



University of Iowa Health Care

*Presentation to
The Board of Regents, State of Iowa
April 29-30, 2009*

- Opening Remarks – Robillard
- Operating and Financial Performance – Kates and Fisher
- Expense Moderation and Improvement Initiatives – Kates, Fisher and Williamson
- UI Health Care Operating Budget FY 2010 – Kates and Fisher



Operating and Financial Performance

Ken Kates

Associate Vice President and CEO, UI Hospitals and Clinics

Ken Fisher

Associate Vice President for Finance and CFO, UI Hospitals and Clinics

Volume Indicators

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Discharges	22,168	22,472	21,925	(304)	-1.4% ○	243	1.1% ○
Patient Days	146,575	144,276	144,639	2,299	1.6% ○	1,936	1.3% ○
Length of Stay	6.64	6.43	6.62	0.21	3.3% ●	0.02	0.3% ○
Average Daily Census	534.95	526.55	525.96	8.39	1.6% ○	8.99	1.7% ○
Surgeries – Inpatient	8,083	9,488	8,248	(1,405)	-14.8% ●	(165)	-2.0% ○
Surgeries – Outpatient	9,653	8,753	8,487	900	10.3% ●	1,166	13.7% ●
Emergency Treatment Center Visits	36,034	33,389	32,354	2,645	7.9% ●	3,680	11.4% ●
Outpatient Clinic Visits	551,125	542,188	521,477	8,937	1.6% ○	29,648	5.7% ●
Case Mix (thru Feb)	1.8298	1.7722	1.7728	0.0576	3.3%	0.0570	3.2%
Medicare Case Mix (thru Feb)	2.0172	1.9188	1.9112	0.0984	5.1%	0.1060	5.6%




● Greater than 2.5% Favorable	○ Neutral	● Greater than 2.5% Unfavorable
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Discharges by Type

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Adult Medical	6,978	7,476	6,949	(498)	-6.7% ●	29	0.4% ○
Adult Surgical	10,211	9,814	9,417	397	4.1% ●	794	8.4% ●
Adult Psych	1,670	1,709	1,649	(39)	-2.3% ○	21	1.3% ○
<i>Subtotal – Adult</i>	<i>18,859</i>	<i>19,000</i>	<i>18,015</i>	<i>(141)</i>	<i>-0.7% ○</i>	<i>844</i>	<i>4.7% ●</i>
Pediatric Medical	2,273	2,451	2,928	(178)	-7.3% ●	(655)	-22.4% ●
Pediatric Surgical	126	125	101	1	0.8% ○	25	24.8% ●
Pediatric Critical Care	579	585	572	(6)	-1.0% ○	7	1.2% ○
Pediatric Psych	331	312	309	19	6.1% ●	22	7.1% ●
<i>Subtotal – Pediatrics w/o newborn</i>	<i>3,309</i>	<i>3,472</i>	<i>3,910</i>	<i>(163)</i>	<i>-4.7% ●</i>	<i>(601)</i>	<i>-15.4% ●</i>
Newborn	998	948	939	50	5.3% ●	59	6.3% ●
TOTAL w/o Newborn	22,168	22,472	21,925	(304)	-1.4% ○	243	1.1% ○




 Greater than 2.5% Favorable
  Neutral
  Greater than 2.5% Unfavorable

Discharge Days by Type

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Adult Medical	40,038	38,047	38,175	1,991	5.2% ●	1,863	4.9% ●
Adult Surgical	56,251	54,736	52,466	1,515	2.8% ●	3,785	7.2% ●
Adult Psych	18,596	17,023	17,751	1,573	9.2% ●	845	4.8% ●
<i>Subtotal – Adult</i>	<i>114,885</i>	<i>109,805</i>	<i>108,392</i>	<i>5,080</i>	<i>4.6% ●</i>	<i>6,493</i>	<i>6.0% ●</i>
Pediatric Medical	12,650	14,676	16,595	(2,026)	-13.8% ●	(3,945)	-23.8% ●
Pediatric Surgical	1,239	1,282	1,105	(43)	-3.4% ●	134	12.1% ●
Pediatric Critical Care	14,599	16,063	15,368	(1,464)	-9.1% ●	(769)	-5.0% ●
Pediatric Psych	3,138	2,339	2,705	799	34.2% ●	433	16.0% ●
<i>Subtotal – Pediatrics w/o newborn</i>	<i>31,626</i>	<i>34,361</i>	<i>35,773</i>	<i>(2,735)</i>	<i>-8.0% ●</i>	<i>(4,147)</i>	<i>-11.6% ●</i>
Newborn	2,380	2,191	2,222	189	8.6% ●	158	7.1% ●
TOTAL w/o Newborn	146,511	144,166	144,165	2,345	1.6% ○	2,346	1.6% ○




 Greater than 2.5% Favorable
  Neutral
  Greater than 2.5% Unfavorable

Average Length of Stay by Type

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Adult Medical	5.74	5.09	5.49	0.65	12.8% ●	0.25	4.6% ●
Adult Surgical	5.51	5.58	5.57	(0.07)	-1.3% ○	(0.06)	-1.1% ○
Adult Psych	11.14	9.96	10.76	1.18	11.9% ●	0.38	3.5% ●
Subtotal – Adult	6.09	5.78	6.02	0.31	5.4% ●	0.07	1.2% ○
Pediatric Medical	5.57	5.99	5.67	(0.42)	-7.0% ●	(0.10)	-1.8% ○
Pediatric Surgical	9.83	10.29	10.94	(0.46)	-4.5% ●	(1.11)	-10.2% ●
Pediatric Critical Care	25.21	27.47	26.87	(2.26)	-8.2% ●	(1.66)	-6.2% ●
Pediatric Psych	9.48	7.50	8.75	1.98	26.4% ●	0.73	8.3% ●
Subtotal – Pediatrics w/o newborn	9.56	9.90	9.15	(0.34)	-3.4% ●	0.41	4.5% ●
Newborn	2.38	2.31	2.37	0.07	3.0% ●	0.01	0.4% ○
TOTAL w/o Newborn	6.61	6.42	6.58	0.19	3.0% ●	0.03	0.5% ○

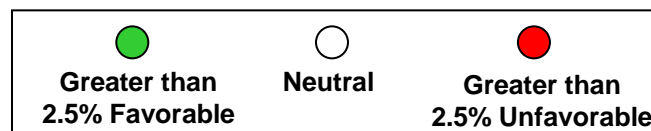
 Greater than 2.5% Favorable
  Neutral
  Greater than 2.5% Unfavorable

Outpatient Surgeries – by Clinical Department

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Cardiothoracic	55	35	54	20	59.1% ●	1	1.9% ○
Dentistry	423	271	372	152	56.2% ●	51	13.7% ●
Dermatology	35	45	41	(10)	-22.6% ●	(6)	-14.6% ●
General Surgery	1,321	999	1,145	322	32.3% ●	176	15.4% ●
Gynecology	481	464	482	17	3.7% ●	(1)	-0.2% ○
Internal Medicine	2	7	7	(5)	-71.3% ●	(5)	-71.3% ●
Neurosurgery	240	52	73	188	365.2% ●	167	228.8% ●
Ophthalmology	2,500	2,425	2,221	75	3.1% ●	279	12.6% ●
Orthopedics	2,145	2,087	1,995	58	2.8% ●	150	7.5% ●
Otolaryngology	1,454	1,223	1,267	231	18.9% ●	187	14.8% ●
Pediatrics	4	7	6	(3)	-42.6% ●	(2)	-33.3% ●
Urology w/ Procedure Ste.	993	1,138	824	(145)	-12.7% ●	169	20.5% ●
Total	9,653	8,753	8,487	900	10.3% ●	1,166	13.7% ●



Inpatient Surgeries – by Clinical Department

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Cardiothoracic	799	761	674	38	5.0% ●	125	18.5% ●
Dentistry	116	141	118	(25)	-17.7% ●	(2)	-1.7% ○
General Surgery	2,034	2,403	2,082	(369)	-15.4% ●	(48)	-2.3% ○
Gynecology	589	674	570	(85)	-12.6% ●	19	3.3% ●
Neurosurgery	1,265	1,492	1,346	(227)	-15.2% ●	(81)	-6.0% ●
Ophthalmology	109	137	107	(28)	-20.5% ●	2	1.9% ○
Orthopedics	2,026	2,386	2,079	(360)	-15.1% ●	(53)	-2.5% ●
Otolaryngology	577	739	638	(162)	-21.9% ●	(61)	-9.6% ●
Pediatrics	1	0	0	1	100.0% ●	1	100.0% ●
Urology w/ Procedure Ste.	567	755	634	(188)	-24.9% ●	(67)	-10.6% ●
Total	8,083	9,488	8,248	(1,405)	-14.8% ●	(165)	-2.0% ○

●	○	●
Greater than 2.5% Favorable	Neutral	Greater than 2.5% Unfavorable

Emergency Treatment Center

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
ETC Visits	36,034	33,389	32,354	2,645	7.9% ●	3,680	11.4% ●
ETC Admits	9,618	9,181	8,744	437	4.8% ●	874	10.0% ●
Conversion Factor	26.7%	27.5%	27.0%		-2.9% ●		-1.2% ○
ETC Admits / Total Admits	43.6%	40.9%	40.0%		6.4% ●		8.9% ●

●	○	●
Greater than 2.5% Favorable	Neutral	Greater than 2.5% Unfavorable

Clinic Visits by Clinical Department

July 2008 through March 2009



Operating Review (YTD)	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Anesthesia	10,651	12,391	12,579	(1,740)	-14.1%	(1,928)	-15.3%
CDD	5,546	5,081	5,128	465	9.2%	418	8.2%
Clinical Research	6,165	5,895	6,035	270	4.6%	130	2.2%
Dermatology	18,374	19,105	18,060	(731)	-3.8%	314	1.7%
ETC	36,034	32,888	31,226	3,146	9.6%	4,808	15.4%
Employee Health Clinic	12,751	12,481	12,424	270	2.2%	327	2.6%
Family Care Center	73,886	80,484	76,086	(6,598)	-8.2%	(2,200)	-2.9%
General Surgery	19,533	19,591	19,620	(58)	-0.3%	(87)	-0.5%
Hospital Dentistry	17,326	18,167	17,073	(841)	-4.6%	253	1.5%
Internal Medicine	84,306	80,084	78,261	4,222	5.3%	6,045	7.7%
Iowa Care Clinic	11,031	4,824	5,333	6,207	128.7%	5,698	106.8%
Neurology	12,298	11,598	11,668	700	6.0%	630	5.4%
Neurosurgery	6,748	6,614	6,718	134	2.0%	30	0.5%
Obstetrics/Gynecology	52,345	49,377	48,098	2,968	6.0%	4,247	8.8%
Ophthalmology	50,343	55,798	46,824	(5,455)	-9.8%	3,519	7.5%
Orthopedics	39,262	39,072	38,631	190	0.5%	631	1.6%
Otolaryngology	20,933	20,409	20,180	524	2.6%	753	3.7%
Pediatrics	28,830	25,364	25,168	3,466	13.7%	3,662	14.6%
Psychiatry	30,472	29,379	29,019	1,093	3.7%	1,453	5.0%
Thoracic – Cardio Surgery	1,972	1,668	1,598	304	18.3%	374	23.4%
Urology	11,944	11,485	11,253	459	4.0%	691	6.1%
Other	375	433	495	(58)	-13.4%	(120)	-24.2%
Total	551,125	542,188	521,477	8,937	1.7%	29,648	5.7%



