INDEX REFLECTS THE OVERALL CLINICAL COMPLEXITY OF THE PATIENT CENSUS OF A GIVEN HOSPITAL BY ESTIMATING THE LEVEL OF RESOURCE CONSUMPTION OF THE AVERAGE PATIENT RELATIVE TO THAT OF ALL HOSPITALS NATIONALLY WHICH HAVE A CASE MIX INDEX OF 1.00.

** ALMANAC OF HOSPITAL FINANCIAL OPERATING INDICATORS, 2005 CHIPS
A TEACHING HOSPITAL IS ONE AT WHICH MEDICAL GRADUATES TRAIN AS RESIDENTS.

Strategic Plan Update
Board of Regents

May, 2005

UIHC Planning Process

- Interviews
- Data Analysis
- Issue Identification

Where do we want to be?

- Mission
- Vision
- Values
- Culture Statement

How will we get there?

- Strategy Development
  - Goals
  - Strategies
- Plan Wrap-up
  - Implementation Plan
  - Financial Implications

Where Are We?

Environmental Assessment Summary

Summary of Interviews

Summary of Internal Interviews[1]

- Improving financial performance should be a high priority
- Clarify the vision for UIHC and the roles of the hospital and CCOM in realizing it
- Identify primary service lines and secure/enhance their position
- Continue to strengthen operations including the patient experience
- Create a strong culture, emphasizing customer service, interdisciplinary care, an excellent workplace, and fostering innovation
- Recruit/retain top quality faculty and staff

(1) List of all persons interviewed appears in Appendix A

Summary of Board/Community Interviews[1]

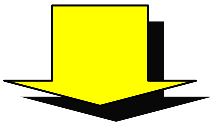
- Play a larger role in local/regional economic development and health care policy statewide
- Become a much more user-friendly organization
- Establish a stronger market presence and identity
- Significantly improve/streamline operations

(1) List of all persons interviewed appears in Appendix A

Data Summary

External Assessment Summary (2)

- Iowa is a slow growth market
- Many academic medical centers are within a few hours of Iowa City and pose a significant competitive threat
  - Outreach activities of Mayo and others are increasingly in UIHC's backyard
- The hospital industry in Iowa has consolidated into a handful of large systems which are attempting to provide a full range of services similar to UIHC
- For-profit, niche players (surgery centers, imaging centers, and the like) are a growing factor in the erosion of the historical patient base of hospitals, especially in the better performing segments financially

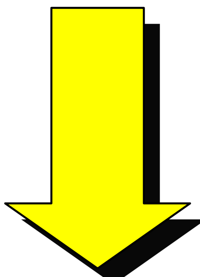


UIHC's faces stiff competition and will need to become much more sophisticated in its strategies if it is to maintain its position

(1) Data analysis in Appendix B

Internal Assessment Summary[1]

- UIHC has many regionally and nationally recognized services and many outstanding physicians
- UIHC's market position is improving
- UIHC's finances are strong and continuing to improve
- UIHC's role in education and research is substantial
- Opportunities for further growth are significant

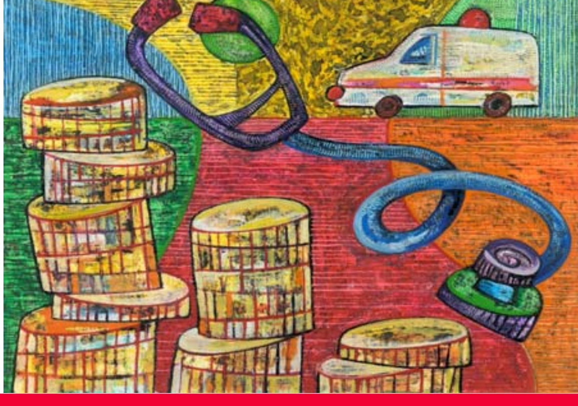


UIHC needs to continue to improve internal operations while becoming more market focused

(1) Data analysis in Appendix B

Internal Assessment - UIHC Finances(1)

- Overall, financial position is strong, reflecting many years of solid performance
- Recent operating income declines (2002-2004) indicate need for revenue enhancement and cost containment initiatives
- Inpatient services provide 90% of contribution margin, with Cardiothoracic Surgery, General Medicine and Pediatrics, Invasive Cardiology, Neonatology, Neurosurgery, and General Surgery accounting for the vast majority of the margin
- Outpatient clinics exhibit markedly negative financial performance



(1) Data analysis in Appendix B

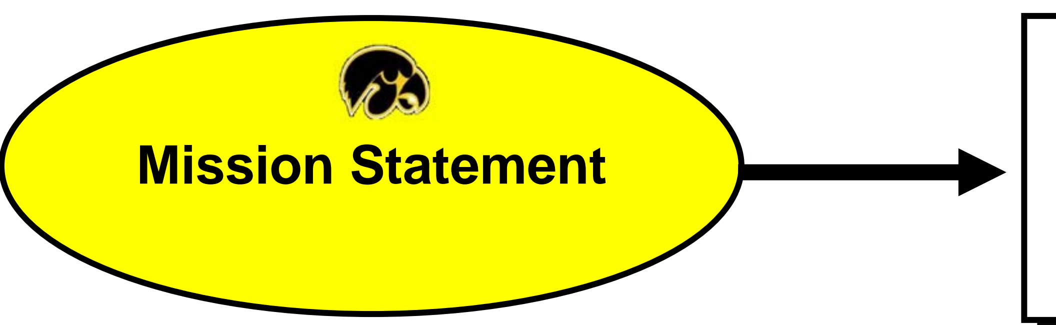
Environmental Assessment Conclusions

Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis

STRENGTHS	WEAKNESSES
Many market leading, unique services Regional/national reputation Large medical staff with many outstanding clinicians Strong financial position with need to strengthen operating margin Teaching program and research support	Service Recent financial performance Bureaucracy limits agility Facilities aging and increasingly uncompetitive Coordination of integrated care across clinical areas Not market focused
OPPORTUNITIES	**THREATS**
Huge program growth opportunities in key lines Market leadership in innovation Market leadership in outcomes/safety Build on service leadership program	Formidable academic medical center and Iowa competition Government budget difficulties and Wellmark relationship Staffing shortages in certain specialty areas

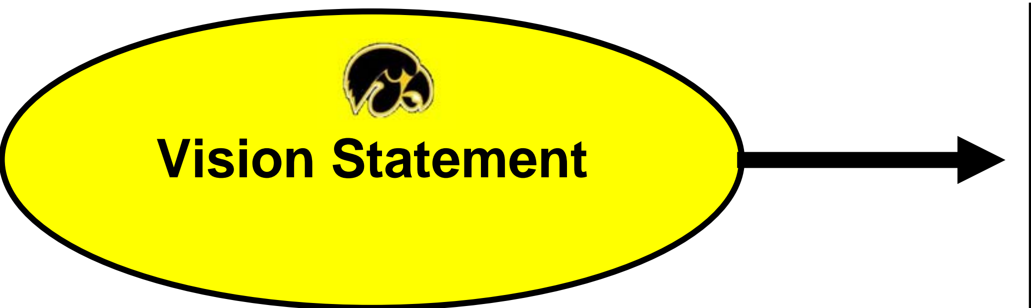
Where Do We Want To Be?
Organizational Direction

Mission/Vision



What is our organization's purpose?

(One sentence, enduring, for internal and external audiences)



What does our organization aspire to be in 5-10 years?

(Motivator, short description, primarily for internal audiences)

UIHC Mission and Proposed Vision

MISSION

- The University of Iowa Hospitals and Clinics, in compliance with the Code of Iowa, serves as the teaching hospital and comprehensive health care center for the State of Iowa, thereby promoting the health of Iowans regardless of their ability to pay. It:
  1. Offers a broad spectrum of clinical services to all patients cared for within the Center and through its outreach programs;
  2. Serves as the primary teaching hospital for the University; and,
  3. Provides a base for innovative research to improve health care.

PROPOSED VISION

- We will be the Midwest hospital that people choose for innovative care, excellent service and exceptional outcomes. We will be an internationally recognized academic medical center in partnership with the Carver College of Medicine.

How Will We Get There?

Strategy Development

Strategy Development Assumptions

- Specific goals and strategies for the UIHC Strategic Plan were developed utilizing three multidisciplinary strategy teams based on the elements in the vision statement – Innovative Care, Excellent Service, and Exceptional Outcomes.
- Each team met over a three month period to define their vision element, identify goals, and delineate specific strategies that would assist UIHC to meet their goals by 2010.
- During the course of strategy development, several key issues were identified and, in order for this plan to be successful, these issues need to constantly be addressed and monitored by leadership:
  - System Transformation – This issue is addressed in various strategies, but the majority of individuals felt that the healthcare delivery system needs to be transformed across the country. It is hoped that this plan will initiate a transformation in the delivery of care.
  - Culture – Each group identified the need to change various elements of UIHC's current culture. An emphasis on culture is woven into the plan, however, it must be noted that culture change is not a strategy but rather a result. Therefore, leadership must emphasize a cultural shift through plan implementation.

Strategy Development Assumptions (continued)

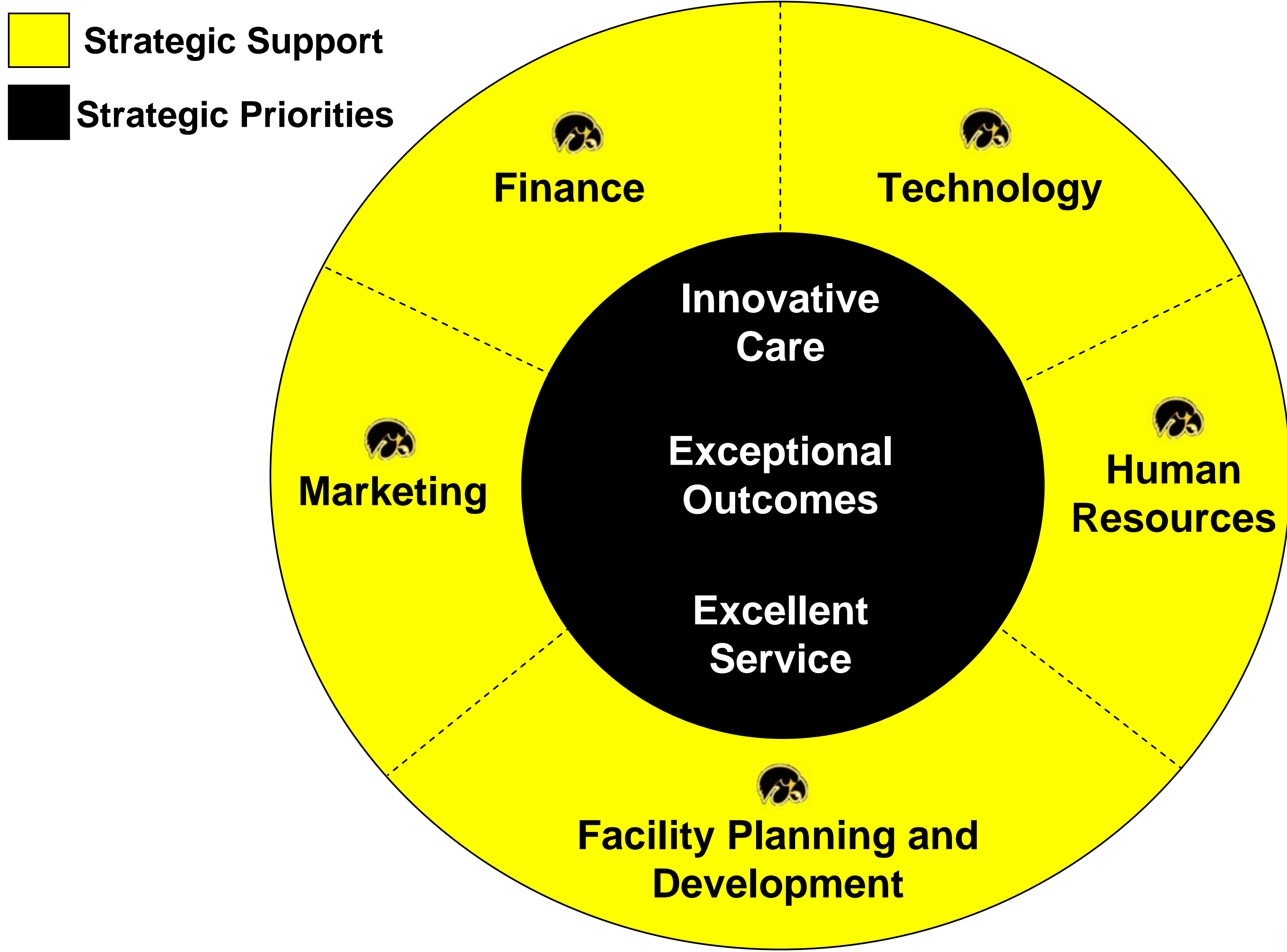
- Joint CCOM Implementation – It is recognized that the success of UIHC is dependent upon the CCOM and that the success of the CCOM is dependent upon UIHC. Therefore, plan implementation will only be successful by the mutual involvement of both organizations and leadership will strive to ensure that this happens.
- Execution – Multiple barriers to strategic plan implementation were identified based on past history. It is imperative that the ideas in this plan be fully implemented in a timely manner. To accomplish this, leadership will be responsible for committing to the successful and complete implementation of each strategy and faculty and staff will be empowered to ensure full implementation.

