

**Minutes of the University of Kentucky Board of Trustees
University Health Care Committee
September 14, 2017**

I. Call to Order

The University of Kentucky Board of Trustees University Health Care Committee met on September 14, 2017, at the St. Elizabeth Training and Education Center, Erlanger, Kentucky. The meeting was called to order by Robert Vance, Chair of the University Health Care Committee (“Committee”) at 3:30 p.m., Eastern Time (ET).

II. Roll Call

Committee members present included Chair Vance, Cammie Grant, and Barbara Young.

Committee Community Advisory members present included Robert Clay, Nick Nicholson, and Missy Scanlon.

University Health Care ex officio members present included President Eli Capilouto, Robert (Bo) Cofield, DrPH, Robert DiPaola, MD, Michael Karpf, MD, and Phillip Chang, MD.

Trustees Claude “Skip” Berry, III, Lee Blonder, Mark Bryant, Ben Childress, Michael Christian, Angela Edwards, Robert Grossman, David Hawpe, Kelly Holland, Dave Melanson, Derrick Ramsey, and Sandra Shuffett were also present.

III. Approval of Minutes

Minutes from the June 15, 2017, meeting were presented for approval by Chair Vance. Motion was made by Ms. Grant to accept the minutes and seconded by Ms. Young. With no further discussion, the motion carried unanimously.

IV. PR 4: Appointment of the Executive Vice President for Health Affairs

As an informational update, Chair Vance noted that PR 4, for the appointment of Dr. Mark F. Newman as Executive Vice President for Health Affairs (EVPHA), would be considered at tomorrow’s meeting but that he and President Capilouto wanted to recognize Dr. Newman’s attendance at today’s Committee meeting and the exceptional work of outgoing EVPHA Dr. Michael Karpf.

Chair Vance observed that this would be a homecoming of sorts for Dr. Newman, who was born and raised in Owensboro. Dr. Newman previously served in the U.S. Air Force and has most recently served as president of Private Diagnostic Clinic, the physician practice plan for the Duke University Medical Center – one of the largest, most renowned practice plans in the country. Chair Vance also noted that Dr. Karpf has led UK HealthCare through a remarkable period of unparalleled growth and progress, with the vision of ensuring that no Kentuckian – no matter where they are from or what their background is – should have to worry about whether they can receive the best of care close to home. Because of Dr. Karpf, the Commonwealth is so much closer to making that vision a reality. He thanked Dr. Karpf for his dedication, compassion, and leadership which was invaluable to UK and the Commonwealth.

Trustee Young welcomed Dr. Newman to UK and thanked Dr. Karpf for his incredible achievements as leader of UK HealthCare. She noted that taking the discharge totals from 19,000

to nearly 39,000 in less than 15 years is an incredible testament to the transformation that has occurred and that she is so grateful for his leadership.

Dr. Karpf thanked her for her comments and said that UK has made a lot of progress toward achieving its big vision and big goals, and the faculty and staff are deserving of all the credit for the enterprise's incredible growth.

President Capilouto welcomed Dr. Newman and believes that the strong partnerships and the growth of the regional medical campuses were a strong selling point in the recruitment of Dr. Newman. He praised Dr. Karpf's strong work ethic, leadership through difficult times, and his drive, force, and vision will echo for a long time. UK is eternally grateful to Dr. Karpf for his tremendous legacy at UK and UK HealthCare.

Chair Vance noted that while this recommendation will be considered at tomorrow's meeting and requires no action he wanted to bring this to the Committee's attention.

V. St. Elizabeth Healthcare Overview and Partnership

Mr. Garren Colvin, Chief Executive Officer, St. Elizabeth Healthcare, thanked Dr. Karpf for his outstanding service and noted he had already met several times with Dr. Newman. A strong foundation to UK and St. Elizabeth's relationship has been built and he envisions that partnership growing stronger and stronger.

He then provided the Committee a welcome and overview of St. Elizabeth's activities and partnerships with UK. He reviewed St. Elizabeth's mission, vision, and strategic goals and aspirations – to be a leader in healthcare and community wellness for Northern Kentucky and the preferred workplace for healthcare professionals. The organization is a Catholic healthcare ministry sponsored by the Diocese of Covington and that affiliation is a core to its mission.