Greater than 2.5% Favorable

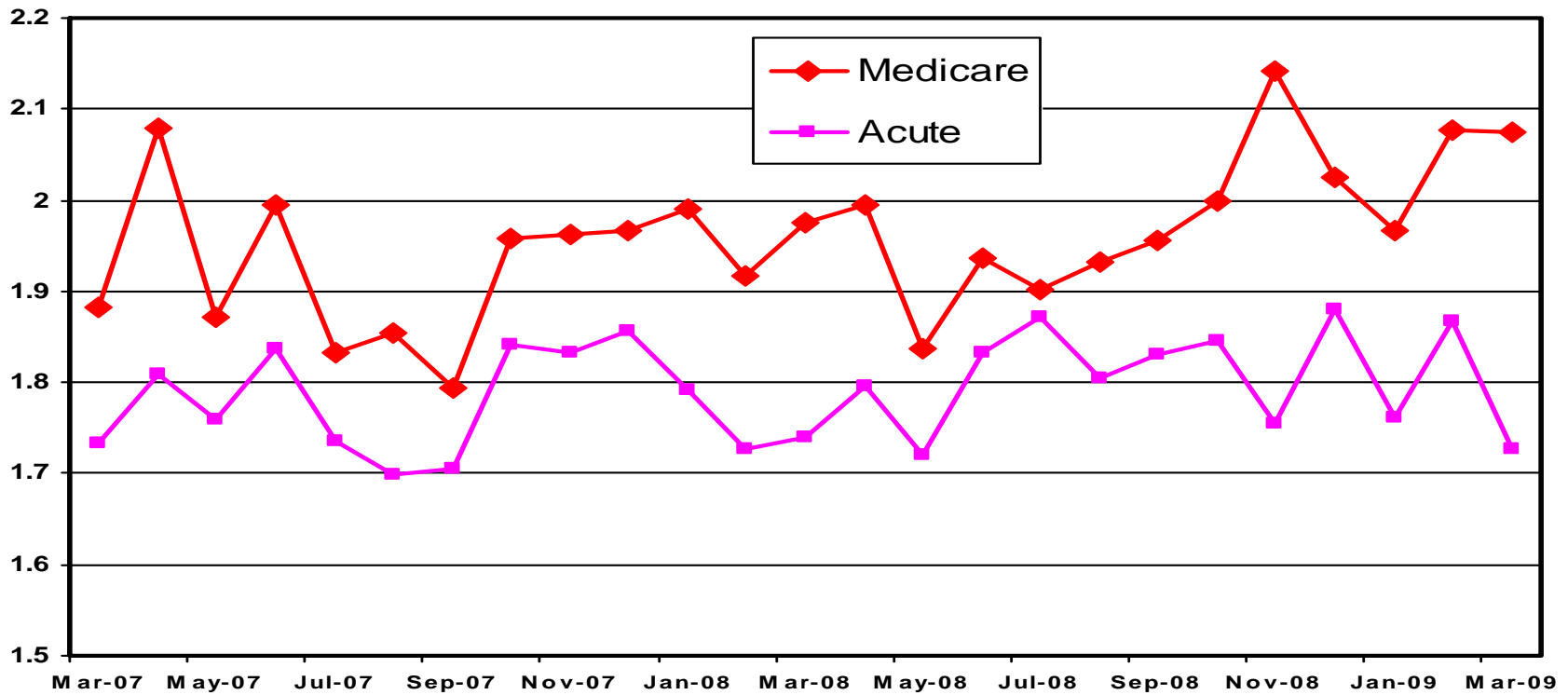


Neutral



Greater than 2.5% Unfavorable

Case Mix Index



UIHC Comparative Financial Results

Fiscal Year to Date March 2009



NET REVENUES:	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Patient Revenue	\$660,770	\$683,828	\$610,613	(\$23,058)	-3.4%	\$50,157	8.2%
Appropriations	5,210	5,263	10,536	(53)	-1.0%	(5,326)	-50.6%
Other Operating Revenue	34,590	32,321	32,145	2,269	7.0%	2,445	7.6%
Total Revenue	\$700,570	\$721,412	\$653,294	(\$20,842)	-2.9%	\$47,276	7.2%

EXPENSES:

Salaries and Wages	\$380,540	\$374,721	\$333,694	\$5,819	1.6%	\$46,846	14.0%
General Expenses	272,204	269,712	243,430	2,492	0.9%	28,774	11.8%
Operating Expense before Capital	\$652,744	\$644,433	\$577,124	\$8,311	1.3%	\$75,620	13.1%
Cash Flow Operating Margin	\$47,826	\$76,979	\$76,170	(\$29,153)	-37.9%	(\$28,344)	-37.2%
Capital- Depreciation and Amortization	56,547	56,838	52,009	(291)	-0.5%	4,538	8.7%
Total Operating Expense	\$709,291	\$701,271	\$629,133	\$8,020	1.1%	\$80,158	12.7%

Operating Income	(\$8,721)	\$20,141	\$24,161	(\$28,862)	-143.3%	(\$32,882)	-136.1%
Operating Margin %	-1.2%	2.8%	3.7%		-4.0%		-4.9%
Gain (Loss) on Investments	(18,078)	12,862	14,687	(30,940)	-240.6%	(32,765)	-223.1%
Non-Recurring Items	-	-	-	0	0.0%	0	0.0%
Net Income	(\$26,799)	\$33,033	\$38,848	(\$59,832)	-181.1%	(\$65,647)	-169.0%
Net Margin %	-3.9%	4.5%	5.8%		-8.4%		-9.7%

UIHC Comparative Financial Results

March 2009



NET REVENUES:	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Patient Revenue	\$75,213	\$77,606	\$67,804	(\$2,393)	-3.1%	\$7,409	10.9%
Appropriations	567	585	1,171	(18)	-3.1%	(604)	-51.6%
Other Operating Revenue	4,313	3,639	3,780	674	18.5%	533	14.1%
Total Revenue	\$80,093	\$81,830	\$72,755	(\$1,737)	-2.1%	\$7,338	10.1%

EXPENSES:

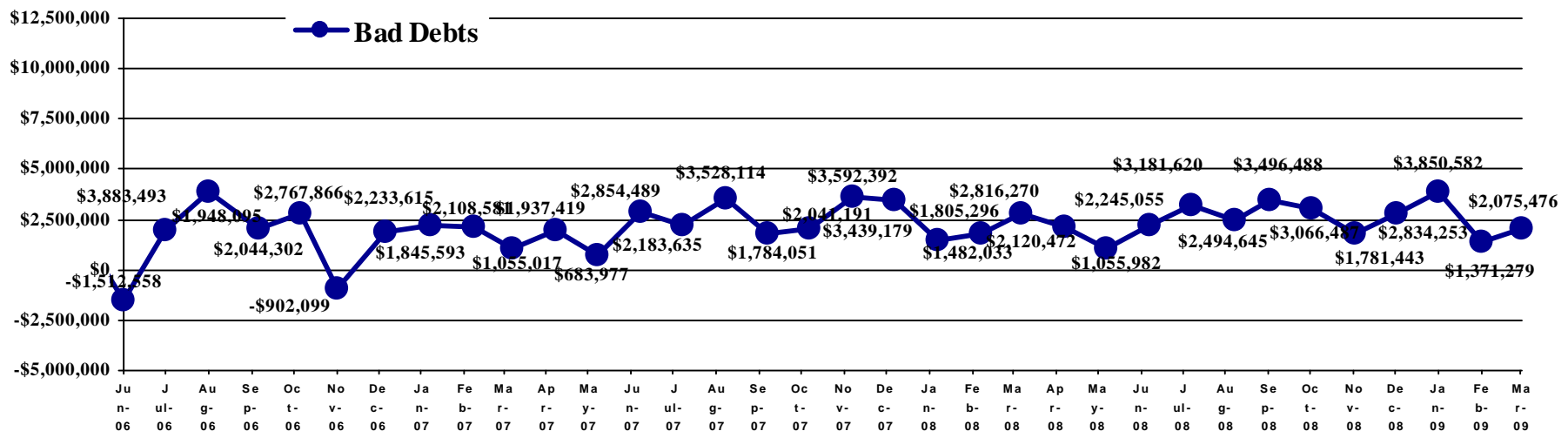
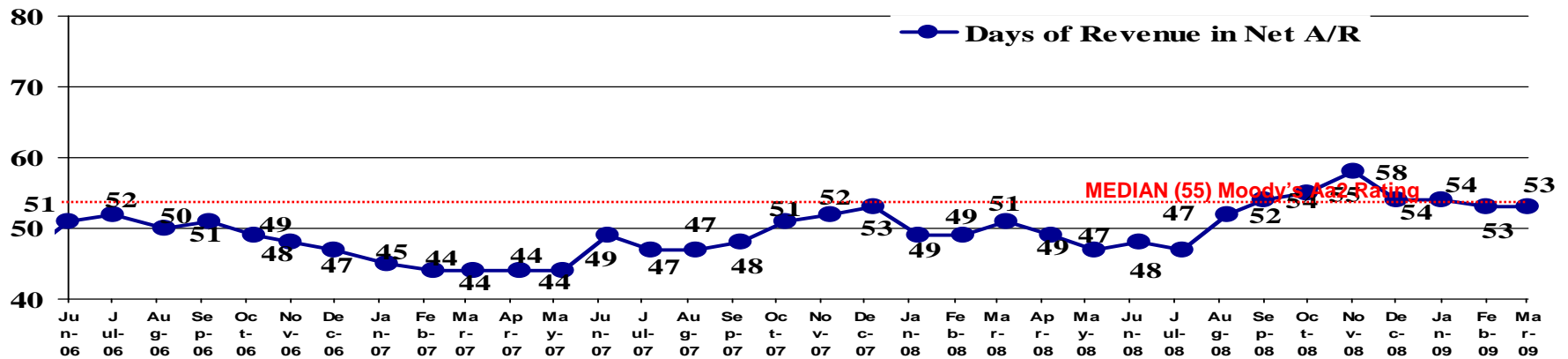
Salaries and Wages	\$42,202	\$42,563	\$38,068	(\$361)	-0.9%	\$4,134	10.9%
General Expenses	29,798	29,378	25,585	420	1.4%	4,213	16.5%
Operating Expense before Capital	\$72,000	\$71,941	\$63,653	\$59	0.1%	\$8,347	13.1%
Cash Flow Operating Margin	\$8,093	\$9,889	\$9,102	(\$1,796)	-18.2%	(\$1,009)	-11.1%
Capital- Depreciation and Amortization	7,245	6,315	5,814	930	14.7%	1,431	24.6%
Total Operating Expense	\$79,245	\$78,256	\$69,467	\$989	1.3%	\$9,778	14.1%