- The UIHC Strategic Plan was created utilizing a very interactive, participatory process that included dedicated faculty and staff. Through this interactive process, plan ownership is shared by all faculty and staff.

Strategy Development Framework

Key Strategy Dimensions		
Structure	Delivery of Care	Market Responsiveness

Strategic Issues



University of Iowa Hospitals & Clinics
University of Iowa Health Care

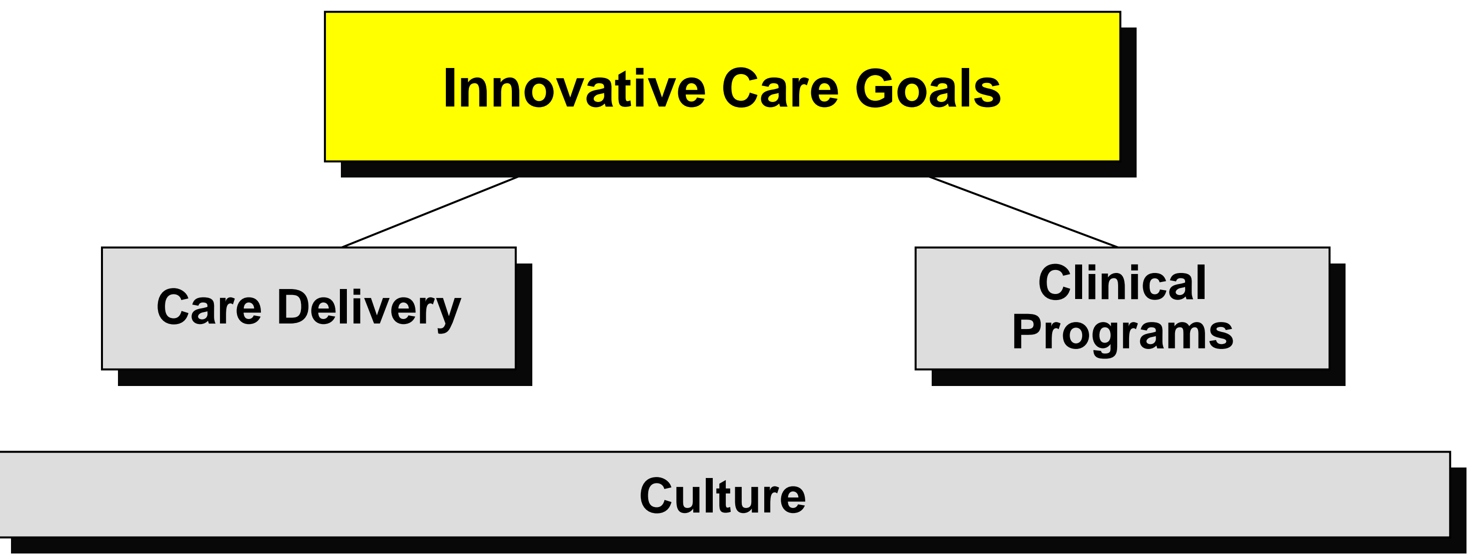
Strategy Development Teams and Members

Innovative Care	Excellent Service	Exceptional Outcomes
Dr. Paul Rothman *	Dr. Eric Dickson *	Dr. John Buatti *
Anthony DeFurio *	Ann Madden Rice *	Linda Everett *
Paul Abramowitz	Mary Ameche	Lee Carmen
Linda Chase	Randall Aitchison	Shane Cerone
Dr. John Fieselmann	Kimberly Chamberlin	Cindy Doyle
Dr. Mark Iannettoni	Tim Gaillard	Dr. Dan Fick
Deann Montchal	Dr. Laurie Fajardo	Dr. Bruce Gantz
Jackie Nelson	William Hesson	Dr. Charles Helms
John Staley	Beth Houlahan	Jessica McAllister
Kristy Walker	Christopher Klitgaard	Chris Miller
	Dr. Barbara Muller	Mark Moser
	Christine Scheetz	Marita Titler

* Denotes co-chairs

Innovative Care – Draft Definition

"Innovative care is distinctive and valued by the market, it is known as cutting-edge or best"



- **Organization that embraces change and encourages new ideas both now and in the future**

Innovative Care Draft Goals (continued)

Goal: Care Delivery

- UIHC will be recognized as a state and national leader in developing and implementing new and more efficient healthcare delivery models that emphasize a quality-driven patient experience

Measurement

- TBD – an external measure
- Cost effectiveness measure
- Increased number of selected web-based interactions

Strategic Themes

- UIHC's Ambulatory Care Standards of Excellence and similar standards for inpatient services
- Coordinated, interdisciplinary care models
- Information technology and internet and intranet innovations
- Training physicians and healthcare providers in the new models

Innovative Care Draft Goals (continued)

Goal: Clinical Programs

- Select UIHC clinical services will be leaders in the state and national market by offering cutting edge clinical services, robust clinical research and strong training opportunities

Measurement

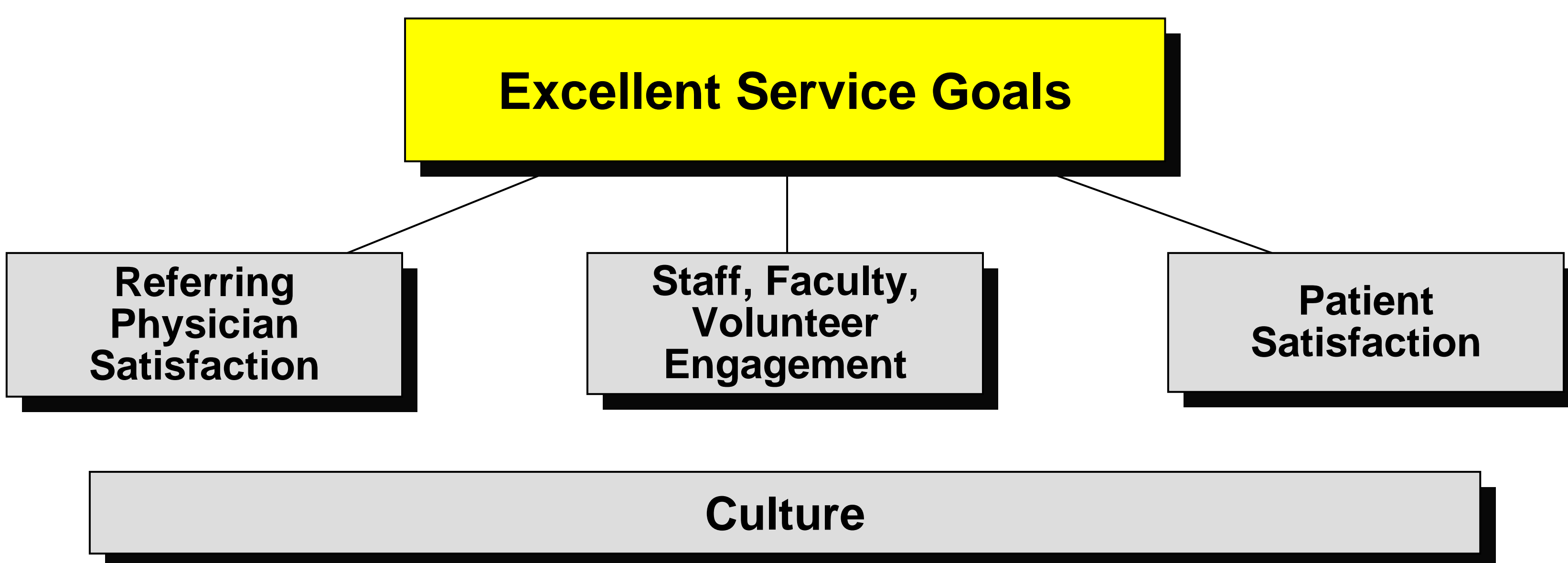
- Increased out-of-state market share
- Decreased out-migration
- Increased University employee use of services

Strategic Themes

- Clinical services for growth and opportunity
- Business planning process
- Business development
- Enhanced training programs
- Clinical trials

Excellent Service

"Excellent service is based on the successful performance and interrelationship between people, process, and setting"



- Culture shift to focus on the patient/family experience
- Inherent incentives to cross departments and shift from silo to multidisciplinary interactions
- Environment doesn't "blame" but recognizes service importance

Excellent Service Draft Goals (continued)

Goal: Patient Satisfaction

- Patients and families will be highly satisfied with their entire UIHC experience in all settings

Measurement

- Aggregate inpatient and outpatient satisfaction scores in the X percentile as compared to University Hospital Consortium peers and X percentile for local peers

Strategic Themes

- Patient throughput
- Pursue Baldrige National Quality award guidelines
- Patient-family centered culture currently in practice at Children's Hospital of Iowa
- Tools for faculty to deliver effective and efficient care

Excellent Service Draft Goals (continued)

Goal: Referring Physicians

- UIHC will be recognized by referring physicians for its efficient and effective support to their patients

Measurement

- Increased referring physician satisfaction by X% per year
- Increased number of referrals (new and existing) or patient transfers by X% per year

Strategic Themes

- Referring physician outreach program
- Referring physician service environment
- Patient transfer system

Excellent Service Draft Goals (continued)

Goal: Staff, Faculty and Volunteer Engagement

- Staff, faculty and volunteers feel valued and engaged in the pursuit of UIHC's vision

