

**Minutes of the University of Kentucky Board of Trustees**  
**Healthcare Committee**  
**March 31, 2014**

The University of Kentucky Board of Trustees Healthcare Committee met on March 31, 2014 in conference room 127 of the Charles T. Wethington, Jr. Building. The meeting was called to order and by Barbara Young, Chair of the University Healthcare Committee, at 4:00 pm.

**A. ATTENDANCE**

**University HealthCare Committee Members:** Chair-Barbara Young, James, Booth, and Dr. Keith Gannon

**Additional University of Kentucky Board of Trustee Members:** Dr. C. B. Akins, David Hawpe, Kelly Sullivan Holland, and James W. Stuckert

**University Healthcare Committee Advisory Members:** Mira Ball, Robert Clay, Luther Deaton, Pam Miller, Nick Nicholson and Myra Leigh Tobin

**Ex-Officio Members of the University HealthCare Committee:** Dr. Bernard Boulanger, and Dr. Colleen Swartz

**Guests:** Mark Birdwhistell, Jay Blanton, Shannon Carroll, Murray Clark, Joe Claypool, Dr. Michael Dobbs, Leigh Donald, Rob Edwards, Dr. Mark Evers, Dr. Craig Horbinski, Susan Krauss, Cecilia Page, Dr. Marc Randall, Ann Smith, Bill Thro, Dr. Tim Tracy, and Kim Wilson

**B. APPROVAL OF MINUTES**

Minutes from the January 30, 2014 meeting were presented for approval by Chair Young. The minutes were approved unanimously.

**C. CANCER RESEARCH**

Dr. Mark Evers, Director of the Markey Cancer Center, discussed the need for precision medicine. The rising number of Americans being diagnosed and dying with cancer is also negatively impacting healthcare costs. Last July we became a National Cancer Institute Designated Cancer Center. This prestigious honor puts us in the top 3 to 4 percent of cancer centers in the United States. We want

continue to be the best and to move forward. Markey Cancer Center is the only NCI Designated Cancer Center in the State of Kentucky. Several programs regarding research in cancer genomics are available to us as an NCI Designated Center to design and develop better treatments for all. Personalized precision cancer treatment continues to evolve with treatments involving treatment specific to a particular cancer due to the pathology.

Dr. Craig Horbinski, discussed two case studies of how molecular diagnostics and the age of personalized medicine have impacted the treatment and outcomes for patients after expediting pathology results now available at the Markey Cancer Center. Results that could have possibly taken weeks are now available in days, many times resulting in an increase in lifespan and a significant impact on the patient's quality of life.

#### **D. QUALITY REPORT**

Dr. Bernard Boulanger, Chief Medical Officer, first reminded those in attendance that the care provided at UK HealthCare is often very complex and that we care for extremely critical patients. Our goal is to be a national leader by taking care of our patients, aligning care, empowering the clinical care providers, transparency, and a change of culture. Operating revenue for UK HealthCare will depend on how we deliver the care, not so much of how much care we provide. Along those lines, we have received another national award. UK HealthCare has received the Gage Award. Dr. Boulanger recognized the two individuals that submitted our application for this award, Shane O'Donley and Jeff Norton. The award was based upon the practice of swarming. Many of the audience members recognized the term as a meeting that brings all those involved in a negative event together to discuss how we can prevent and change future outcomes. Dr. Boulanger discussed our current rankings and rates for mortality, effectiveness, patient safety, efficiency, patient centeredness and work environment.

Dr. Colleen Swartz, Chief Nurse Executive, updated the attendees on the success and progress of our recent scores given on patient experience with both nurses and physicians. Dr. Swartz attributes the addition of standardized care to the success of the increased scores. Inpatient care standardization includes hardwiring behaviors such as hourly rounding, leader rounding, and beside shift report. Lastly, a video created by a grateful pediatric patient was played for the attendees as a thank you for the excellent care they received. The family of the patient wanted the Board of Trustees to see an example of how the hard work and dedication of the UK HealthCare team impacted their life.

## **E. FINANCIAL REPORT**

Murray Clark, Chief Financial Officer, gave the UK HealthCare Financial Report by discussing the FY TD February 2014 Financials. Inpatient discharges for February were below budget by 287. Year-to-date we are 1,342 discharges below budget and 279 below the prior year. Adult discharges are up compared to the prior year whereas children's are well below the prior year. Adult discharges are 583 below budget for the year but 522 higher than the same period last year. Children's discharges are 743 below budget and 718 below the prior year. Neonatology discharges are 95 above budget and 14 above the prior year. Adult neonatology and psychiatric activity continued the same general trend as we have seen in the prior months this year. The decline in children's discharges, however, was greater than in prior months. The bad weather during the month likely had some impact on both adult and children's discharges however the impact cannot be quantified.