Annually, St. Elizabeth sees nearly 1.3 million visits, including more than 562,000 outpatient hospital visits, 207,000 emergency situations, and 56,000 acute admissions or observations. The organization conducted nearly 5,000 breast cancer screenings with its mobile mammography unit and 1,900 heart screenings with its Cardiovascular Health Unit and performed more than 31,000 surgeries. In total, St. Elizabeth witnessed more than two million patient encounters across the organization. Its primary service area encompasses seven Northern Kentucky counties: Boone, Kenton, Campbell, Gallatin, Grant, Pendleton, and Bracken.

Mr. Colvin reviewed some of St. Elizabeth's recent awards and recognition. It was named in the top 5% nationally for cardiac care by Healthgrades – the only hospital in Kentucky to achieve the feat. It was also recognized as one of America's 100 Best Hospital for Cardiac Care and among the 10 hospitals with the lowest heart attack mortality in the U.S. It is the first in the region to offer the world's smallest pacemaker, perform an outpatient knee replacement, and implant a fully-dissolving heart stent. St. Elizabeth physicians are the highest rated physicians in the region. Its Sports Medicine program partners with 37 schools in Northern Kentucky, and major partnerships include Solving Unmet Needs (SUN), YMCA, LiveWellNKY, American Heart Association, and the American Cancer Society. In early 2018, the organization plans to open a new 130-bed behavioral health hospital in Erlanger, Kentucky, and this will be a great opportunity to keep some of those patients closer to home in Northern Kentucky while St. Elizabeth can work with Eastern State Hospital on some of the most complex cases. In total, it supports more than 250 organizations throughout Northern Kentucky while providing a \$104 million community benefit to the region. In total, the organization's impact to the economy is slightly more than \$2 billion as it is the top employer in the region, with more than 8,500 associates.

Mr. Colvin highlighted the strong partnership St. Elizabeth has with UK, particularly the planned expansion of the College of Medicine along with Northern Kentucky University. Other partnerships include a long-standing UK sponsorship of St. Elizabeth's family practice residency program, reducing costs through the Kentucky Health Collaborative, a number of clinical affiliation agreements, shared care arrangements with Gill Heart & Vascular Institute for advanced heart failure patients, and currently finalizing an oncology affiliation agreement with the Markey Cancer Center. He noted that the Kentucky Health Collaborative would not exist without Dr. Karp's outstanding leadership, and this will help save money for hospitals to invest more in patient care at the bedside. In total 141 medical staff members at St. Elizabeth studied and/or trained at UK.

In May 2016, the organization opened the St. Elizabeth Training and Education Center (SETEC), with the Simulation Center opening in November of 2016. These will allow for ongoing education and training opportunities for associates – more than 62,000 hours of training has been completed at SETEC to date, with another 133,000 hours of training scheduled. The Simulation Center includes simulation space, clinical skills suites, nursing skills suites, imagine suites, classroom and collaborative spaces, and cutting-edge simulation equipment. Mr. Colvin closed by noting the members of the Board will have the opportunity to tour the Simulation Center after the meeting concludes.

VI. U.S. News & World Report Hospital Rankings Update

Rob Edwards, DrPH, Chief External Affairs Officer, UK HealthCare, and Julie Balog, Director of Digital and Brand Strategy, UK HealthCare, gave the Committee an update on UK HealthCare's performance and recognition in the latest *U.S. News & World Report* hospital rankings for 2017. Once again, UK HealthCare was ranked the number one hospital in Kentucky. St. Elizabeth Healthcare, which UK has partnered with on many important initiatives, was ranked second. These ranking are important because according to the 2017 Bluegrass Survey, nearly 74% of people surveyed say a hospital's ranking influences their choice of hospital and provider.

Ms. Balog provided some information about the rankings methodology and UK HealthCare's performance in key specialties. These rankings are significant because more than 2,200 hospitals were eligible for and participated in these rankings nationwide. The rankings are driven by data in the areas of outcomes, structure, process, patient safety, and public transparency. UK HealthCare was nationally ranked in four specialties (Cancer, Diabetes and Endocrinology, Geriatrics, and Neurology and Neurosurgery) and was high performing in the areas of Gastroenterology and GI surgery, Nephrology, Orthopaedics, Pulmonology, and Urology. UK HealthCare's performance in each of these areas has improved dramatically over time since 2007. Ms. Balog also detailed some of the advertising assets touting this success that the enterprise is leveraging through signage, digital, and more – such as in the Bluegrass Airport, Kroger Field, on social media channels, and more.

Dr. Karpf stated that this is a true testimonial to UK faculty and staff who work extremely hard and this is excellent to see that rewarded. He expects these numbers to only improve going forward.