Measurement

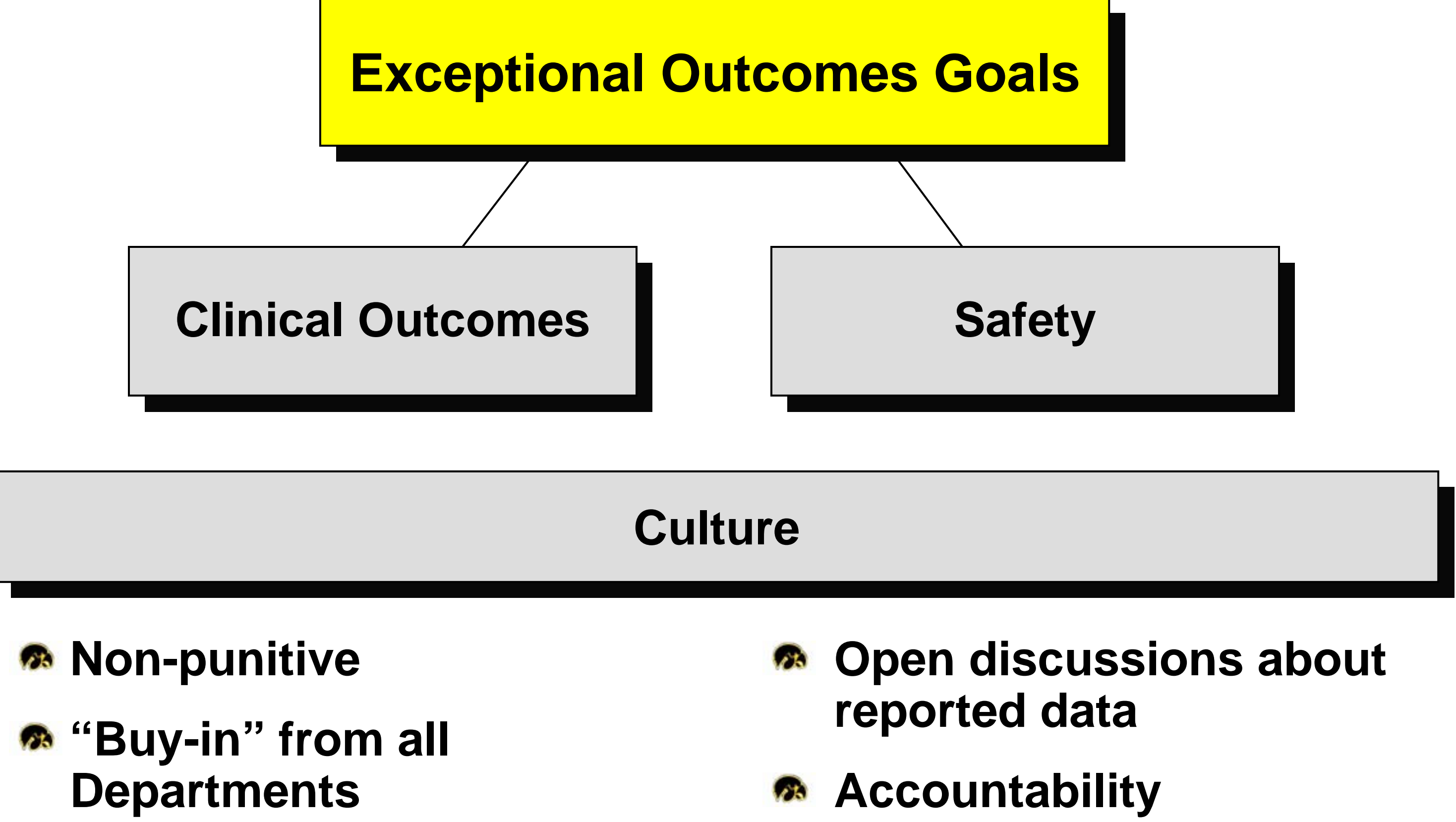
- X% increase in bi-annual engagement survey (to be developed)

Strategic Themes

- Re-invigorate the concept of UIHC Service Leadership
- Clear expectations, empowered staff and accountability
- Faculty, staff, volunteer recognition

Exceptional Outcomes

"The measured support, capacity, and ability of an organization to provide patient-centered care that is safe, effective, timely, efficient, equitable, and continuously improved"



Exceptional Outcomes Draft Goals

Goal: Safety

- UIHC will provide a continuously improving, safe environment for all patients at all times

Measurement

- Rank within the top X% of AMCs in the nation with regards to patient safety measures
- Utilize an evidence-based approach internally to get below X/1000 errors as possible

Strategic Themes

- Emphasize ongoing patient and staff safety
- Clinical research in patient safety
- Appropriate information systems for patient safety
- Pro-active involvement in development of publicly reported data systems

Exceptional Outcomes Draft Goals (continued)

Goal: Clinical Outcomes

- UIHC will use a continuous improvement process to achieve exceptional clinical outcomes

Measurement

- Rank within the top X% of each of Y publicly available outcomes measurement programs
- Show consistent and continual improvement with selected internal measures

Strategic Themes

- Integrate public measures reporting
- System transformation with supplemental outcome measures
- Accountability for improvement
- Provide information technology support
- Clinical pathways compliance
- Pay for performance initiatives
- Participate and influence agenda at state and national level

Strategic Support Draft Goal

Goal: Strategic Support

- Based on sound business principles and decision-making approaches, provide the support services necessary to effectively and efficiently implement strategies and meet UIHC's 2010 goals

Measurement

- Meet direct and indirect ROI targets (TBD)
- Other (TBD)

Strategic Themes

- Marketing
- Facilities
- Information technology
- Human Resources
- Financial

APPENDIX

Strategic Plan Update
Board of Regents

(Supplemental Materials will not be presented)

May, 2005

Appendix A
Interviews

Internal Interviews

Name	Organization
Robert Bowlsby, Athletic Director	UI
Dr. David Brown, Anesthesia	CCOM
Dr. John Buatti, Radiation Oncology	CCOM
Barry Butler, College of Engineering	UI
Dr. Joseph Buckwalter, Orthopedics	CCOM
Pat Cain, Interim Provost	UI
Shane Cerone, Sr. Assistant Director	UIHC
Dr. Jordan Cohen, College of Pharmacy	UI
Dr. Michael Cohen, Pathology	CCOM
Stacey Cyphert, Sr. Assistant Director	UIHC
Dr. Antonio Damasio, Neurology	CCOM
Anthony DeFurio, CFO	UIHC
Dr. Peter Densen, Internal Medicine	CCOM
Bill Decker, VP Research	UI
Dr. Eric Dickson, Emergency Medicine	CCOM
Dr. Melanie Dreher, College of Nursing	UI
Brandt Echternact, Assistant Director	UIHC
Linda Everett, RN, Ph.D., CNO	UIHC
Dr. Laurie Fajardo, Radiology	CCOM
Gary Fetke, College of Business	UI
Dr. Dan Fick, Medical Administration	CCOM/UIHC
Dr. John Fieselmann, Outreach, Amb. Care	UIHC/CCOM
Dr. Kirk Fridrich, Hospital Dentistry	CCOM
Dr. Bruce Gantz, Otolaryngology	CCOM
Dr. Lois Geist, Assoc.Dean Faculty Affairs	CCOM
Cynthia Geyer, Assistant Director	UIHC
Dr. Charles Helms, Chief of Staff	CCOM/UIHC
Bill Hesson, Legal Counsel	UIHC

Internal Interviews (continued)

Name	Organization
Michael Hogan, Provost	UI
Dr. Matthew Howard, Neurosurgery	CCOM
Dr. Mark Iannettoni, Cardiothoracic Surgery	CCOM
Dr. Gerald Jogerst, Family Medicine	CCOM
Dr. David Johnsen, College of Dentitstry	UI
Donna Katen-Bahensky, CEO	UIHC
Steven Long	UIHC
Dr. Allyn Mark	CCOM
Dr. James Merchant, College of Public Health	UI
Dr. Frank Morriss, Pediatrics	CCOM
Dr. Barb Muller, Medical Administration	CCOM/UIHC
Dr. Jennifer Niebyl, Obstetrics and Gynecology	CCOM
Amy O'Deen	UIHC
Ann Maden Rice, COO	UIHC
Dr. Jean Robillard	CCOM
Dr. Robert Robinson, Psychiatry	CCOM
Dr. Carol Scott-Conner, Surgery	CCOM
Dr. Mike Shasby	CCOM
David Skorton, President	UI
Jolene Sobotka, Assistant Director	UIHC
John Staley, Ph.D., Administration	UIHC
Dr. Craig Syrop, Dermatology	CCOM
Doug True, VP Finance and Administration	UI
Lance VanHouten, Assistant Director	UIHC
Dr. George Weiner, Clinical Cancer Center	CCOM
Dr. Thomas Weingest, Ophthalmology	CCOM
Dr. Richard Williams, Urology	CCOM
Dr. Mark Wilson	CCOM

Board/External Interviews

Individual Interviews	
Name	**Organization**
Amir Arbisser	Board of Regents
Steve Atkins, City Manager	Iowa City Government
Mary Ellen Becker	Board of Regents
Kevin Concannon, Director	Iowa Dept of Human Svcs
Robert Downer	Board of Regents
Jim Fausett, Mayor	Coralville
John Forsyth	Board of Regents
Karin Franklin, Dir. Planning	Iowa City Government
Kelly Hayworth, City Manager	Coralville
David Jacoby, local legislator	Iowa City/Coralville
Ernie Lehman, Mayor	Iowa City Government
Mary Mascher, local legislator	Iowa City/Coralville
Dave Neil	Board of Regents
Owen Newlin	Board of Regents
Greg Nichols, Executive Director	Board of Regents
Sue Nieland	Board of Regents
Kirk Norris, President	Iowa Hospital Assoc.
Deborah Turner	Board of Regents

Group Interviews	
Organization	**Other**
Friends Leadership Council	15 people
UI Foundation	3 people
Iowa City Business Leaders	2 groups
Coralville Business Leaders	1 group
Cedar Rapids Business Leaders	1 group
North Liberty Business Leaders	1 group
Muscatine Business Leaders	1 group

Focus Group Interviews

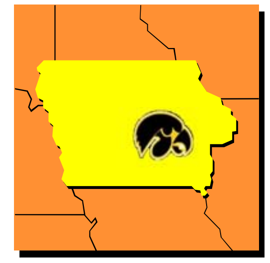
Group	Description
Management Staff	150+ UIHC Managers split into eight total focus groups of 20-22 members each
Staff/Faculty	Seven focus groups with 15-30 members in each including faculty, nursing, non-nursing clinical, merit and P/S

Appendix B
Environmental Assessment Data
(partial summary)

External Assessment

U.S. and State of Iowa Demographic Summary 2004 and 2009

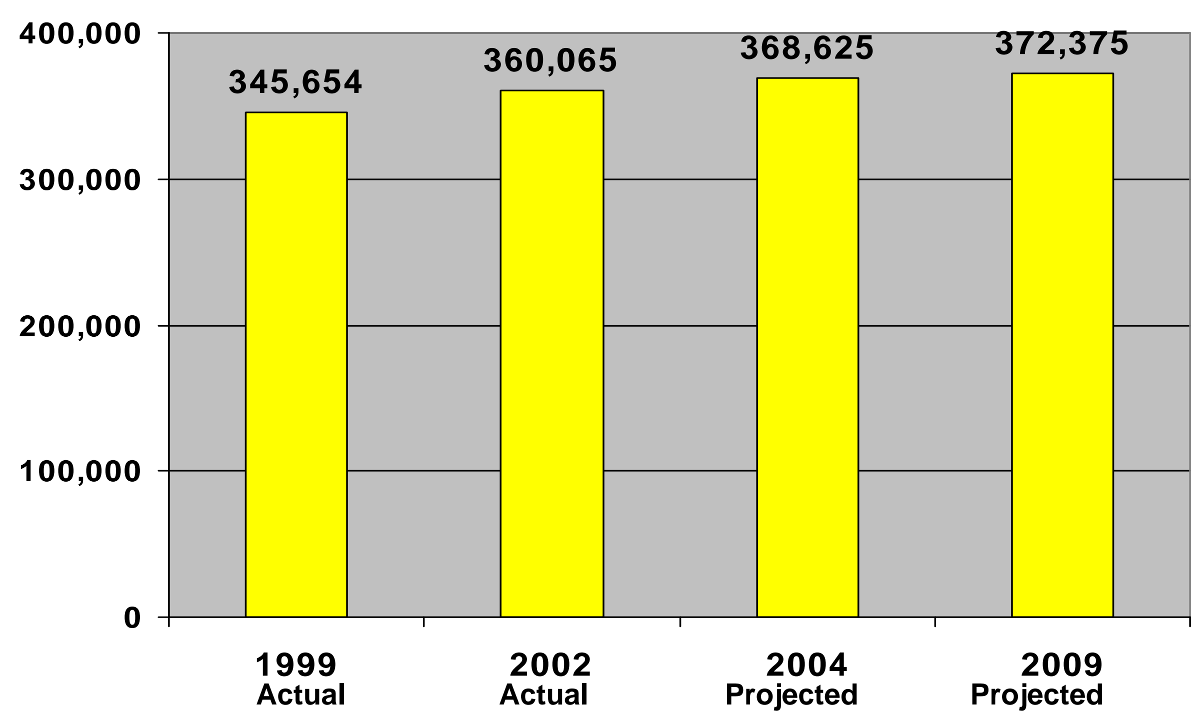
	Iowa (in millions)			U.S. (in millions)		
	2004	2009	% Change	2004	2009	% Change
Total Population	2.948	2.978	1.0%	290.647	305.918	5.3%
% Male	49.13%	49.18%	1.1%	49.03%	49.06%	5.3%
% Female	50.87%	50.82%	0.9%	50.97%	50.94%	5.2%
55-59 yr population	0.159	0.177	11.0%	15.686	18.943	20.7%
60-64 yr population	0.130	0.146	12.7%	12.135	15.409	26.9%
85+ yr population	0.700	0.770	9.6%	5.329	6.271	17.6%
Income						
< $15,000	0.156	0.136	-12.4%	15.466	14.279	-7.6%
Median Household Income	$39,822	$43,667	11.2%	$46,868	$53,230	13.5%
Per Capita Income	$22,067	$25,181	14.1%	$24,078	$27,656	14.8%



Static, greying population in the state

Source data provided by the U.S. Census Bureau and Claritas, Inc.