Operating Income	\$848	\$3,574	\$3,288	(\$2,726)	-76.3%	(\$2,440)	-74.2%
Operating Margin %	1.1%	4.4%	4.5%		-3.3%		-3.4%
Gain (Loss) on Investments	1,128	1,429	965	(301)	-21.1%	163	16.9%
Non-Recurring Items	-	-	-	0	0.0%	0	0.0%
Net Income	\$1,976	\$5,003	\$4,253	(\$3,027)	-60.5%	(\$2,277)	-53.5%
Net Margin %	2.4%	6.0%	5.8%		-3.6%		-3.4%

Comparative Accounts Receivable at March 31, 2009



	June 30, 2007	June 30, 2008	March 31, 2009
Net Accounts Receivable	\$101,254,328	\$111,208,325	\$130,721,280
Net Days in AR	49	48	53





Expense Moderation and Improvement Initiatives

Ken Kates

Associate Vice President and CEO, UI Hospitals and Clinics

Ken Fisher

Associate Vice President for Finance and CFO, UI Hospitals and Clinics

Ann Williamson

Associate Vice President for Nursing and CNO, UI Hospitals and Clinics

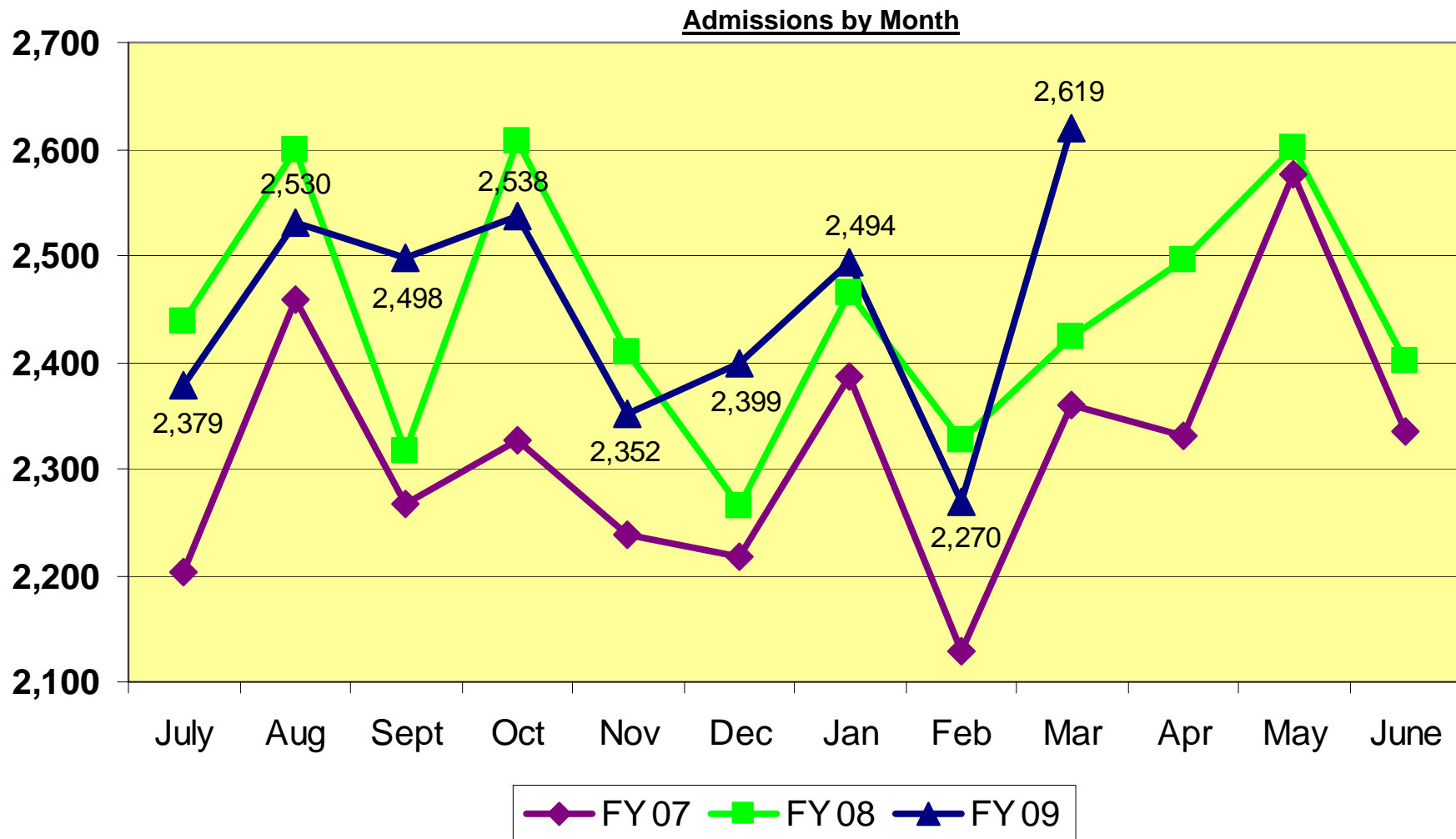
Expense Moderation Strategy

- 1) **Rigorous expense management limiting budget additions and excess payroll growth – budget authority to flex based on activity**
- 2) Recast the FY 09 operating budget to achieve targeted operating margin
- 3) Manage length of stay downward, especially in Internal Medicine
- 4) Fully deploy physical capacity and utilize efficiently (beds, ORs, high tech imaging)
- 5) **Improve access and throughput (Bed Management Initiative)**
- 6) **Continued focus on supply chain opportunities - benchmarks**
- 7) Link investments to performance – targeted outcomes agreed to up front with ongoing measurement
- 8) Provide support to leadership team to enhance execution of targeted initiatives (Program Management Office)
- 9) Track performance – shared throughout the enterprise (balanced scorecard)
- 10) **Achieve targeted program growth**

Admissions At Highest Level Ever in March



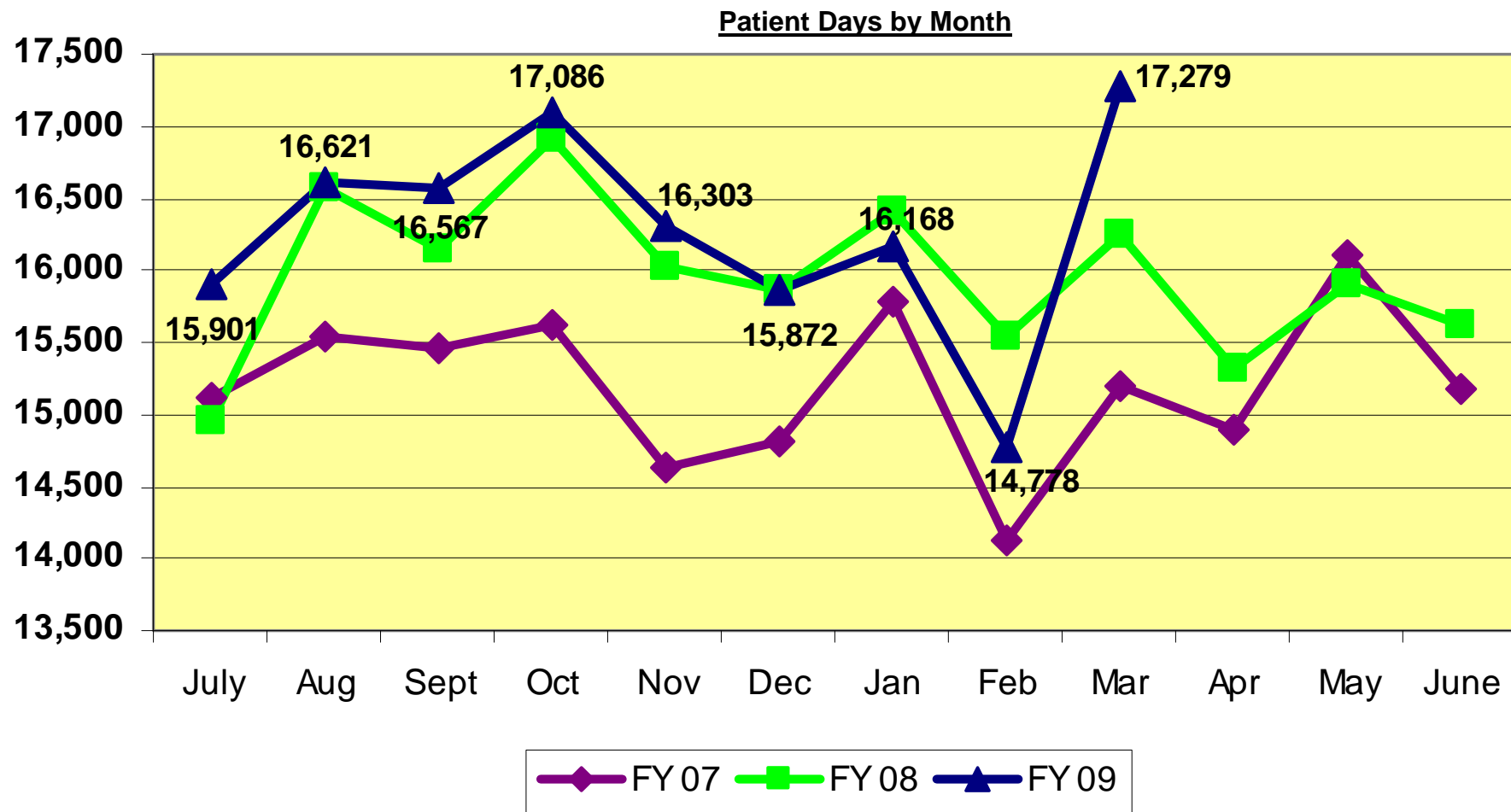
UIHC experienced its highest monthly total for admissions in the month of March, evidence of our continued focus on program growth and access and throughput improvements.



