



University of Iowa Health Care

Presentation to

The Board of Regents, State of Iowa

April 11-12, 2018

Agenda

Today's Presentation

Opening Remarks

Operating and Financial Performance

Preliminary FY19 Operating Budget



OPENING REMARKS

*Brooks Jackson, MD, MBA
Vice President for Medical Affairs
& Dean, Carver College of Medicine*

Looking Ahead: Vision for UI Health Care



Continue as a 'destination' academic health system

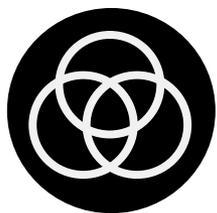
- Attract the best faculty, students, and staff
- Increase philanthropic support
- Create partnerships with private industry and other health systems
- Ensure the patient volumes necessary for medical education and training
- Create intellectual property and downstream licensing opportunities
- Create startup companies



Increase national reputation/rankings of UI Hospitals and Clinics and UI Carver College of Medicine

- Enhance recruitment of outstanding faculty, students, staff
- Focus on selective clinical areas of excellence that align with the research and educational missions

Looking Ahead: Vision for UI Health Care



**As a state institution,
UI Health Care has a responsibility:**

EDUCATION

Educate/train future generations of health care providers

PATIENT CARE

Provide tertiary and quaternary care for complex conditions

RESEARCH

Conduct basic, clinical, and translational research—leading to new knowledge/ understanding of human health and disease, plus new therapies, drugs, and devices for patients

IOWA'S UNIQUE CHALLENGES



Very low (or lowest) reimbursement rates



Rural state with a relatively small population

U.S. News & World Report Rankings

University of Iowa Hospitals and Clinics



For the 28th consecutive year, UI Health Care specialties earned high rankings in *U.S. News & World Report*

- Ear, Nose and Throat
- Ophthalmology
- Orthopedics and Rehabilitation
- Urology
- Cancer

U.S. News & World Report Rankings

University of Iowa Stead Family Children's Hospital



Iowa's *only* nationally ranked children's hospital

- Cancer
- Cardiology
- Neonatology
- Nephrology
- Pulmonology
- Urology

U.S. News & World Report Rankings

University of Iowa Carver College of Medicine

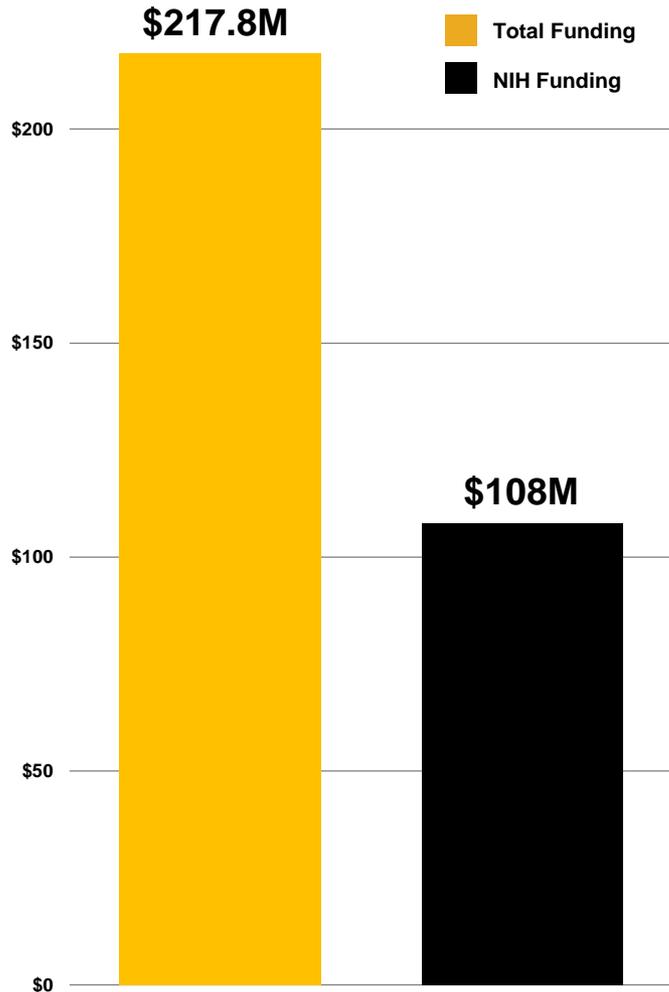


The University of Iowa Carver College of Medicine ranked once again among the nation’s “Best Graduate Schools”

- 2nd Physician Assistant Masters Program
- 6th Physical Therapy, Masters and Doctorate Program
- 12th Surgery
- 17th Internal Medicine
- 21st Primary Care
- 32nd Research

Research Funding

University of Iowa Carver College of Medicine: FY 2017



Blue Ridge Institute for Medical Research Rankings (National Institutes of Health Research Funding)

42nd Overall

20th Among Public Institutions

National Recognition: University of Iowa Health Care



● Number 1 in health care (No. 12 overall)

2015



● Number 1 in health care (No. 7 overall)

2016



● Number 5 in health care (No. 14 overall)

2017



● Number 1 in health care (No. 16 overall)

2018

HyVee (111)

Rockwell Collins (133)

Principal (355)

Principal (6)