Trustee Grossman asked a question about what constituted the big jump in UK HealthCare's scores in 2012 across the board. Ms. Balog responded that there was a significant methodological change around that time in which *U.S. News & World Report* re-adjusted the way it measured its rankings and weights.

VII. First Do No Harm: The Prevention Arm of Addressing the Opioid Crisis

Phillip Chang, MD, Chief Medical Officer, UK HealthCare, presented to the Committee on the enterprise's efforts aimed at prevention of opioid abuse. Dr. Chang reviewed some statistics about drug overdoses and deaths rates; drug overdose deaths now outnumber those from traffic accidents, guns, or falls. Kentucky is among the highest rates in the nation in terms of deaths, as well as prescriptions per 100 individuals. Some factors contributing to this crisis include direct-to-consumer advertising of the drugs, emphasis on pain control, intractable pain laws, and economic factors.

Dr. Chang highlighted that there are three key paths to fighting and stopping the epidemic: prevention, treatment, and harm reduction. He presented the recently launched pilot program aimed at the prevention path. This pilot program takes a two-pronged approach to acute pain: prescribing and taking fewer opioids, and obtaining more patient buy-in. Engaging patients on this is critical, Dr. Chang noted – setting goals and expectations and educating them about the risks are essential. The pilot program's initial results are encouraging – patients are being discharged with less opioids, while there is no difference in their pain score, and less naloxone is being used; this is a win on all three fronts. UK HealthCare was very supportive of House Bill 333, which draws in part from this pilot program.

Key lessons learned from the program are that opioid reduction is feasible, education will be key, providing standardized algorithms for non-opioids may increase compliance, taking caution with over-sedation, and acetaminophen and NSAIDs appear to have the most promise in terms of prevention. He noted the importance for physicians to begin re-educating themselves on these drugs and their collective effects on patients. There is ongoing work into the areas of identifying and developing new treatments, hepatitis C, pregnant women and neonatal abstinence syndrome (NAS), NAS surveillance work, health services research, and naloxone overdose training and provision. UK has coordinated a multidisciplinary team and approach to continue this important work.

Trustee Young asked a question about whether these types of protocols and programs are being implemented around the nation and other regions. Dr. Chang said that they are happening both in the state and around the country. UK is working closely with the Kentucky Hospital Association and Kentucky Medical Association on a couple different projects. UK will be using federal 21st Century Cures Act funding to set up a similar stewardship program with partners in Morehead, Kentucky. UK also is using a program where patients can return unused opioids to the UK pharmacy for disposal. He noted St. Elizabeth's strong bridge clinic to help treat addiction and that there can be great synergy in coming together with partners to help address this crisis.

Trustee Blonder asked a question about the use of integrative medicine such as acupuncture, massage therapy, and other treatments in helping to address the opioid crisis. Dr. Chang said that UK HealthCare is using it in some cases but that he is hoping to have more of that type of medicine as a first-line treatment rather than as a last resort. Enterprise is currently in the process of submitting a grant application to CMS that would embed an acupuncturist or another form of integrative medicine on the trauma floor.

Trustee Shuffett asked whether UK HealthCare is seeing many patients using their IV lines to mainline opioid drugs and if so, what is the policy to dictate addressing that. Dr. Chang said that is indeed a common occurrence, and the policy is to remove all IVs at time of discharge to try and cut down on that. He added the enterprise is acutely aware of the problem and really working to address it.

President Capilouto noted that Kentucky is well below the national average in terms of workforce participation, and that there is a new Princeton study out that shows around 20 percent of the decline in workforce participation can be attributed directly to the increase in opioid prescriptions from 1999-2015. Kentucky is not going to have a labor force that matches or exceeds the rest of the nation until this issue is under control, he believes.

VIII. Financial Update

A. FY 2017 Year-End Operating Results and July 2017 Operating Results

Craig Collins, Vice President and Chief Financial Officer, UK HealthCare, presented the fiscal year (FY) 2017 year-end financial performance and July 2017 operating results. Year-end numbers indicate that UK HealthCare was at a 7.3% operating margin, which was below budget target of 11.0%.

At year-end, average daily census, length of stay, patient days, case mix index, observation cases, emergency room cases, operating room cases, and technical cases were above budget; total discharges and short stays were below budget. Specifically during the fourth quarter, discharges were below budget by 210, case mix index dropped by 0.05 and surgeries were greater than budget by 147; income from operations was a negative \$9.6 million with a net revenue variance of negative \$30.5 million and a negative operating expense variance of \$18.3 million.