Patient Days At Highest Level Ever in March



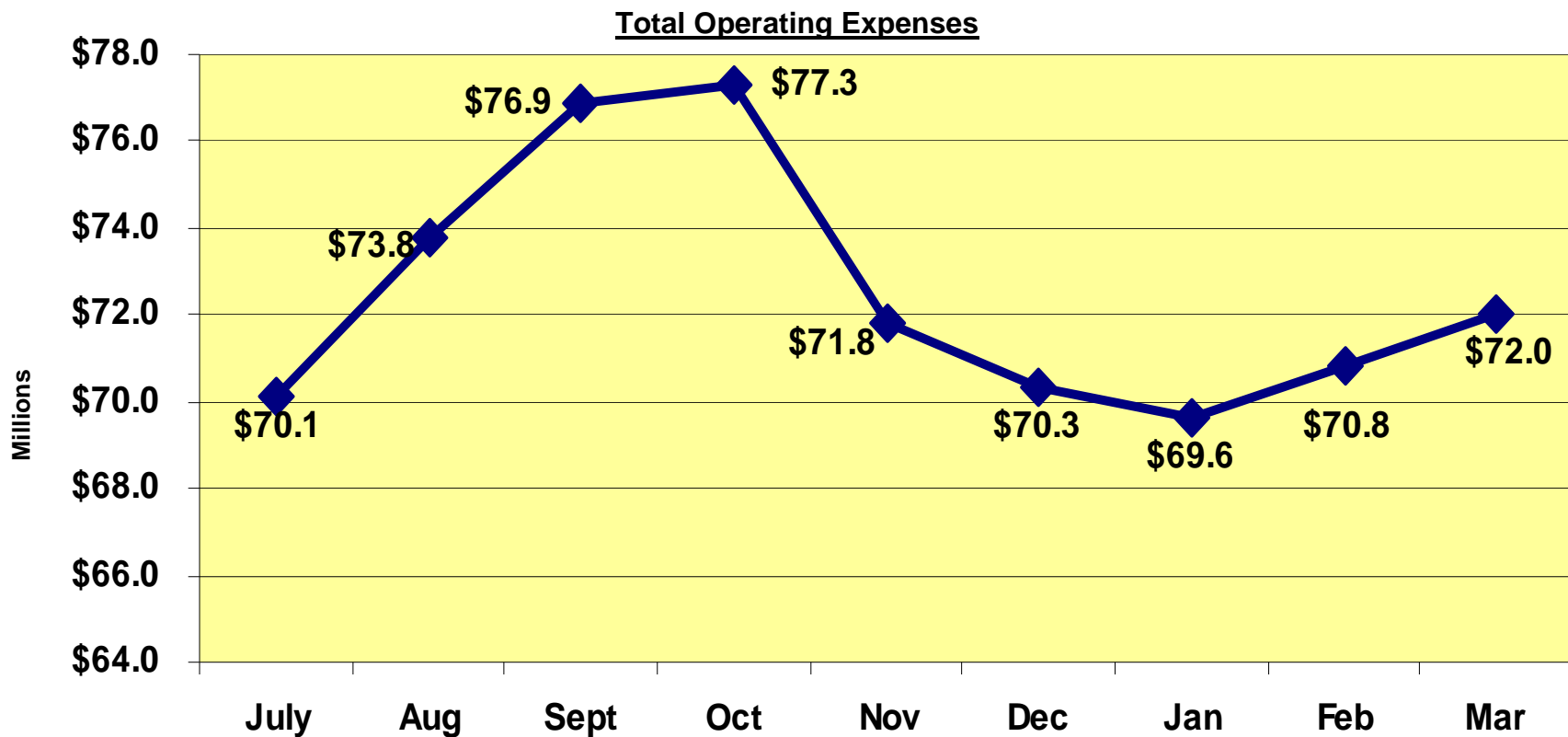
After a decline in patient days in February primarily driven by fewer work days, patient days increased to the highest levels ever in March.



Total Operating Expenses



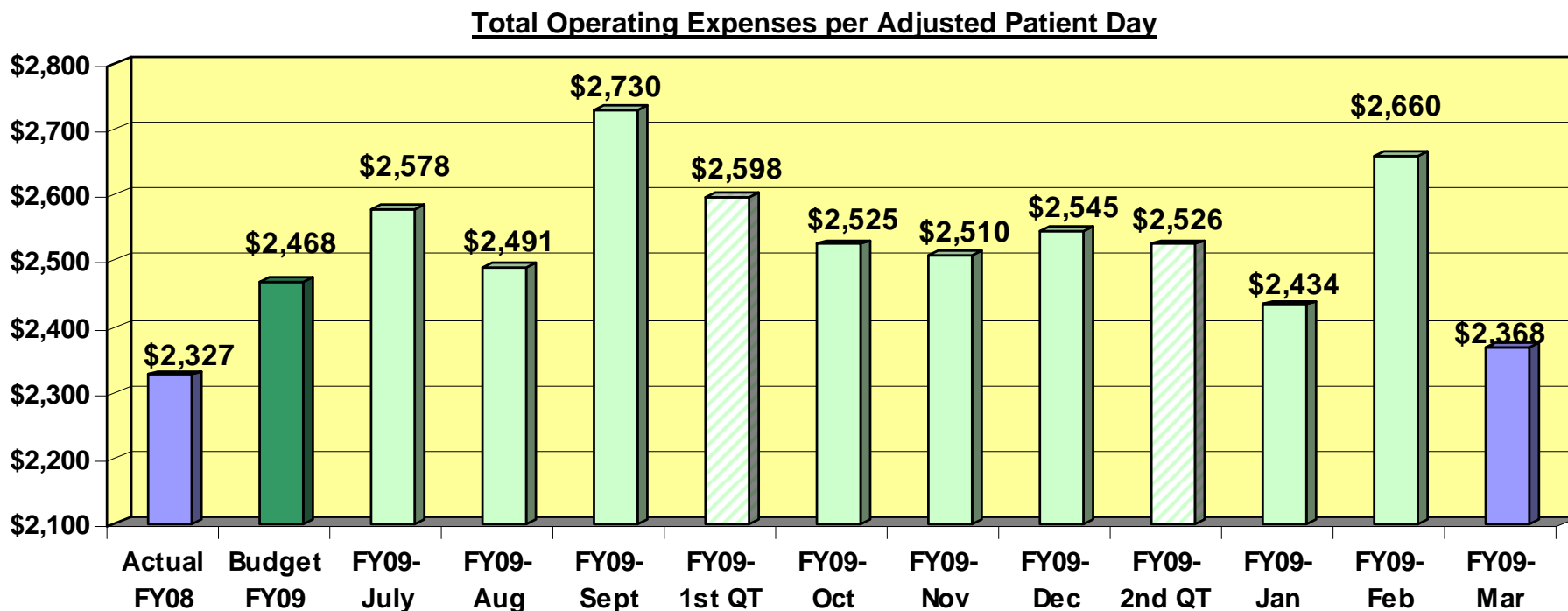
While total operating expenses are up slightly in March, this is consistent with the increase in admissions and patient days.



Total Operating Expenses per Adjusted Patient Day



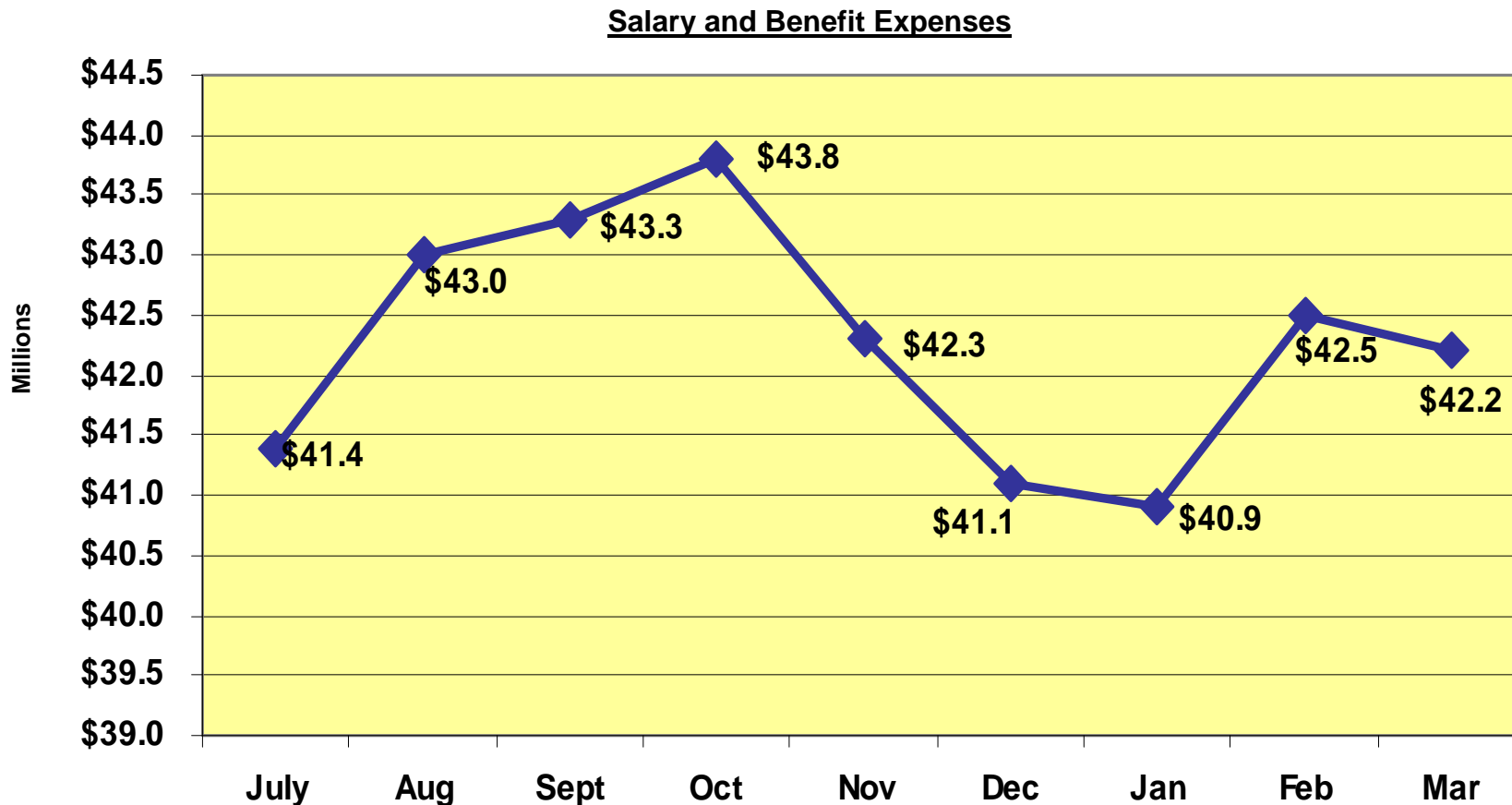
When adjusting for volume, total operating expenses per patient day improved to the lowest level this fiscal year.



Salary and Benefit Expenses



In December 2008, UIHC began adjusting accrued vacation time on a monthly basis (based on accrual usage). This reflects a more accurate expense amount on a monthly basis. As staff used more of the vacation accrual in December and January the accrual expense decreased. In February and March we saw the expense go up as vacation usage decreased and these accruals were replenished.