State of Iowa
Actual and Projected Acute Care Admissions

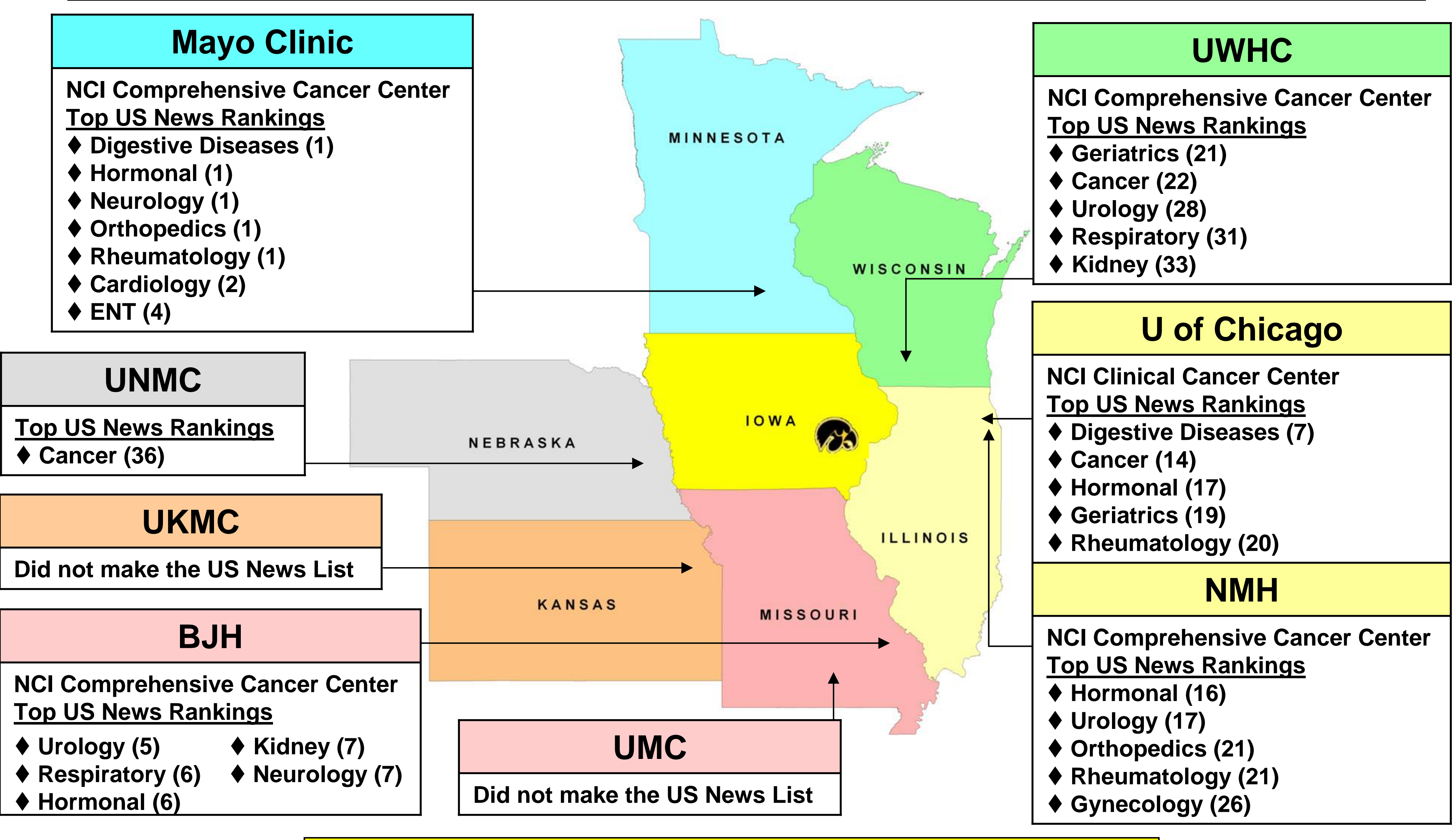


- Due to relatively slow population growth and despite aging of the population, inpatient demands are expected to grow modestly in the future
- Currently, there is more bed capacity in the state of Iowa than the increasing demand will require
- Patient volume is likely to migrate to urban areas increasingly, causing a shift in bed complements over time
- Population dynamics and use patterns will cause other health service demands to increase somewhat more rapidly in Iowa

Source data provided by AHA Hospital Statistics, 2005

Attachment C

Academic Medical Center Environment



UIHC faces formidable competition from academic medical centers in surrounding states

Source data provided by US News & World Report, 2004

Internal Assessment

Attachment C

US News & World Report

Best Hospitals 2004

- 2nd Otolaryngology
- 6th Ophthalmology & Visual Sciences
- 6th Orthopedic Surgery
- 16th Urology
- 17th Psychiatry
- 21st Respiratory Disorders
- 33rd Digestive Disorders
- 36th Hormone Disorders
- 39th Gynecology
- 40th Cancer
- 42nd Geriatrics
- 45th Kidney Disease

- For the 15th consecutive year, UIHC specialties earned high rankings
- UIHC also earned the first Magnet Award in Iowa for excellence in nursing

Source data provided by US News & World Report, 2004

UIHC Best Doctors

Allergy and Immunology (4)	Gastroenterology (3)	Neurology (6)	Pathology (2)	Radiology (6)
Anesthesiology (6)	Hand Surgery (2)	Child Neurology	Pediatric Specialist (23)	Rheumatology (2)
Cardiovascular Disease (5)	Infectious Disease (3)	Nuclear Medicine (3)	Pediatrics (General) (8)	Sleep Medicine
Colon and Rectal Surgery	Internal Medicine (General) (7)	Ob/Gyn (8)	Plastic Surgery (2)	Surgery (5)
Dermatology (5)	Medical Oncology and Hematology	Ophthalmology (11)	Psychiatry (9)	Surgical Oncology
Endocrinology and Metabolism	Nephrology (2)	Orthopedic Surgery (8)	Pulmonary and Critical Care Medicine (3)	Thoracic Surgery
Family Medicine (8)	Neurological Surgery (5)	Otolaryngology (5)	Radiation Oncology	Urology (4)

UIHC has a total of 158 physicians[(1)] currently listed in "The Best Doctors in America"

(1) UIHC has a total of 158 unique Best Doctors; some are listed in multiple specialties
Source data provided by Polling and Research Division, Best Doctors, 2005

UIHC Volume Trends, FY 2001-2004

	FY 2001	FY 2002	FY 2003	FY 2004	% Change 2001-2004
Inpatient Discharges	19,696	19,933	20,916	21,757	+10.5%
Emergency Treatment Center Visits	28,307	30,587	30,875	31,626	+11.7%
Clinic Visits	592,752	615,242	631,443	669,045	+12.9%
Surgical Cases	18,986	19,809	20,296	20,644	+8.7%

UIHC has experienced strong volume growth over the past 4 years

Source data provided by the UI Health Care Joint Office of Marketing and Communications using Iowa Hospital Association data

Attachment C

UIHC Inpatient Market Share, FY 2001-2004

	2001	2004
Overall	6.1%	7.0%
Primary Service Area	18.6%	22.0%
Johnson County	45.7%	52.5%

UIHC has grown its market share for the last several years

Source data provided by the UI Health Care Joint Office of Marketing and Communications using Iowa Hospital Association data

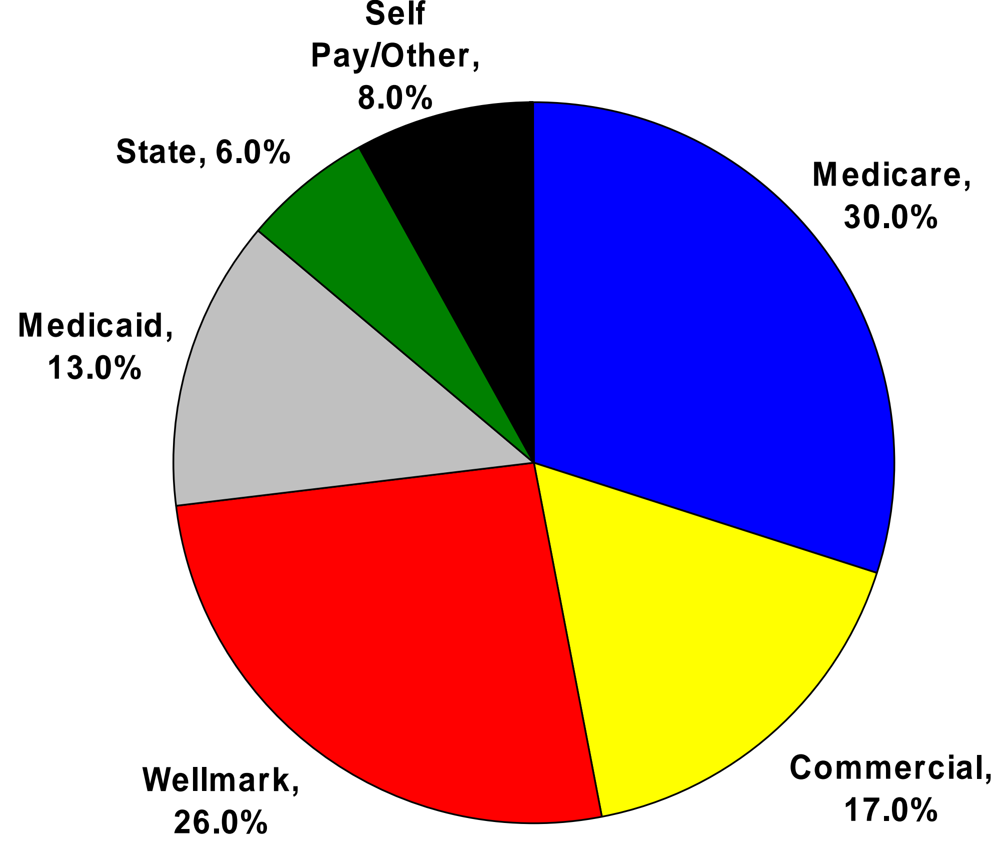
Inpatient Market Share by Product Line(1), FY 2004

UIHC is the statewide leader in burns, dermatology, hematology/oncology-medical, neonatology, neurology, neurosurgery, ophthalmology, otolaryngology, plastic surgery, and rheumatology