In July, UK HealthCare saw a significant bounce back, with \$18.6 million in operating income, for a margin of 13.9%, versus a budget target of 8.7%. Many of the key performance indicators were still below budget but significantly improved over the FY 2017 figures. This strong financial performance can be attributed in large part to a shift in payer mix, with an increase in commercial payers and increased net revenue per case across the board for all payers. Preliminary estimates for August performance indicate a strong performance that is greater than budget, as well.

Mr. Collins noted how the acuity of patients impacts the level of staffing to provide the highest quality care. The fourth quarter of FY 2017 saw a significant spike in the number of FTEs per average occupied bed. Mr. Collins also noted some other expense trends for FY 2017:

- Operating expenses were negative to budget in the fourth quarter by \$18.3 million and \$12.3 million year-to-date
- Patient discharges that were bedded in the intensive care unit (ICU) during some part of their stay grew by 9% year-over-year; on average there were seven more ICU patients per day
- FTEs increased 152 in the fourth quarter, of which approximately 15 were due to mandatory training requirements and 80 supporting our recruitment and educational mission in the Student Nurse Academic Practicum (SNAP) program
- Variable supplies were \$23 million greater than budget year-to-date due to variation to budget in patient case mix and utilization of supplies
- Fixed expenses were under budget by \$49 million for FY 2017
- Enterprise Investment Requests (EIRs) were \$2.7 million over budget year-to-date, with an increase in the fourth quarter of \$10 million due to timing and reconciliation of funds flow

He also reiterated many of the national drivers of change that UK HealthCare will need to account for in the months and years ahead. He also provided an update on activities with the UK Building Efficiencies through Strategic Transformation (BEST) initiative. This initiative has been rolled out to make performance improvement efforts, bring decision-making down to a local level, and further engage leadership, faculty, and staff to make sure UK is providing efficient care. UK BEST presents opportunities to build business, clinical and academic systems and process that match UK's new size and complexity, while also supporting reinvestment into research and education and helping the enterprise keep up with the changing healthcare world.

Mr. Collins concluded that the enterprise's operating margin of 7.3 percent was strong, and still greater than the average not-for-profit hospital, and UK HealthCare has maintained a strong balance sheet. UK HealthCare had a strong July performance, retail pharmacy continues to be a strong financial contributor, and UK BEST will be an important strategic enabler to help prepare the enterprise for the future of healthcare.

Dr. Karpf noted that these results can be confusing, but that UK HealthCare's mission is to take care of complex patients and any patients that walk through the doors; it doesn't check insurance when admitting people but rather admits them because they need our services. UK HealthCare will need to ensure it remains attractive to all payer sources and continue to offer services that no one else in Kentucky can provide. This is what keeps the enterprise economically viable. He noted three things that attract patients to UK HealthCare: the quality of the programs, outreach, and building great relationships and partnerships. It will be important for UK HealthCare to offer services at a competitive price, he commented, and project BEST will be a critical initiative to build greater value and efficiencies. UK HealthCare has much less competition than other AMCs, but will need to continue to build its relationships and service offerings.

Trustee Hawpe asked a question about the impact of the ACA and the drop in Medicaid patients. Dr. Karpf responded that Medicaid expansion has been a real financial benefit to the enterprise as uninsured and self-pay populations dropped from around 11 percent to 3 percent or less. A slight drop in percentage of Medicaid patients could be attributed to a number of factors, but is most likely due to the growth of Medicaid flattening out after the initial rush of sign-ups with the ACA.

IX. Privileges and Appointments

Mr. Cofield presented for the Board's approval a current list of privileges and credentials. A motion was made by Ms. Young to accept the privileges and credentials as presented and seconded by Ms. Grant. With no further discussion, the motion carried unanimously.

X. Other Business

Chair Vance informed the Committee that he had recently met with Brett Short, Chief Compliance Officer, UK HealthCare, to review the July 2017 Compliance Report. They also reviewed recent compliance guidance issued by the Office of Inspector General and the Department of Justice. Chair Vance has asked Mr. Short to discuss the impact of this new guidance at the next meeting of the Committee.

Chair Vance again recognized Dr. Mark Newman for some additional comments. Dr. Newman thanked and congratulated Dr. Karpf on an exceptional career of service to UK HealthCare. He commented that a strong academic medical center like UK HealthCare can

make a huge difference in the community and that he is excited to get started with this important work.

Seeing no other business, Chair Vance adjourned the meeting at 5:29 p.m.