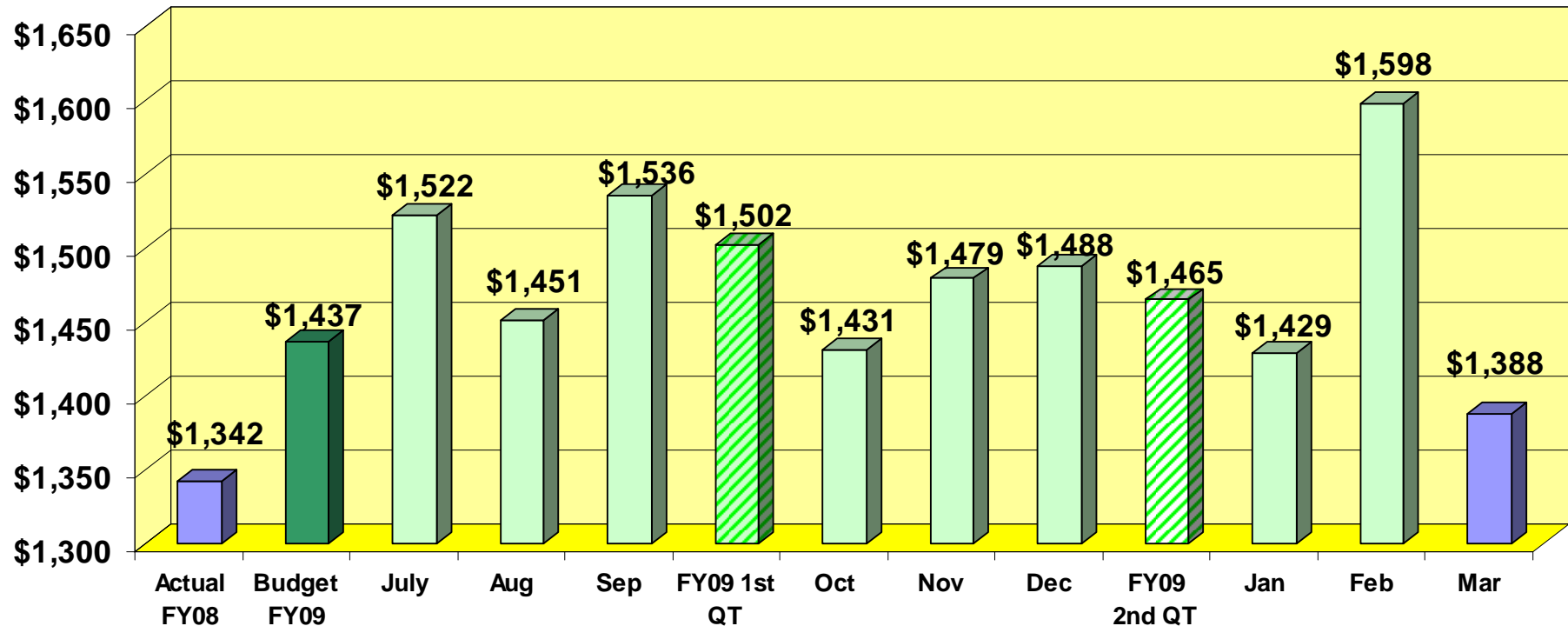


Salary and Benefit Expenses per Adjusted Patient Day



Similar to total operating expenses, when adjusted for volume, salary and benefit expenses per adjusted patient day improved and were at the lowest level this fiscal year.

Salary and Benefit Expenses per Adjusted Patient Day

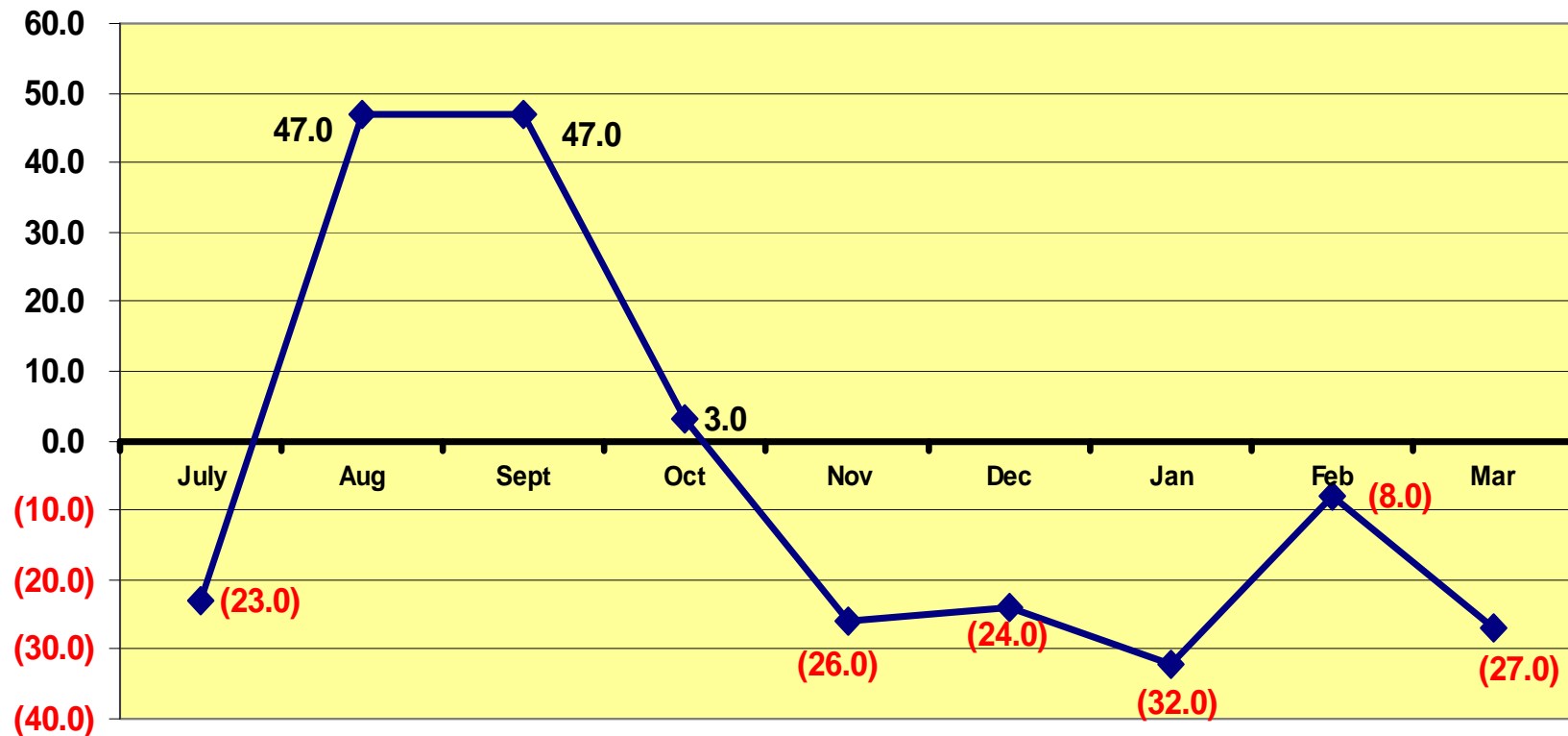


Net FTEs (Staff and Students)



As we continue to fill open positions with existing staff whenever possible, we have seen a decrease of 114 net FTEs coming into the organization since October.

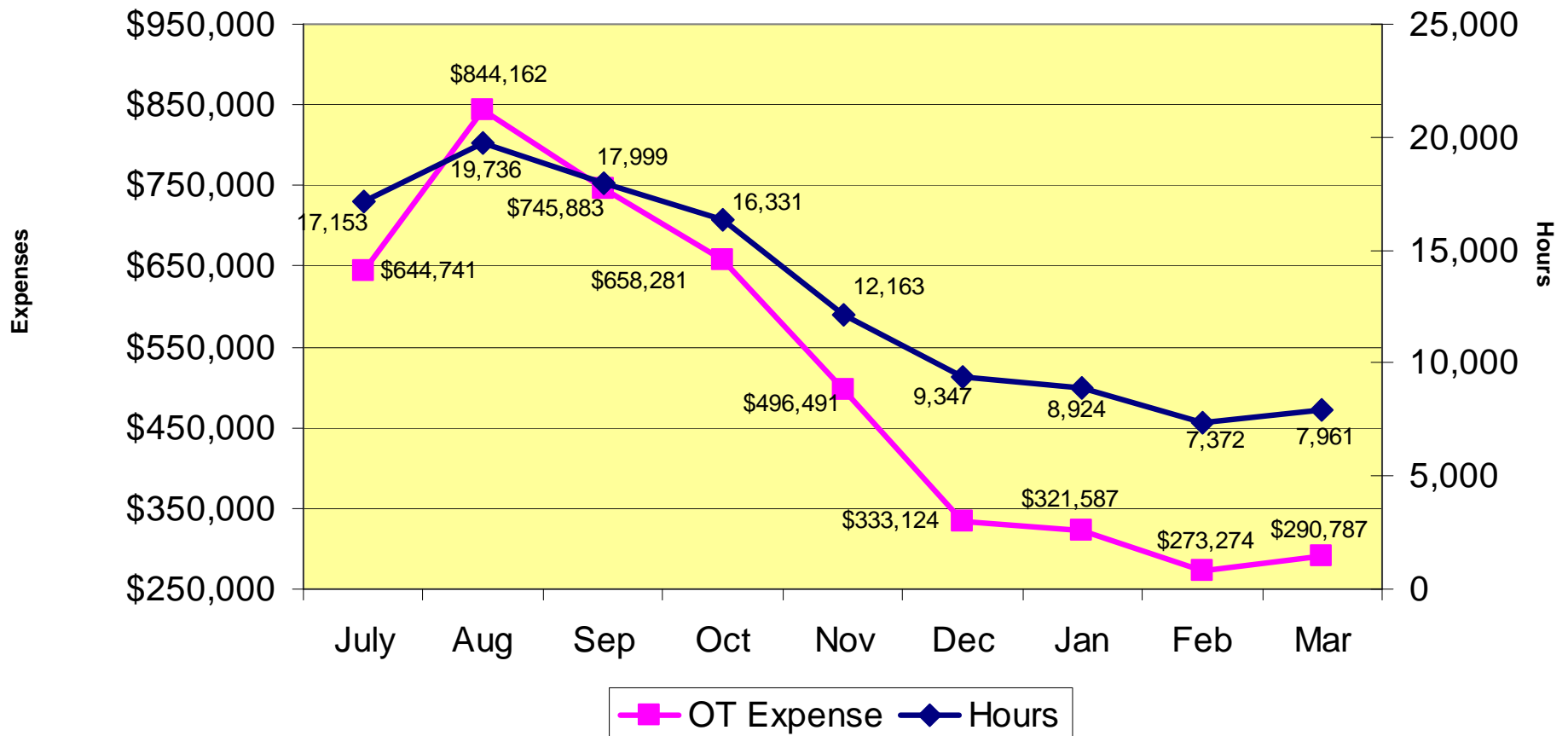
Change in Net FTEs



Overtime Hours and Expenses

Staff overtime expenses and hours continue to be managed very well, up slightly in March due to increased admissions and patient days.