(1) Excludes bone marrow transplant, dental/oral surgery, heart transplant, kidney/pancreas transplant, and lung transplant

Source data provided by the UI Health Care Joint Office of Marketing and Communications using Iowa Hospital Association data

UIHC Gross Patient Charges by Primary Payor FYTD June 2004



UIHC enjoys a fairly diverse payor mix

Source data provided by UIHC, 2005

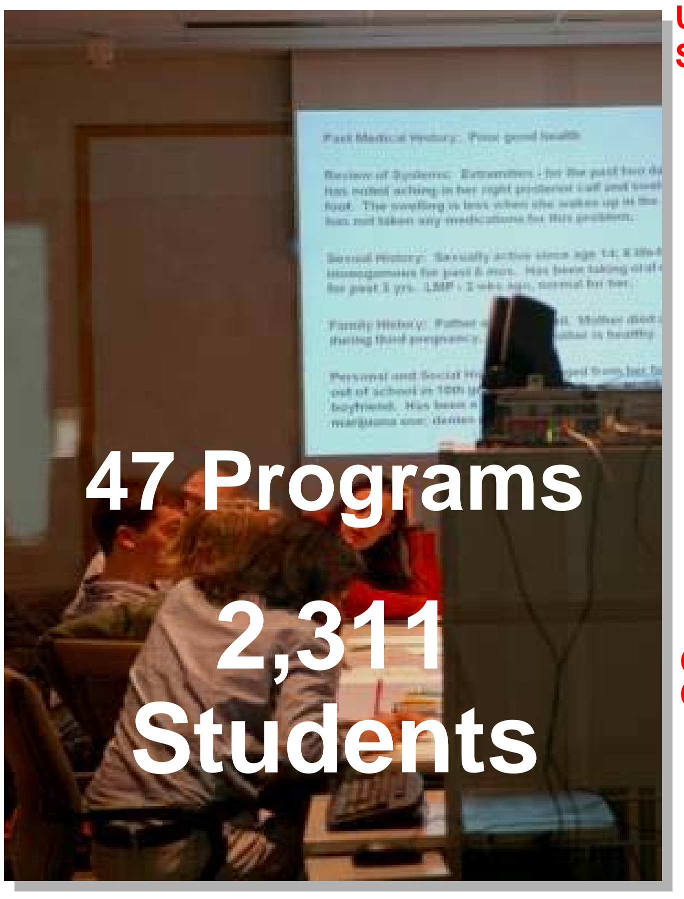
UIHC Health Science Student Training
FY 2003-2004

UNIVERSITY OF IOWA HOSPITALS AND CLINICS PROGRAMS

- Graduate Medical Education Programs
- Graduate Dental Education Programs
- Cardiovascular Interventional Program
- Cardiovascular Perfusion
- Diagnostic Cardiac Sonography Program
- Diagnostic Medical Sonography Program
- Dietetic Interns
- Health Management and Policy Interns, Residents and Fellows
- Emergency Medical Services Learning Resources Center
- Magnetic Resonance Imaging Program
- Nuclear Medicine Technology Certificate Students
- Orthoptic Training Students
- Pastoral Services Residents
- Pharmacy Residents
- Radiation Therapy Technology Students
- Radiologic Technology Students

COMMUNITY COLLEGE AND OTHER COLLEGE PROGRAMS

- Respiratory Therapy Students
- Electroneurodiagnostic Technology Students
- Health Information Management Interns
- Activities Therapy Interns
- Occupational Therapy Interns
- Physical Therapy Students
- Nursing Students



UNIVERSITY OF IOWA HEALTH SCIENCE COLLEGE PROGRAMS

- Medical Undergraduates
- Dentistry Undergraduates
- Nursing Undergraduate, Graduate, Nurse Practitioner, and Nurse Anesthetist Students
- Pharmacy Residents and PHARM D Students
- Speech Pathology & Audiology Students
- Physical Therapy Students
- Health Management and Policy Students
- Physician Assistant Students
- Clinical Laboratory Science Students
- Nuclear Medicine Technology Students
- Computed Tomography Program
- Public Health Students

OTHER UNIVERSITY OF IOWA COLLEGE PROGRAMS

College of Education

- Education Service Interns

Liberal Arts

- Activities Therapy Students
- Social Work Students

UIHC has a total of 19 medical residency programs

Source data provided by UIHC

FY 2006 Budget Review

University of Iowa Hospitals and Clinics

May 4, 2005

Agenda

- Brief review of key operating indicators for FY 2005
- Review budget issues for FY 2006
- Approval of gross charge increase for FY 2006

Summary of FY 2005 Operating Indicators

- UIHC has experienced relatively flat inpatient and outpatient volumes through February 2005.
- Market share has continued to grow in both the State and primary service area.
- The acuity of the patients served is high and increasing with overall case mix index of 1.62 and Medicare case mix index of 1.85.
- Average length of stay has increased by .15 days to 7.08 days, which has a negative economic effect on UIHC.
- Increased nurse recruitment and retention has led to lower agency utilization.
- The patient billing system has stabilized with net days in accounts receivable projected at 62 days at June 30 2005.
- Projected to finish FY 2005 with a 3.0% Operating Margin or $20.3 million.
- Cash balances are stable with projected days cash on hand at 218, slightly below the Moody's Aa median.

Six Year Summary of Operations

	FY2001	FY2002	FY2003	FY2004	Eight Months Ended February 28, 2005	Projected FY2005	Budgeted FY2006
**Acute Admissions	23,286	23,388	24,104	25,384	16,568	25,209	25,839
**Length of Stay	7.51	7.59	7.24	6.94	7.08	7.11	6.50
Surgical Cases	18,986	19,814	20,269	20,644	13,580	20,582	21,096
Clinic Visits	592,752	615,242	631,443	669,045	437,863	679,753	693,348
Market Share	6.1%	6.2%	6.7%	7.0%	N/A	N/A	N/A
Net Patient Revenue	$506.9M	$525.2M	$547.2M	$591.7M	$410.4M	$624.0M	$657.3M
Operating Margin	3.6%	2.0%	1.4%	1.6%	2.7%	3.0%	3.0%
Case Mix Index*							
All Acute Inpatients	1.5712	1.5866	1.6272	1.5950	1.6239	1.6239	1.6239
Medicare Inpatients	1.7778	1.7602	1.8182	1.7822	1.8502	1.8502	1.8502

*Case mix index is a national (Medicare) measure of inpatient severity, where the average case intensity is 1.0

** All years presented exclude newborn nursery utilization.

Aa Bond Rating Key Financial Ratio Comparison

	Audited UIHC FY 2001	Audited UIHC FY 2002	Audited UIHC FY 2003	Audited UIHC FY 2004	UIHC Feb 05 YTD	UIHC FY 05 Projected	UIHC FY 06 Budgeted	Median Moody's Aa Rating*
Days Cash on Hand	244.1	239.4	221.1	214.4	219.1	218.0	232.3**	224.9
Operating Margin	3.6%	2.0%	1.4%	1.6%	2.7%	3.0%	3.0%	3.3%
Debt to Capitalization Percent	2.1%	1.6%	4.3%	4.0%	3.7%	3.6%	10.2%	33.6%
Days in Accounts Receivable	69.1	67.3	101.3	71.8	63.7	62.0	62.0	55.9
Average Age of Plant	7.9	8.9	9.0	9.7	9.6	9.8	9.8	9.0

* Data is compiled from Moody's Investors Service publication "Not for Profit Healthcare: 2004 Outlook and Medians."
** Assumes issuance of $75.0 million of debt in FY 2006

FY 2006 Operating Budget Assumptions

Revenues

- Volume growth
  - Inpatient admissions 2.5% increase
  - Outpatient visits 2.0% increase
- Gross charge increase of 9.5%
- Net revenue growth per unit of service 3.0%
- Reduction in length of stay ½ day
- Bad debts @ 2.5% of charges ($35.8 million on $1.4 billion charge base)
- Payer mix stable
- State appropriation continues with no increase

FY 2006 Operating Budget Assumptions

Operating Expenses

- Salary base increases 2.0% - 4.35%
  - Fringe benefit rates average 33.3%
- Agency Expense - No increase in agency utilization
- Length of Stay decrease from 7.1 to 6.5 days
  - Results in reduction of 15,762 patient days, $3.5 million reduction in net revenue, and $7.3 million in expense savings for net benefit of $3.8 million
- Supply Chain initiatives expected to hold increases in medical supplies and drugs to 4% and 8%, respectively
- Utilities increase of 7.5%
- UI administrative services increase 4.5%
- Recruitment and retention of quality patient care staff

FY 2006 Operating Budget Assumptions

Operating Margin

- Operating margin budgeted at 3.0%, which is below the Moody's Aa median of 3.3% and is required to generate future capital capacity

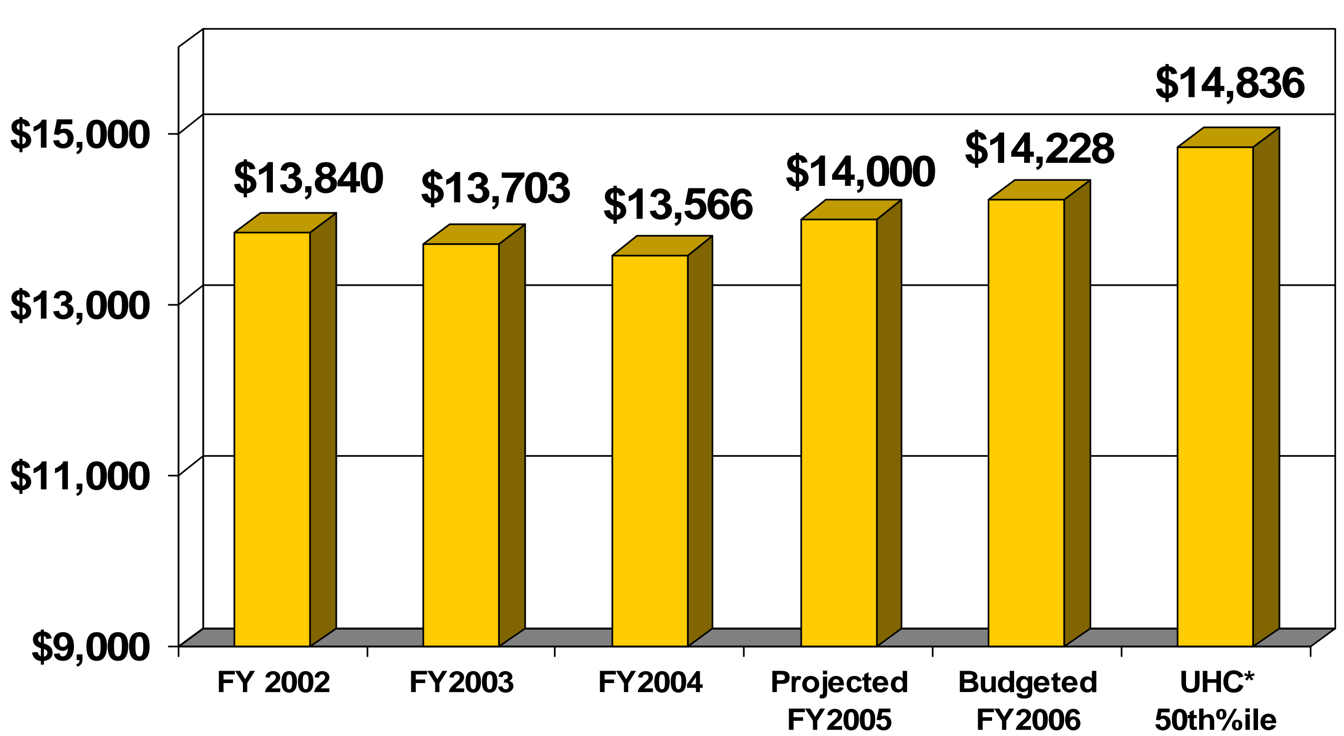
Balance Sheet

- Net days in patient accounts receivable stable at 62 days
- Assumes issuing $75 million of revenue bonds, which will bring the debt to capitalization ratio to 10.2%, significantly below the Aa median of 33.6%.
- Days cash on hand projected to be 232 days with Aa median of 225 days (assumes the issue of $75 million in revenue bonds, 189 days without bond issue)