The year-to-date occupancy rate for the combined facilities was 82.81%. Occupancy year-to-date at Chandler was 90.05% for adults, 58.46% for children and 83.81% for Neonatology. Good Samaritan occupancy was 72.03%, adult occupancy was 77.40% and the Psychiatric occupancy was 49.69%. The occupancy includes a daily average of 51.79 patients awaiting a bed in a holding location primarily at Chandler. Patients awaiting a bed in February however, exceeded the January year-to-date average.

Both the average length of stay for the month and for year-to-date exceed budget and the prior year. The average length of stay is 6.47 compared to a budget of 5.86, an increase of 0.61 days. The increase in LOS is in the adult and neonatology services. There has been an overall increase in case mix in the Hospitals. The case mix has increased from a budget of 1.8339 to 1.9081/4.04% increase and from prior year of 1.8178/4.96%. At Chandler the case mix is 2.0653 year-to-date, 5.19% above budget and 5.66% above the prior year. This change in case mix is a significant factor in our increase in LOS and the resulting total patient days. Patient days in the system are 6,223 higher than budget on 1,342 discharges less than budgeted. As compared to last year we have provided 10,205 more bed days on 279 less discharges.

Inpatient Activity Summary: The trend of the first six months continued into February our inpatient discharges remain below budget expectations however the adult discharges remain above the prior year. Additionally, case mix has increased pushing our patient days higher. The change in case mix will be discussed further in the section on revenue.

Observation cases are above budget for the month by 62 cases and above year-to-date budget by 51. Additionally these cases are now ahead of the prior year by 335. This increase in observation cases has been consistent since the Medicare rules changed regarding this type of patient stay in October. This increase in observation cases also accounts for a portion of the negative variance to budget in adult inpatient admissions.

Emergency Room cases were under budget by 1,379 cases for the month. Chandler is below budget and prior year whereas Good Samaritan is above budget and prior year. Year to date we are under budget by 4845/7.5% and below the prior year by 297/0.5% visits. The Chandler ED continues to be impacted by the high number of patients it must hold who are awaiting an inpatient bed. During February the number of patients awaiting a bed in the Chandler ED exceeded the average for the prior months.

Operating Room cases for the month were 2,305 compared to a budget of 2,265, a positive variance of 40 cases. Year-to-date inpatient cases of 9,555 are above budget by 394 and above the prior year of 370. Outpatient cases of 10,412 are below the budget of 10,817 by (675) however the outpatient cases this year exceed the prior year by 219.

Outpatient cases with a hospital charge were 6,207 above budget for the month and are 13,455 above budget for the year. January and February have both been strong outpatient volume months.

FTEs per adjusted occupied bed for the month were above budget and slightly ahead of the prior year but in line with the year to date budget. It is notable however that the total FTEs have risen to manage the increase in patient days. Although our FTEs are tracking with our budget and activity we are continually working to move our FTE numbers closer to benchmark in all areas. This is an effort which will be ongoing. Further, however, we will likely see an increase in FTE's during the rest of the year as we prepare for the opening of new beds at Good Samaritan in April and the opening of the eighth floor of PAV A in December.

The payor mix of discharges for the month of January varied from the year- to-date distribution by classification. Medicare and Commercial stayed relatively stable whereas Medicaid increased and Patient/Charity declined. The shift of patients from Patient/Charity that occurred in January has continued through February, and the early data from March is similar. This shift in patients into Medicaid is significant and will have a major positive effect on the hospital income. This will be discussed further in the income statement below.

Although none of the Medical Service discharges are at budget, the Medicine and Surgery discharges continue to exceed prior year activity.

In summary, the level of activity for inpatient discharges is well below budget and slightly below the prior year. However, activity in the system is higher than prior years due to an increase in case mix and the resulting increase in LOS/inpatient patient days. This level of activity has created capacity constraints which have kept total admissions down. The outpatient activity is strong and on budget. FTEs are greater but in line with activity, however we will see some increase as we prepare for new bed openings. The payer mix has shifted as compared to budget and the prior year.

Although discharges are below budget, net revenue for the month and year-to-date are higher than budget and significantly higher than the prior year. Net revenue for February exceeded budget by \$13.3 million. This brought net revenue for the year-to-date above budget by \$38.5 million. Throughout the year, we have seen an increase in revenue from the higher case mix and the outlier cases. In January and February, we have seen a significant shift in our payor mix from patient/charity to Medicaid. In addition to this change, we have lowered our estimates for bad debts. There are various other changes in net revenue that are moving both positively and negatively. However, the sum of the activity is very positive. We have seen inpatient per-case revenue increase 3.26% and outpatient per-case revenue increase 2.38% since December.