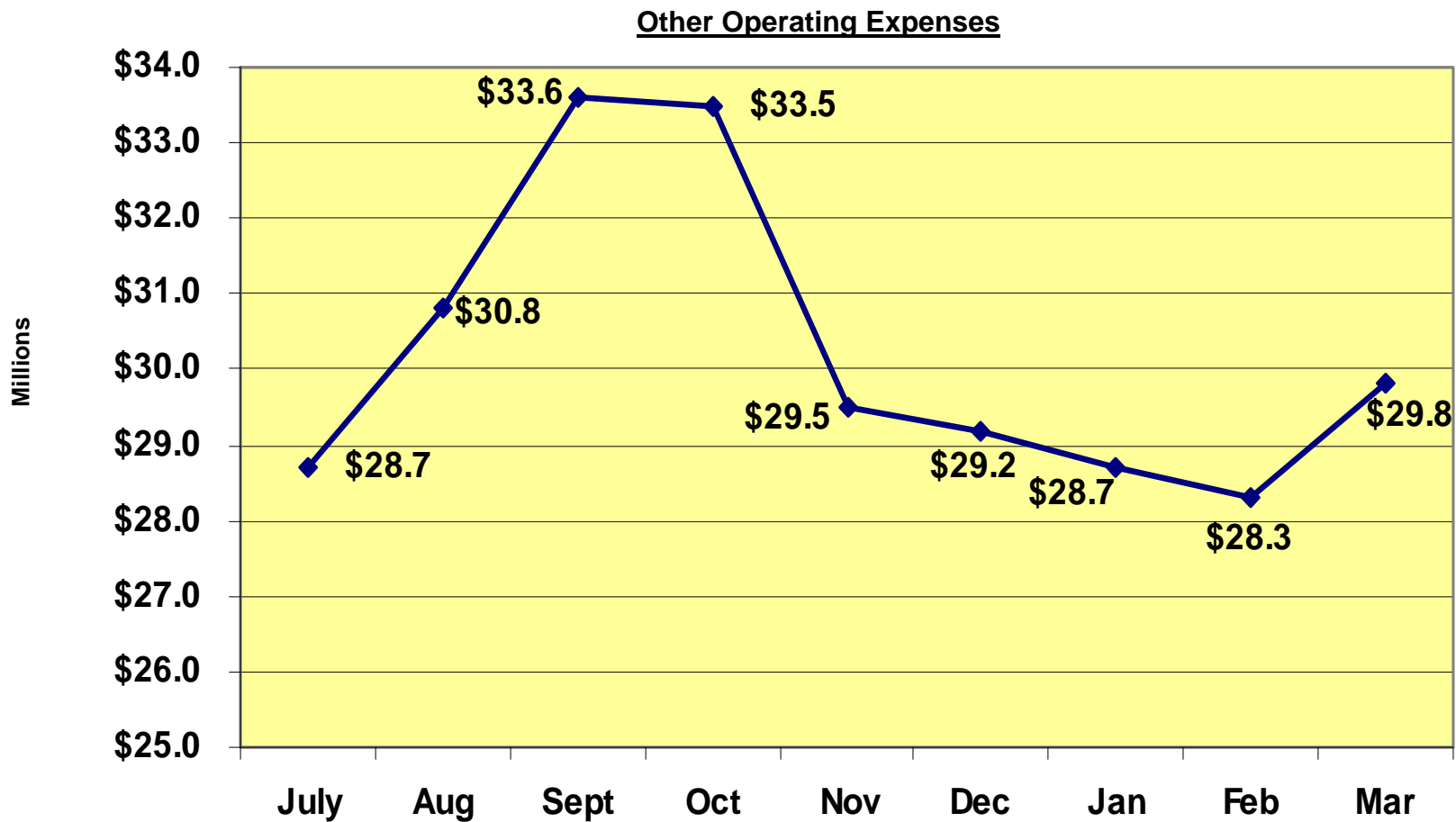
Overtime Hours and Expenses



Other Operating Expenses



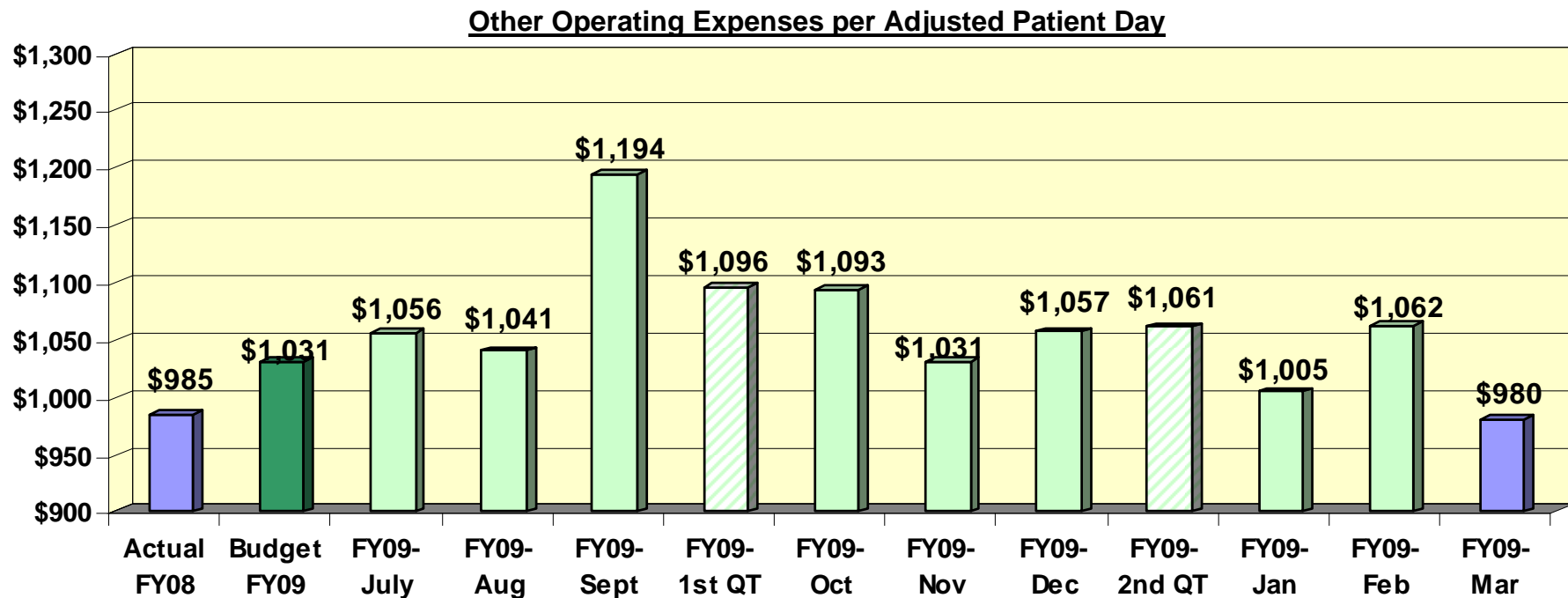
As a result of continued focus on achieving supply chain improvements, other operating expense performance continues to improve. These expenses increased slightly in March due to higher clinical volumes.



Other Operating Expenses per Adjusted Patient Day



Due to the diligent work of our faculty and staff, other operating expenses per patient day continue to improve -- at the lowest point this fiscal year and lower than last year's total.



Best Performer Award – Supply Chain

UHC CONGRATULATES THE 5 TOP PERFORMERS IN THE 2009 UHC SUPPLY CHAIN PERFORMANCE EXCELLENCE COLLABORATIVE

DENVER HEALTH

NORTH CAROLINA BAPTIST HOSPITAL
(WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER)

PARKLAND HEALTH AND HOSPITAL SYSTEM

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

UNIVERSITY OF WISCONSIN HOSPITAL & CLINICS

These academic medical centers have demonstrated organization-wide excellence in supply chain management and have achieved significant and sustainable supply chain cost reductions

To learn more about UHC's Supply Chain, visit www.uhc.edu and click on Optimize the Supply Chain



University HealthSystem Consortium

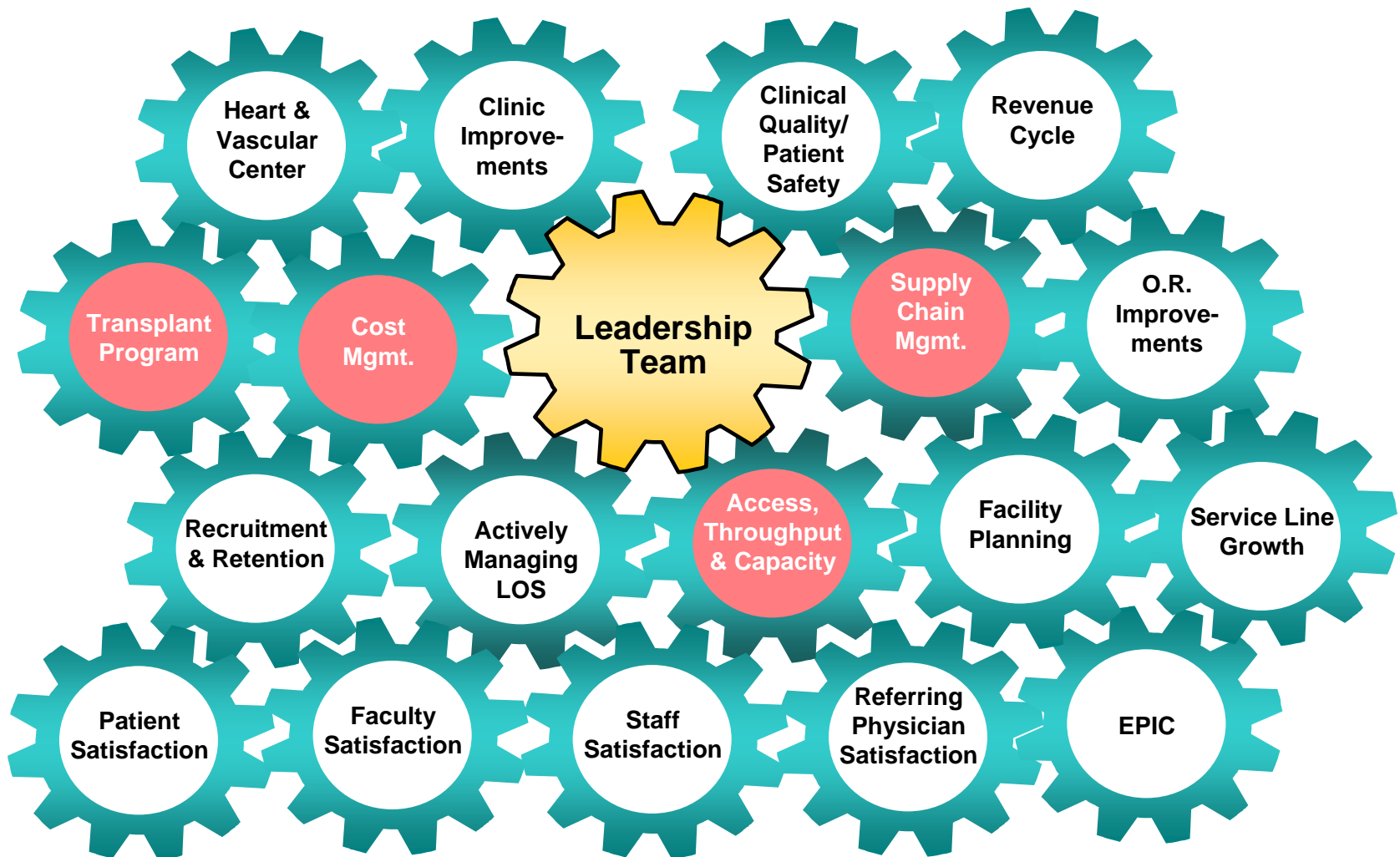
Supply Chain – Achieving Cost Savings

- Currently engaged in over 200 supply chain projects
- Completed projects estimated at a \$1.5 million annual savings
- Actively pursuing additional projects expected to save another \$5.9 million annually

One Example: Syringe Product Utilization Study

- UIHC participates in the federal 340B Drug Pricing Program which provides access to reduced price prescription drugs for specific health care organizations.
- As a disproportionate share hospital, UIHC qualifies.
- We worked on a product utilization study that was able to convert our insulin syringes and lancets so they qualified for the 340B program. This change in utilization and pricing will result in a cost savings of \$203,158 for this fiscal year or an annualized amount of \$487,581.