Attachment D

Patient Revenues per Unit of Service

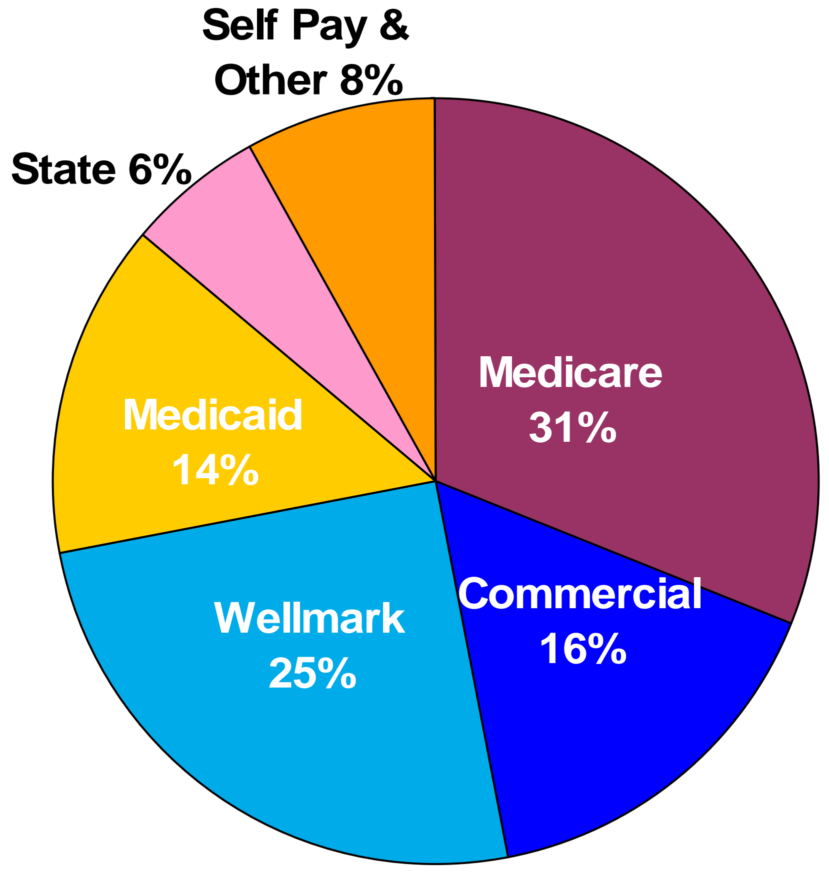
Net Patient Revenue** per Adjusted Discharge



* Benchmark is the 50th percentile of the University Health System Consortium for the two quarters ending December 2004.

** Net paying patient revenue plus Chapter 255 state indigent patient care program appropriation receipts.

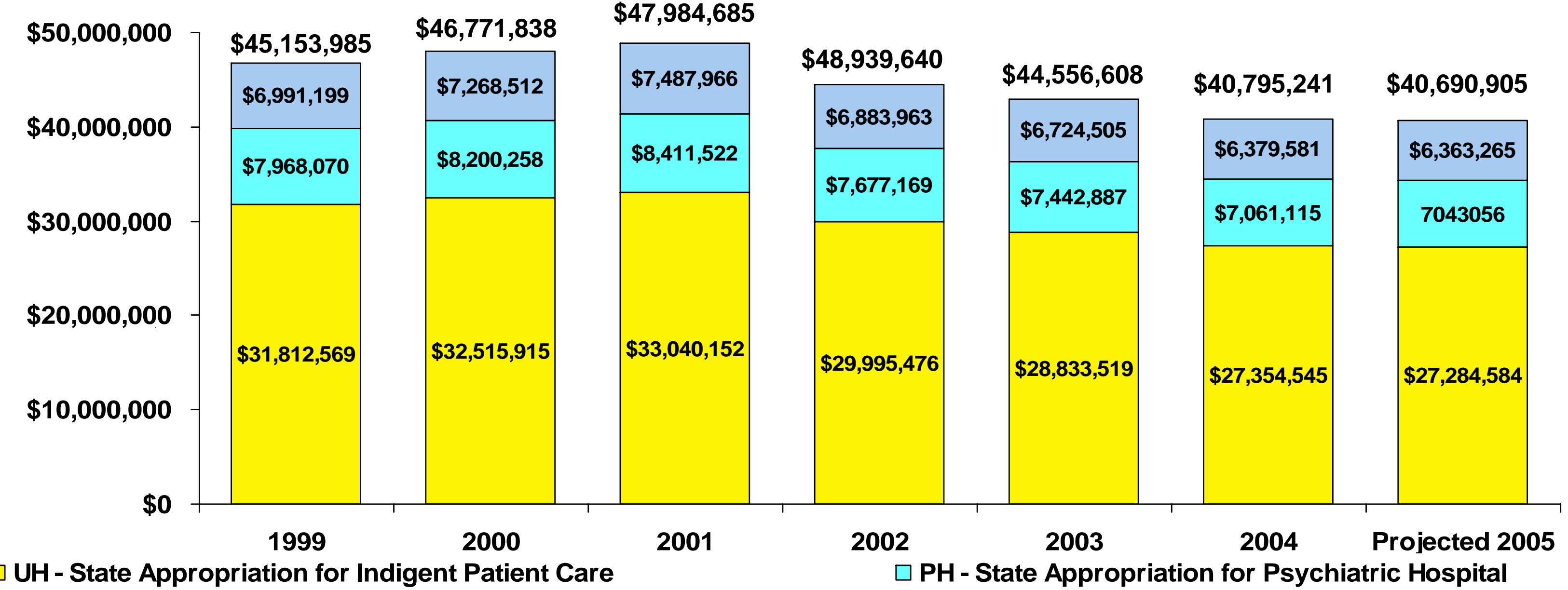
Gross Patient Charges By Primary Payor



Year to Date February, 2005

STATE APPROPRIATIONS
Actual Dollars - Combined Hospital Units

INDIGENT PATIENTS SERVED						
1999	2000	2001	2002	2003	2004	2005 (proj)
34,173	32,703	33,743	34,601	37,559	39,246	39,496



FY 2006 Revenue Plan

Focused Revenue Growth

- Capital prioritization process targets 20% return on investment.
- Focused business plans for Cardiovascular, Neurosurgery, Orthopedic and Oncology service lines; Children's Hospital of Iowa.
- Addition of two new operating rooms, extended hours.
- Opening of Radiation Oncology Center of Excellence.
- Full year with new "world class" Labor and Delivery, Neonatal ICU, and Pediatric ICU.
- Expansion of eight Surgical Intensive Care Unit beds; four Intermediate Pulmonary Care Unit beds.
- Addition of eight telemetry beds.
- Investment in Radiology will provide state-of-art technologies and increase throughput.

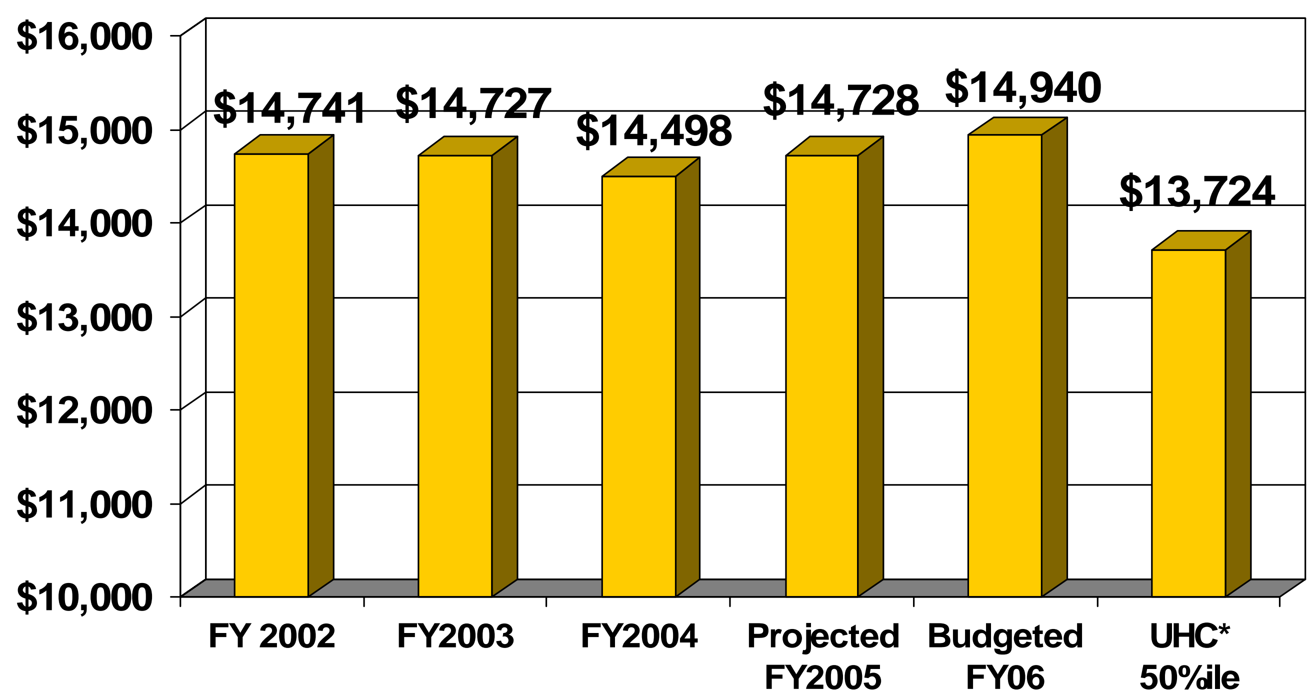
FY 2006 Revenue Plan

Cash Acceleration and Revenue Cycle Redesign

- All Projects Currently Underway
- Outsource Vendor Strategy
- Documentation Accuracy/ Coding with 3M
- Insurance Verification/ Authorization
- Addition of Health Benefit Advisors
- Upfront Cash Collections
- Review of Charge Master
- Managed Care Underpayments
- Development of Revenue Integrity Department
- Focused efforts in Managed Care Contracting Strategy