As noted above, we are seeing the decline in patient/charity payor mix in March also. We are seeing this across the system and it is supported by the public information that the Medicaid expansion program continues to grow. As this time, we are developing assumptions on how this change in payor mix will affect us for the remainder of the year and for FY 15.

Personnel expenses are above budget for the month and year-to-date primarily driven by the increased CMI and LOS of patients. The skill mix of personnel is in line with budget as measured by the overall hourly cost of personnel which is only slightly above budget.

Variable supplies for the month were over the budget as it has been in previous months. This variance generally reflects the change in case mix/ services rendered to patients and the increase in length of stay creating significantly more patient days. Although above budget, the cost of variable supplies per CMI adjusted discharges are consistent with what we have been experiencing throughout the year.

Fixed expenses are marginally lower than budget for the month and slightly above budget for year to-date. These expenses will vary up or down against budget monthly but over the year they should be in line with budget.

Medical Center transfers/EIRs are over budget for the month. We have brought the transfers up to budget for the year in realization that additional dollars will be required to support the College Departments where activity has declined. We will continue to monitor this and adjust transfers as necessary.

Depreciation is under budget for the year and will likely remain so throughout the year. Most of our capitol purchases for the year will occur in the later part of the fiscal year and will be reflected in FY 15 depreciation expense.

Non-operating revenues (expenses) were above budget for the month driven by an increase in investment income. Investment income of \$26.2 million for the year exceeds budget expectations and the prior year.

The Eastern State revenues reflect the net effect of our reimbursement year-to-date of \$979,109. This level of revenue is consistent with our overall agreement, however the operation is still in its startup and a steady state of expenses has not been reached. The contract also calls for additional units to be opened this fiscal year which will again change the operating expense.

Income Statement Summary: Net revenues for January and February have significantly exceeded expectations driven by not only the case mix and outliers but now by the Medicaid expansion program. Net revenues outpaced expenses for the month contributing to a significantly higher margin than budgeted. The month's results brought the year-to-date operating margin to \$62.8 million, \$14.5 million above budget. Income from operations coupled with strong non-operating revenues has exceeded budget for the year. The results of future periods could change significantly in the case mix, volume or payor mix.

Cash at \$58.6 million includes \$48.2 million in unrestricted funds, \$8.4 million in restricted funds and \$2 million in the plant fund. The unrestricted fund includes \$7 million in funds advanced for Eastern State which will be used for operations in May and June.

The Patient Accounts Receivables as of February are higher than year-end by \$18.1 million. Days in Accounts Receivable increased from 42 in January to 43 for the month. The Accounts Receivable increase is primarily related to the increase in Medicaid patients coupled with the new Medicaid payors. This will be managed very tightly and it should come back in line over time. Prepaid expenses are up in comparison to year end but in line with what would be expected at this point in the year.

Due to the recent completion of cost report reviews, we have established a third-party receivable of \$1.1 million.

The increase in restricted cash is from funds set aside to carry out projects currently underway.

The \$23.1 million increase in board designated investments reflects the earnings for the year from funds invested.

Due to an accounting standards change, there was a reclassification in February of \$11.6 million from other assets to capital assets, net. The amount reclassified is the book value that was established for the Good Samaritan Hospital CON when it was purchased by UK.

Current liabilities in total are lower than year end. Payables have increased reflecting the increased expenses from operations. Accrued expenses are lower primarily due to lower amount of accrued payroll. Estimated third party liabilities have been eliminated and we now have a small third party receivable. Unearned income reflects the receipt in October of our annual DSH payment and the Eastern State Contract advance. The current portion of long-term debt and capital leases have been reduced as a result of payments to the debt holders.

Days cash on hand has declined since year end by 3.5 days. Note, however, total cash on hand has increased. The cash on hand is lower because operating expenses per day have increased. Operating margin and EBIDA exceed target. Debt to capitalization has improved slightly since year end. Cash to debt has improved.

#### **F. UPDATE ON CONSTRUCTION PROJECT**

Murray Clark discussed the timelines for opening the new patient floor on the 8<sup>th</sup> floor of Pavilion A. Bids have been received for the new Clinical Decision Unit. All projects are on schedule. For the future, our 150 million bond issue should be approved by the legislature. Discussion will be held at the June

Retreat for the next phase of construction projects. Capacity issues are still a problem and additional beds continue to be a critical issue.

**G. PRIVILEGES AND APPOINTMENTS**

Dr. Michael Dobbs presented for approval the current list of privileges and credentials. The Health Care Committee made a motion to accept the privileges and credentials brought before them. The motion carried and was approved by the committee.

**H. DISMISSAL**

Seeing no other business, Chair Young adjourned the meeting at 5:37pm