Many Improvement/Growth Initiatives Underway



Transplant Program – Growth and Development



- With 11 heart transplants completed in the past 12 months, we have fulfilled Conditions of Participation to qualify as a heart transplant program recognized by Centers for Medicare and Medicaid Services (CMS).
- We have also fulfilled the Conditions of Participation to qualify as a lung transplant program recognized by CMS. The only certified lung transplant program in Iowa.
- We continue to experience growth in our transplant programs with total volumes up 50% over the past three years.

<u>Transplants</u>	<u>July- March</u>			<u>Variance</u> from 07 to 09
	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	
Heart	4	8	11	175%
Lung	0	5	11	-
Liver	11	14	20	82%
Kidney	36	41	36	0%
Kidney/Pancreas	<u>5</u>	<u>4</u>	<u>6</u>	20%
Total	56	72	84	50%

UI Health Care Transfer Center

- Coordinates hospital-to-hospital transfers in accordance with state and federal regulations
- Provides one-call convenience for physicians looking to transfer patients to UIHC from outside facilities
- Serves as a hospital and physician resource
 - Obtains medical information from referring sources and provides the information to accepting physicians for interpretation of diagnoses and specialized patient needs

Transfer Center Benefits

- Consistent medical necessity & financial screening for elective transfers
- Consistent documentation and recording of all calls
- Improves communication with referring & receiving MD
- Decreases number of calls made by referring physicians
- Increases likelihood of obtaining transfer back agreements
- Reduces bed placement difficulties
- Eliminates consequences of unexpected arrivals
- Reduces the potential for EMTALA violations
- Tracking & trending of all calls and outcomes



UI Health Care Operating Budget FY 2010

Ken Kates

Associate Vice President and CEO, UI Hospitals and Clinics

Ken Fisher

Associate Vice President for Finance and CFO, UI Hospitals and Clinics

Laying the groundwork – focus on the Strategic Plan

- The UI Health Care Integrated Strategic Plan encompasses UI Hospitals and Clinics, the Carver College of Medicine, and UI Physicians.
- The integrated strategic plan is built on the premise of “One Vision, One Future” articulated in early 2008.
- The plan is based upon the singular mission, “Changing Medicine. Changing Lives” and articulates a far-reaching vision of “World Class People. World Class Medicine. For Iowa and the World.”
- This emphasis on excellence and being the best possible provider of patient care, a recognized leader in medical education and a center for leading edge research is encompassed in the UI Health Care shared values of innovation, collaboration, accountability, respect and excellence.

Goals

Clinical Quality &
Service

1. Provide world-class health care and service to optimize health for everyone.

Research

2. Advance world-class discovery through excellence and innovation in biomedical and health services research.

Education

3. Develop world-class health professionals and scientists through excellent, innovative and humanistic educational curricula for learners at every stage.

People

4. Foster a culture of excellence that values, engages and enables our workforce.

Diversity

5. Create an environment of inclusion where individual differences are respected and all feel welcome.

Growth &
Finance

6. Optimize a performance-driven business model that assures financial success.

Measuring Plan Performance

- The plan has a strong results orientation that identifies what UI Health Care will measure to determine progress against benchmarks and targets.
- Major indicators of success include:
 - UIHC is on the honor roll of best hospitals (*US News & World Report*)
 - The UI Children’s Hospital is among the Top 25 children’s hospitals (*US News & World Report*)
 - The CCOM is in the Top 10 among public medical schools
 - The CCOM is in the Top 10 for NIH funding among public medical schools
 - UI Health Care maintains its AA bond rating (*Moody’s and S&P*)
- The UI Health Care operating and capital budgets are designed to enable measurable progress toward achieving the goals outlined in the strategic plan.

“Optimize a performance-driven business model that assures financial success”

Strategies:

- Ensure sound financial position of clinical programs.
- Grow clinical programmatic priority areas.
- Ensure sound financial position of non-clinical programs.
- Ensure appropriate resources and facilities are available for clinical, education and research strategies.

Strategic Metrics - Creating linkages between all units

- Margin expectation
- State funding expectations
- Capital planning
- Clinical volumes
- Revenue
- Operating expense
- Non-operating revenue/expense

Margin Expectations

- Each CCOM department is expected to achieve breakeven at an “all funds” level
- UI Hospital and Clinics is expected to achieve an operating margin of 1% of net operating revenue

State Funding Expectations

- Has been fluid for the last 6 months
- Final State budget could reduce funds available to the CCOM
- Inclusion of federal stimulus dollars in State budget may mitigate reduction of funds
- All CCOM departments must plan for this loss of funding

Capital Planning

- For the last 3 years UI Hospital and Clinics has funded about \$95 million per year in capital projects and routine replacement of equipment
- Routine depreciation cash flow provides after-debt repayment of about \$70 million per year in free cash flow
- UI Hospital and Clinics will fund \$70 million in capital projects and routine equipment for FY2010.

UI Health Care Operating Budget FY2010



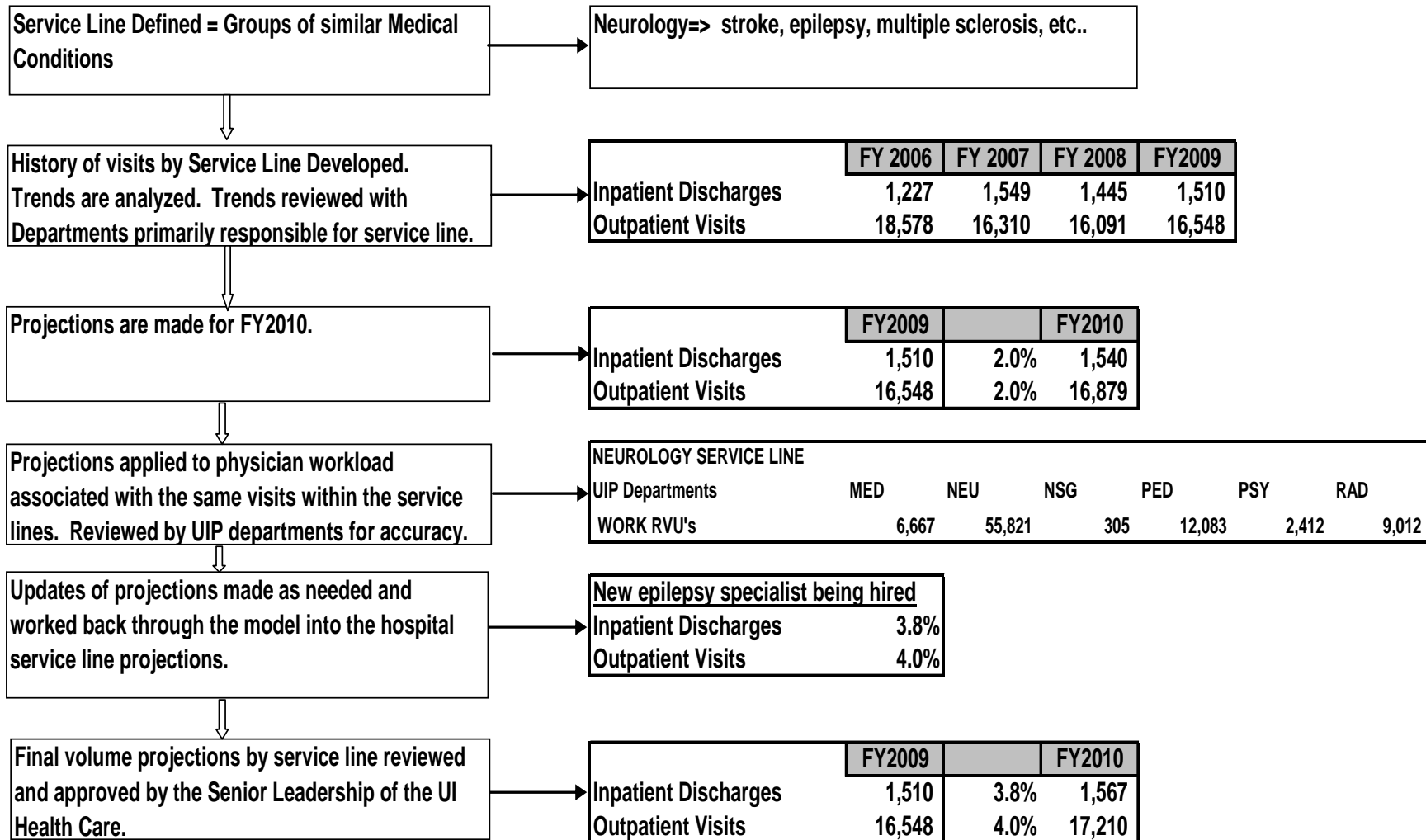
Capital Planning: Preliminary FY2010 Budget Allocation

Capital Projects Approved Prior to FY2010:	\$30.4M
New Requests for FY2010 >\$100,000:	
Compliance	\$ 1.5
Safety	\$ 1.8
Quality of Care	\$ 6.7
Revenue Enhancement	\$ 4.3
Routine Replacement	\$ 4.0
Under \$100,000	\$ 7.5
Administrative and Facilities Contingency	\$ 8.8
Strategic Facilities Master Plan	<u>\$ 5.0</u>
Total Capital Allocation	\$70.0M

Forecasting Clinical Volumes—Process

- First pass developed
 - Shared with Clinical Leadership, Hospital Leadership and VPMA Cabinet
 - Admissions
 - Case mix index (CMI)
 - Surgical volume
 - Length of stay by clinical service (medical/surgical)
 - Ambulatory activity

Forecasting Clinical Volumes—Process (cont'd)



Forecasting Clinical Volumes—Process (cont'd)

- Advantages:
 - Input from all key stakeholders
 - Exploded key driving volumes, linking physician effort with hospital cost center level volumes for all areas.
 - VPMA Cabinet validated and finalized
 - Enterprise-wide agreement and consistency in projections

Revenue Forecast

- Volumes yield Gross Revenue
 - Model by payer
 - With rate change assumptions
 - With payer rate change assumptions
 - With CMI changes
- Net Revenue for all clinical departments and hospital
- Reviewed with VPMA Cabinet and “locked down”