Operating Cost per Unit of Service

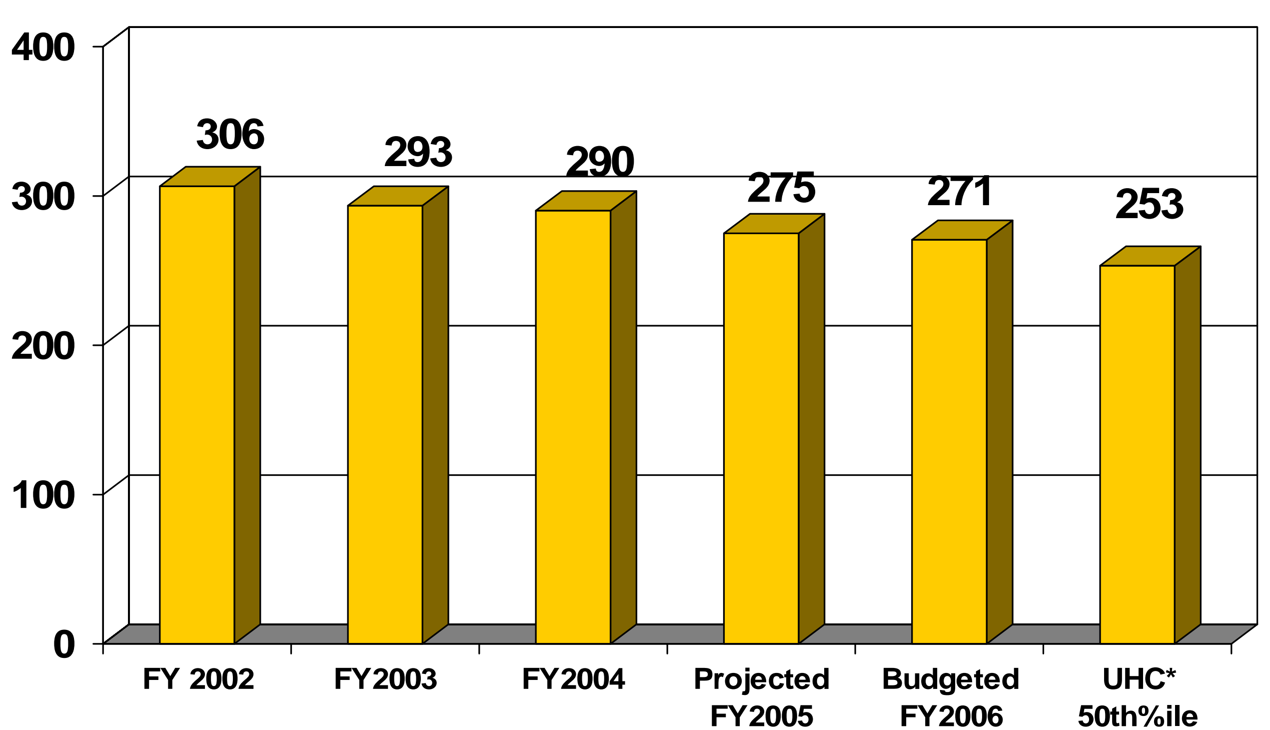
Cost per Adjusted Discharge



* Benchmark is the 50th percentile of the University Health System Consortium for the two quarters ended December 2004.

Operating Costs per Unit of Service

Hours Paid per Adjusted Discharge



* Benchmark is the 50th percentile of the University Health System Consortium for the two quarters ending December 2004.

Attachment D

Reducing Agency Staff Use

Total Monthly Agency Staff FTE's

FY 2003 - 2005

Full Time Equivalents (FTE's)

Month	FY2003	FY2004	FY2005
July	159	129	37
August	160	129	35
September	187	125	33
October	194	101	29
November	202	98	24
December	171	79	17
January	157	74	16
February	145	67	12
March	146	59	
April	138	56	
May	140	52	
June	131	44	

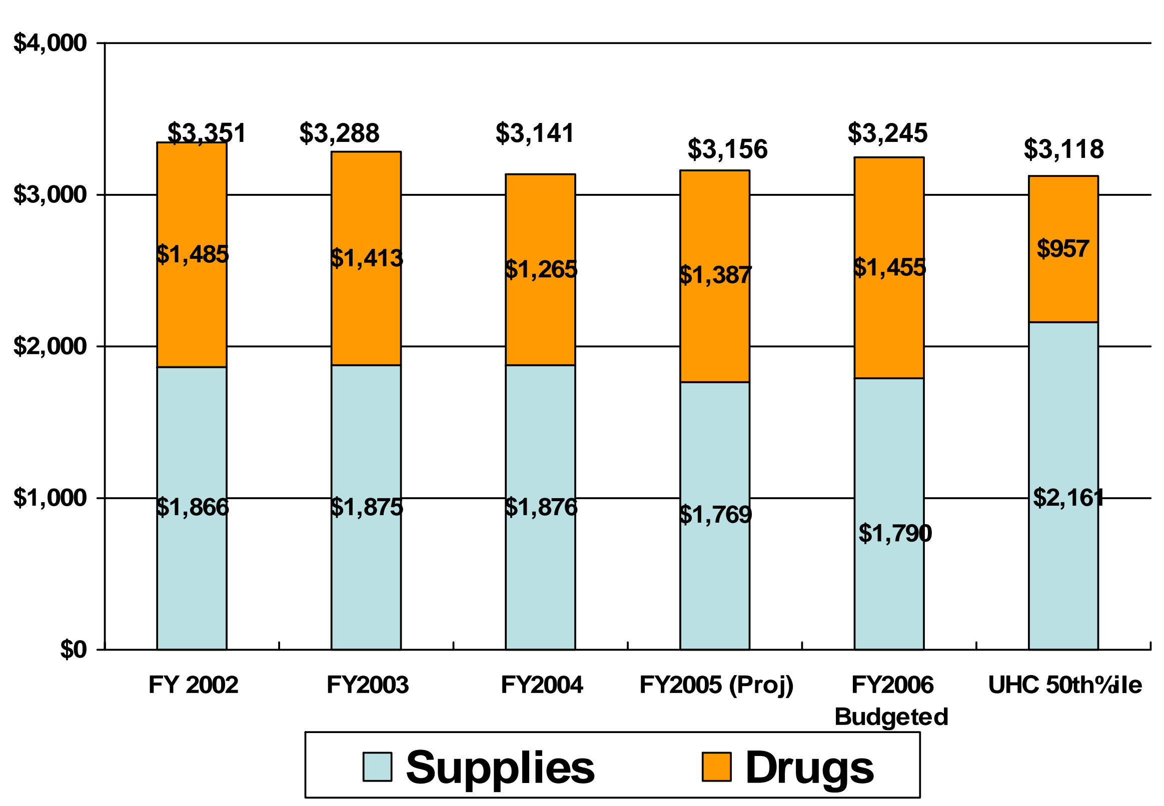
Aggregate Fringe Benefit Costs as a Percent of Salary Dollar

	AFSCME	P & S	SEIU
2002	39.2%	31.9%	31.9%
2003	41.0%	32.5%	32.5%
2004	47.0%	35.0%	35.0%
2005 (proj)	44.0%	32.0%	32.0%
2006 Budgeted	44.0%	32.7%	32.7%

26.7% — Iowa Hospitals Data Bank, 2004

24.7% — Median for University HealthSystem Consortium (UHC) hospitals reporting to ACTION OI for the two quarters ending December 2004

Operating Costs per Unit of Service



* Benchmark is the 50th percentile of the University Health System Consortium for the three quarters ending Sept 2004.

FY 2006 Expense Plan

Programmatic Reviews

- Comprehensive review of programs.
- Review of Purchase Services Agreement between UIHC and CCOM with focus on key performance indicators and accountability.
- Development of hospital-based Medical Directorships that will have specific expectations and accountabilities.
- Developing Office of Operations Improvement.
- Review of operations with opportunities for consolidation and shared staffing.
- Increasing throughput in all clinical areas with focused efforts on the Operating Rooms and Radiology.
- Utilization management in laboratory, pharmacy and respiratory services.

FY 2006 Expense Plan

Expense Management

- Productivity Based Labor Budgeting
  - Staff-hour per Unit of Service
  - Requiring performance at or above peer-group benchmarks
  - Monthly/ quarterly operations reviews
- Agency utilization reduced from 132 FTE's at June 2003 to 12 at February 2005.
- Supply Chain management process underway
  - Pricing initiative through University Health Consortium/Novation
  - Vendor Consolidation
  - Product standardization
  - Right product/ right patient
  - Physician-driven utilization management

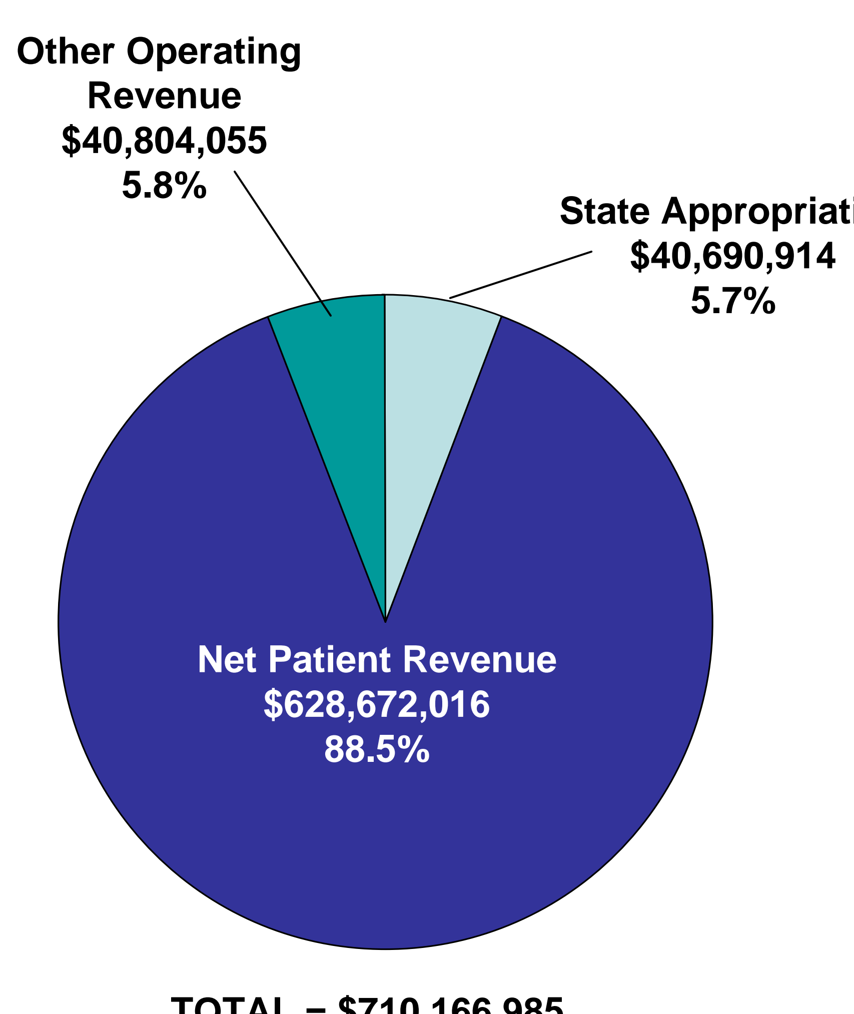
FY 2006 Expense Plan

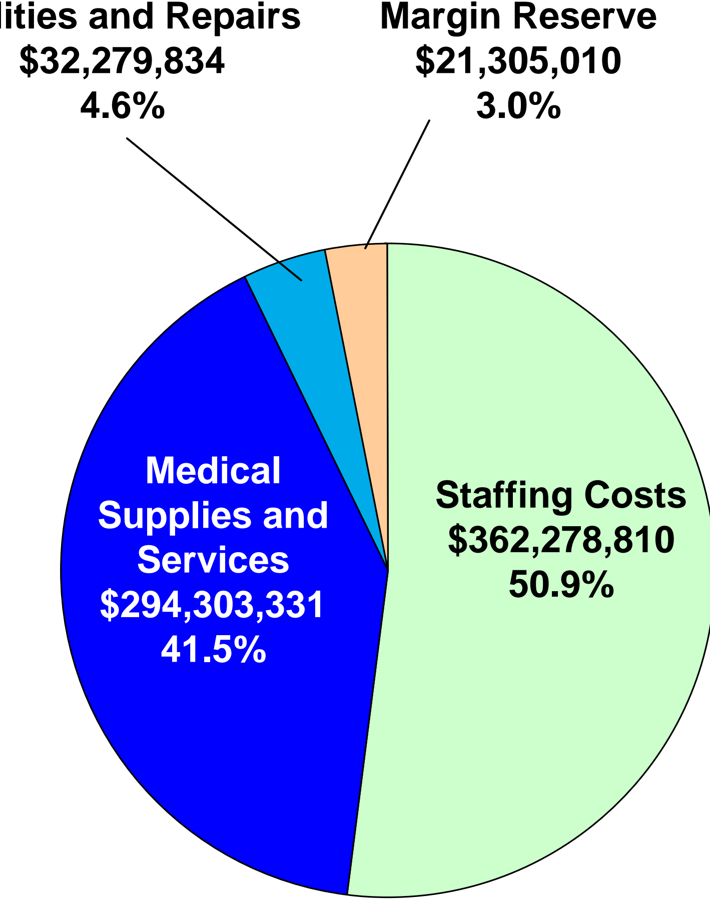
Length of Stay Management

- UIHC acute average length of stay is at 7.11 days versus benchmark of 5.98 days, Budget FY 2006 at 6.5 days.
- Bed Placement Center opened to facilitate bed transfers and referrals.
- Peer comparison of physicians within clinical specialties.
- Acceptance and adherence to evidence-based clinical pathways.

Attachment D

Combined Hospitals Sources and Uses of FY06 Proposed Budget





TOTAL = $710,166,985

TOTAL = $710,166,985

UIHC Cost Structure

FY 2006 Proposed Budget

Staffing costs comprise over half of UIHC expenses; the majority of dollars spent are for staff covered by bargaining unit.

Attachment D

Operating Margin Comparisons

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	PROJECTED 2005	BUDGET 2006
UIHC	5.8%	5.1%	3.5%	2.0%	1.4%	1.6%	3.0%	3.0%
IOWA HOSPITALS*	4.1%	3.1%	3.3%	3.1%	2.3%			
TEACHING HOSPITALS	1.2%	0.6%	1.6%	1.9%	2.4%			

(Axis: 0.0% – 7.0%)

* Iowa Hospital Association Annual Report and DATABANK reports.

**Annual COTH Survey of Hospitals’ Financial and General Operating Data.

Attachment D

University of Iowa Hospitals and Clinics
FY 2006 Preliminary Capital Expenditure Budget

	2004	2005	2006
Use of improvement funds	$10,536,000	$20,000,000	$0
Proceeds of bond issues	$18,167,000	$0	$30,000,000
EBDITA for capital	$51,387,000	$66,000,000	$60,000,000
Total	$80,090,000	$86,000,000	$90,000,000

* Assumes issuance of $75 million of revenue bonds in FY 2006, $45 million to be spent in FY 2007

Attachment D

Aggregate Rate Increase History

	UIHC	Iowa Urban	All Iowa
2001	6.0%	6.7%	5.7%
2002	6.0%	12.2%	11.2%
2003	8.0%	14.3%	13.8%
2004	9.5%	8.8%	8.5%
2005	9.50%	8.70%	9.90%
2006 Projected	9.50%		

Y-axis: 0.0% 2.0% 4.0% 6.0% 8.0% 10.0% 12.0% 14.0% 16.0%

Source: Iowa Hospital Association Databank based on average inpatient charges per patient day

Why 9.5% rate increase?

- 9.5% rate increase translates to a 1.08% actual increase in net patient revenue.
- UIHC continues to lag academic medical center peers and historical state-wide rate increases.
- University HealthSystem Consortium members (UHC) anticipate rate increases in 5-15% range, averaging 8%.
- Maintaining appropriate charge structure impacts Medicare rates in future years.
- Absent appropriate charge increases, UIHC will not be able to achieve the budgeted growth in net revenue per adjusted admission of 3%.

Attachment D

Projected Percentage Net Price Increases at Alternate Gross Price Increases

Gross Price Increase	Net Price Increase	Net Revenue
6.0%	0.69%	$8.6M
7.0%	0.80%	$10.0M
8.0%	0.91%	$11.4M
9.0%	1.03%	$12.9M
9.5% *	1.08%	$13.6M
10.0%	1.14%	$14.3M
11.0%	1.26%	$15.7M
12.0%	1.37%	$17.1M

* A 9.5% increase will generate $118.8M in gross charges and $13.6M in net revenue

Net Paying Patient Revenue as a Percent of Gross Patient Charges

	Actual 1999-00	Actual 2000-01	Actual 2001-02	Actual 2002-03	Actual FY 2004 *	Proj FY 2005	Budget FY 2006
Net Paying Patient Revenue as a Percent of Gross Patient Charges	61.50%	60.20%	56.80%	53.00%	48.20%	45.90%	44.20%

Midwest Academic Medical Centers
Case Mix Adjusted Charges per Discharge CY 2004

Source: University Healthsystem Consortium, case mix adjusted average charges per inpatient discharge

UHC Peer Comparison
Average Charges per Discharge

	All UHC Members	Midwest Members	Sole AHC in Market
Minimum	$ 8,543	$ 14,626	$ 13,715
25th Percentile	$ 13,715	$ 16,703	$ 15,580
Median	$ 17,027	$ 18,452	$ 16,359
75th Percentile	$ 22,768	$ 21,685	$ 18,147
Maximum	$ 50,732	$ 30,320	$ 22,200
Iowa %tile	43%	8%	30%

UIHC Average Charges per Discharge $16,071

Source: University Healthsystem Consortium, case mix adjusted data

UHC Peer Comparison
Average Charges per Patient Day

	All UHC Members	Midwest Members	Sole AHC in Market
Minimum	$ 1,678	$ 2,258	$ 2,130
25th Percentile	$ 2,402	$ 2,770	$ 2,552
Median	$ 2,912	$ 3,216	$ 2,845
75th Percentile	$ 3,934	$ 3,723	$ 3,311
Maximum	$ 9,778	$ 4,905	$ 3,602
UIHC %tile	22%	8%	10%

UIHC Average Charges per Patient Day $2,388

Source: University Healthsystem Consortium, case mix adjusted data

Attachment D

Projected UHC FY2005 Comparison after 9.5% Increase

	Charge $ per Discharge
Midwest	$20,982
Sole AHC	$18,306
All UHC	$21,206
UIHC	$17,598

Source: University Healthsystem Consortium, case mix adjusted average charges per inpatient discharge, rolled forward with avg 8% CDM increase

What Is The Impact Of Charge Increases On Employers?

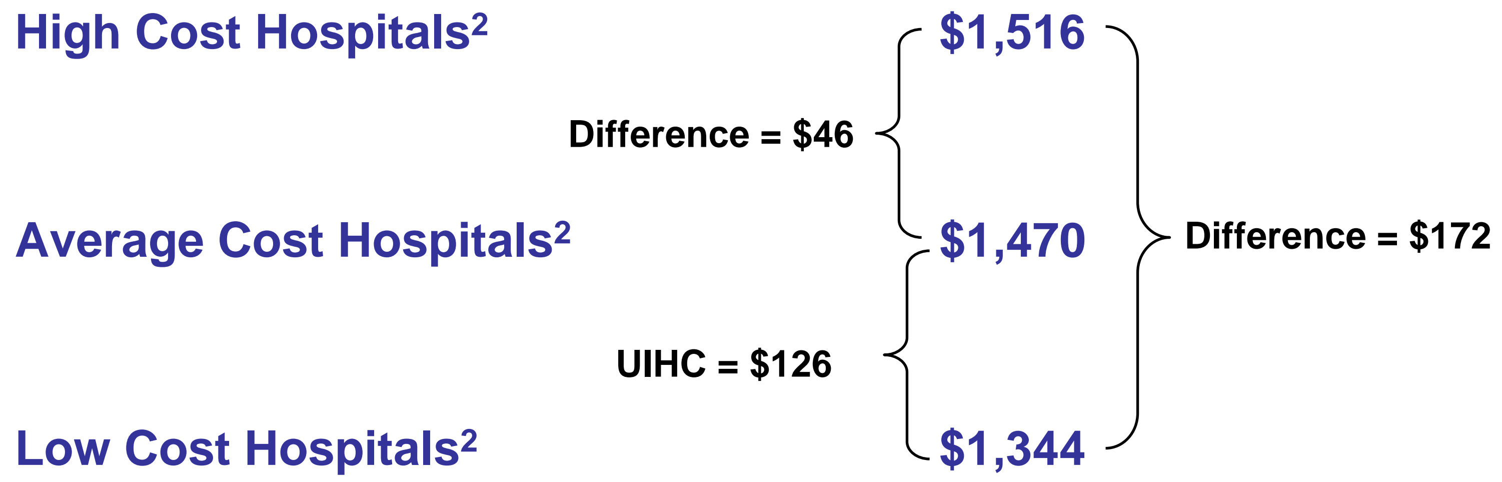
- If fully insured, no immediate impact. Risk is assumed by insurer.
- If self-insured, impact of charge increase limited to those services paid on discount from charges.
- 78% of UIHC total charges paid at fixed rate vs. discount
- Impact to any one employer would be minimal

What Is The Impact Of Charge Increases On Patients?

- Self Pay patients will be impacted (<5% of total charges). Collections on this population average <30%.
  - Policy for discounts to the medically indigent
- University HealthSystem Consortium analyzed the impact of higher charges on insured patients:
  - No impact on deductibles
  - Actual copayment impact is minimal, out of pocket maximums limit patient liability

Attachment D

Impact of Higher Charges on Actual Copayment Surprisingly Small



Patients will have only nominal out-of-pocket copayment impact with charge increases.

[1] The benefit plan design applied to develop average out-of-pocket cost per admission is comprised of a $300 deductible, $1,800 OOP maximum, and 90% coinsurance.

[2] Hospitals ranked in quartiles by case mix-adjusted allowable charges developed from more than 300,000 PPO admissions and corresponding outpatient visits modeled through three standard benefit plan designs: High Cost = top 25%, Average Cost = middle 50%, and Low Cost = bottom 25%.

Source: Milliman USA, Consulting Actuaries

Out-of-Pocket Maximums Limit Impact on Patients

Comparison Of One Patient's Out-Of-Pocket Copayments
("High Cost" vs "Low Cost" Hospitals, In-Network PPO Benefits)

	"Low Cost" Hospital	"High Cost" Hospital[1]
Billed Charges	$25,943	$40,130
- PPO Discount	- $7,783	-$12,039
Allowable Charges	$18,160	$28,091
10% Patient Copay (Max. OOP=$2,000)*	$1,816	$2,000*

Cost Difference To Patient = $184

* Assumes patient met none of his/her out-of-pocket limit prior to admission.
[1] "High Cost" hospital is defined as a hospital in the upper quartile of case mix-adjusted allowable charges developed from more than 300,000 PPO admissions and corresponding outpatient visits modeled through three standard benefit plan designs.
Source: Milliman USA, Consulting Actuaries

Conclusion

- Patient care activity is projected to increase in FY 06.
- Additional costs are expected to increase with the majority of these incremental costs in salary, benefits, supplies and implants.
- UIHC is projected to finish FY 2005 with a 3.0% operating margin.
- UIHC requests the Regent's approval of 9.5% increase.

Discussion and Questions

Attachment E

BOARD OF REGENTS, STATE OF IOWA
Iowa State University
Ames, Iowa

University of Iowa Hospitals and Clinics
Executive Board Committee
Memorial Union
Sun Room

March 14, 2005 – 2:15 p.m. – 2:25 p.m.

Committee members: Amir Arbisser, (Chair), Robert Downer, Owen Newlin, Rose Vasquez, President Pro Tem Robert Downer (ex officio)

Regent Arbisser called the meeting to order at 2:15 p.m.

H&C 1. Minutes from November 3, 2004 and February 2, 2005 Committee Meeting

Regent Arbisser said there were minutes from two sessions for approval. He made a correction on the February 2, 2005 minutes. On page 2, under Recruitment, the correct name was Paul Rothman, Internal Medicine.

MOTION	Regent Newlin moved that the November 3, 2004 and February 2, 2005 minutes be approved. Regent Downer seconded the motion. **MOTION CARRIED UNANIMOUSLY**

Executive Director Nichols said that everyone should have been notified about an opportunity for an Iowa Hospital Association Trustees Training opportunity on March 30, 2005 in Des Moines, Iowa.

Regent Arbisser adjourned the meeting at 2:25 p.m.

Pamela M. Elliott
Chief, Business Officer

Gregory S. Nichols
Executive Director

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