UI Health Care Operating Budget FY2010



Hospital – Key Factors

REVENUE	
Volume Growth	
Inpatient	3.1%
Outpatient	2.9%
ALOS Reduction	1.0%
Case Mix Increase	0.57%
Payor Rate Composite Increase	1.34%
Chargemaster Increase	6.0%
EXPENSE	
Salary Increase	
SEIU	1.75%
Merit	2.00%
P&S	0.00%
Faculty	0.00%
Blended Non-Salary Cost Inflation	4.0%

Validated “Top of Corp” Model

- Using Volumes, Gross Revenue and Net Revenue
- Developed budget model
 - Sensitive to volume changes
 - Includes inflation assumptions on wages, supplies and UI pass-through or charge backs
 - Know changes in funds flow between CCOM/UIP/UIHC
- Created a “Gap” between target operating margin and summary of all inputs yielded

UI Health Care Operating Budget FY2010



UIHC FY 2010 Hospital Projection in 000's

	Actual FY08	Projected FY09	Projected FY10
Net Patient Revenue	\$ 819,636	\$ 882,812	\$ 918,080
State Appropriations	\$ 6,726	\$ 6,840	\$ 6,840
Other Operating Revenue	\$ 46,589	\$ 45,369	\$ 46,557
Total Net Operating Revenue	\$ 872,951	\$ 935,021	\$ 971,477
Operating Expenses			
Salary, Benefits, & Contract Labor	\$ 452,323	\$ 503,781	\$ 532,549
Supplies & Drugs	\$ 172,265	\$ 185,087	\$ 193,298
Services	\$ 69,439	\$ 75,224	\$ 86,200
Rents and Leases	\$ 5,016	\$ 5,237	\$ 5,525
Insurance	\$ 895	\$ 1,820	\$ 2,231
Licenses, Fees and Other Expenses	\$ 73,011	\$ 82,701	\$ 90,242
Administrative Services UI	\$ 11,274	\$ 12,469	\$ 13,418
Total Operating Expense	\$ 784,223	\$ 866,319	\$ 923,463
Cash Flow Operating Margin	\$ 88,728	\$ 68,702	\$ 48,014
CFO Margin %	10.2%	7.3%	4.9%
Capital and Other Costs			
Total Depreciation & Amortization	\$ 70,921	\$ 73,935	\$ 75,545
Operating Income	\$ 17,807	\$ (5,233)	\$ (27,531)
Operating Income (Loss) %	2.0%	-0.6%	-2.8%
Non-recurring Items			
Gain (Loss) on Investments	\$ 13,753	\$ (18,000)	\$ 12,400
Net Income (Loss)	\$ 31,560	\$ (23,233)	\$ (15,131)
Net Income (Loss) %	3.6%	-2.5%	-1.6%

UI Health Care Operating Budget FY2010



CCOM FY 2010 All-Funds Projection in 000's

	<u>FY08 Actual</u>	<u>Projected FY09</u>	<u>Projected FY10</u>
Revenue			
General Fund Allocation	\$ 60,513	\$ 62,338	\$ 59,338
Special Appropriations	\$ 2,985	\$ 3,117	\$ 2,805
University of Iowa Physicians	\$ 187,249	\$ 187,987	\$ 189,776
UIHC/CCOM Support	\$ 36,554	\$ 40,568	\$ 40,568
Extramural Grants and Contracts	\$ 162,298	\$ 167,000	\$ 183,700
Gifts and Scholarships	\$ 22,301	\$ 23,467	\$ 21,120
Services	\$ 47,087	\$ 48,022	\$ 48,022
VA Affiliation	\$ 10,999	\$ 11,966	\$ 12,325
Total Revenue	<u>\$ 529,985</u>	<u>\$ 544,465</u>	<u>\$ 557,654</u>
Expense			
Faculty Salaries & Fringe	\$ 187,704	\$ 204,131	\$ 204,131
Support Staff Salaries & Fringe	\$ 164,787	\$ 175,356	\$ 178,863
General Expense	\$ 145,440	\$ 142,577	\$ 146,854
Overheads	\$ 26,886	\$ 28,051	\$ 28,619
Total Expenses	<u>\$ 524,817</u>	<u>\$ 550,115</u>	<u>\$ 558,467</u>
Gain (Loss) in Fund Balances	<u>\$ 5,169</u>	<u>\$ (5,650)</u>	<u>\$ (813)</u>

UI Health Care Operating Budget FY2010



CCOM FY 2010 UIP Projection in 000's

	Actual FY08	Projected FY09	Projected FY10
Net Patient Revenue	\$ 175,108	\$ 178,186	\$ 179,975
State Appropriations	\$ -	\$ -	\$ -
Other Operating Revenue	\$ 12,141	\$ 9,801	\$ 9,801
Total Net Operating Revenue	\$ 187,249	\$ 187,987	\$ 189,776
Operating Expenses			
Salaries, Wages & Benefits	\$ 119,581	\$ 133,071	\$ 134,005
Supplies and Drugs	\$ 14,214	\$ 14,151	\$ 14,576
Other	\$ 41,341	\$ 42,448	\$ 43,245
Total Operating Expenses	\$ 175,136	\$ 189,670	\$ 191,826
Cash Flow Operating Margin	\$ 12,113	\$ (1,683)	\$ (2,050)
CFO Margin %	6.5%	-0.9%	-1.1%
Capital and Other Costs	\$ -	\$ -	\$ -
Total Depreciation and Amortization	\$ -	\$ -	\$ -
Operating Income	\$ 12,113	\$ (1,683)	\$ (2,050)
Operating Income (Loss) %	6.5%	-0.9%	-1.1%
Non-recurring items	\$ -	\$ -	\$ -
Gain (Loss) on Investments	\$ -	\$ -	\$ -
Net Income (Loss)	\$ 12,113	\$ (1,683)	\$ (2,050)
Net Income (Loss) %	6.5%	-0.9%	-1.1%

UI Health Care Operating Budget FY2010



Budget Gap - Hospital

		GAP Analysis		
		1% Margin	2% Margin	3% Margin
Projected Net Revenues	\$ 971,477	\$ 9,715	\$ 19,430	\$ 29,144
		Required	Required	Required
		+Rev/-Exp	+Rev/-Exp	+Rev/-Exp
Operating Income (Loss)	\$ (27,531)	\$ (37,246)	\$ (46,961)	\$ (56,675)
	-2.8%			

Effect (000's) on Operating Income of a 1 percentage point increase in:

Medicare	\$ 1,600
Medicaid	\$ (1,800)
Wellmark	\$ 1,200
Commercial	\$ 5,300
Self Pay	\$ (4,600)

Effects (000's) on Operating Income of a 1% change in:

Admissions	\$ 2,800
Outpatient Visits	\$ 1,850
Case Mix Index	\$ 5,300
Length of Stay	\$ 1,750
FTE's (Salary & Benefits)	\$ 5,200
Total Hours Paid (Salary)	\$ 3,765
Supply Cost	\$ 1,800
Bad Debts	\$ 400
Rate/Price Increase	\$ 675

UI Health Care Operating Budget FY2010



Mitigating the Gap – Increasing Revenues while Driving Down Expenses

- Charge amounts
 - Charge capture
 - Documentation and coding
 - Access and throughput
 - Offsite strategies
 - Areas of targeted growth
- Revenue Enhancement*

- Clinical quality and safety enhancements
 - Labor expense reductions
 - Supply chain management
 - Length of stay improvements
 - Process reengineering
- Expense Management*

Mitigating the Gap – Revenue Enhancement

- Access and throughput
 - New Transfer Center created to provide one-call convenience for physicians looking to transfer patients to UIHC from outside facilities with consistent medical necessity & financial screening for elective transfers
- Offsite strategies
 - Clinics being moved off site as appropriate to improve convenience for patients
- Areas of targeted growth
 - Strategic plan aligning goals of CCOM and UIHC and identifying programs for growth

Mitigating the Gap –Expense Management

- Labor expense reductions
 - Over 40 senior leaders took a 5% pay reduction through FY10
 - Employees have opportunity to take voluntary temporary reduction in pay (estimated at 2% savings through FY10)
 - Employees also have an opportunity for vacation give-back
 - Searches for COO of UIHC and Executive Director of the UI Children’s Hospital delayed
 - Open positions filled primarily with internal hires
 - Skill mix adjustments
 - Staffing levels linked to clinical volumes and service levels

Mitigating the Gap – Expense Management

- Supply chain savings
 - Supply chain projects estimated to save over \$4 million annually
 - Standardization of supplies/equipment
 - Best pricing
 - Utilization management

UI Health Care Operating Budget FY2010



Reengineering the way we provide care and service – applying Lean and Six Sigma methodologies

- Clinical quality and patient safety
- Human resource services
- Outpatient clinic service redesign
- Inpatient bed management
- Observation patient stays
- Length of stay management
- Perioperative services
- Function consolidation across CCOM and UIHC
- Inventory management and materials distribution

Working with Management team to activate changes

- Senior Management Team (SMT) for UI Hospitals and Clinics worked through a method to allocate operating expense targets for all areas of the hospital and clinic
- These targets were then used to develop a detailed operating budget for each area
- Line managers worked to operationalize these expense levels
- SMT collectively met in a series of “budget hearings” to resolve issues and review operational plans for each cost center/department

UI Health Care Operating Budget FY2010



	Budget FY10
Net Patient Revenue	\$ 918,880
State Appropriations	\$ 6,840
Other Operating Revenue	\$ 46,878
Total Net Operating Revenue	\$ 972,598
Operating Expenses	
Salary, Benefits, & Contract Labor	\$ 497,313
Supplies & Drugs	\$ 193,248
Services	\$ 85,600
Rents and Leases	\$ 5,525
Insurance	\$ 2,231
Licenses, Fees and Other Expenses	\$ 90,005
Administrative Services UI	\$ 13,418
Total Operating Expense	\$ 887,340
Cash Flow Operating Margin	\$ 85,258
CFO Margin %	8.8%
Capital and Other Costs	
Total Depreciation & Amortization	\$ 75,545
Operating Income	\$ 9,713
Operating Income (Loss) %	1.0%
Non-recurring Items	
Gain (Loss) on Investments	\$ 12,400
Net Income (Loss)	\$ 22,113
Net Income (Loss) %	2.3%

Summary of Proposed Budget

- Risks
 - Payment risk:
 - Degradation of payer mix
 - Increase in uninsured/bad debt/charity
 - Governmental budget cuts
 - Commercial payer viability
 - Reductions to state appropriations
 - Decrease in elective procedures
 - Faculty compensation lower than market
 - Healthcare reform

Summary of Proposed Budget

- Opportunities
 - Stimulus package/Challenge grants
 - Quality of care reimbursement incentives (i.e. CMS PQRI)
 - Increasing access (e.g., centralized scheduling, Transfer Center)
 - Improving the patient experience
 - COBRA relief
 - Increased Indirect Medical Education expense recovery
 - Increased referring physician liaison activity
 - Enhanced collaboration with other health sciences colleges for community education, outreach and prevention
 - Development of new programs and services
 - Increase awareness and preference for UI Health Care physicians, services and programs
 - Healthcare reform