Today's Health Care Landscape

Challenges and uncertainty



Reductions in government reimbursements

- \$1.6 billion cut to 340B prescription drug program
- \$2 billion cut to Disproportionate Share Hospital (DSH) program
- \$670 million cut to CMS reimbursements for lab tests under PAMA (Protecting Access to Medicare Act)



Regulatory costs

- Documentation requirements
- LCME and GME requirements



Other cost concerns

- Drugs and medical devices
- Technology

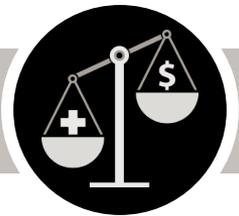
Today's Health Care Landscape

Challenges and uncertainty



Consumer (and provider and insurer) demands

- Greater access to care
- More choice
- Care coordination
- Affordability
- Quality, service, enhanced patient experience



Private payer balancing reimbursement

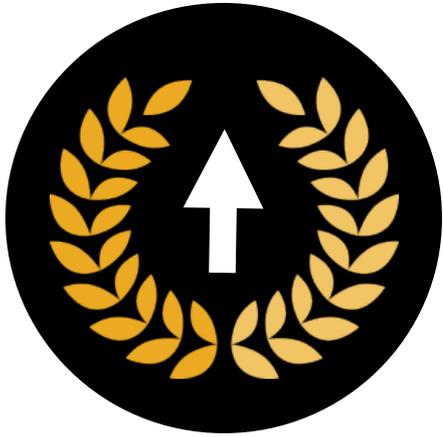
- Aging population and long-term care
- Chronic conditions like diabetes and heart disease
- Opioid crisis



Lingering questions

- Future of Affordable Care Act?
- Impact of the new federal tax law?
- Federal budget and future of NIH research funding?

Strategy to increase Carver College of Medicine ranking



- 1. Increase NIH funding through incentives, recruitment of NIH-funded faculty, and investment in areas of excellence**
- 2. Increase median GPA and MCAT score of students, selectivity index, and faculty/student ratio by:**
 - Increase MCAT floor for admission
 - Increase merit/financial need/diversity scholarships
 - Decrease class size
 - Increase proportion of out of state students
- 3. Increase reputational peer assessment through impactful scholarship and leadership visibility/ involvement on national stage**

Strategy to increase UIHC national ranking



- 1. Investment in selective clinical areas of excellence**
- 2. Maintain Magnet status**
- 3. Improve clinical quality metrics in comparison with UIHC peers**
- 4. Expand clinical trials**
- 5. Lead in the development and provision of unique advanced therapies**
- 6. Increase reputational peer assessment through impactful scholarship and leadership visibility/involvement on a national stage**

Strategy to achieve financial targets

UI Hospitals and Clinics and UI Carver College of Medicine

1

Expand services where demand is unmet, especially in complex care

2

Increase efficiency of operations and use of infrastructure

3

Achieve more favorable payer mix through strategic location and types of services, hours, and more favorable payer relationships

4

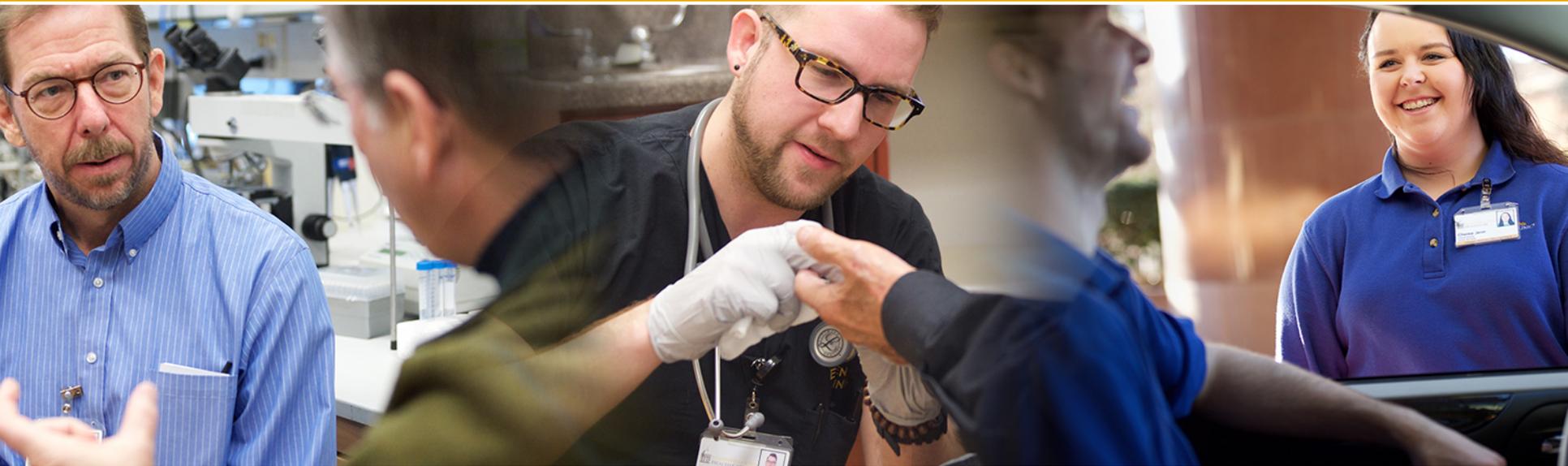
Reduce costs in purchasing, right skill set of labor, eliminate unwarranted variation, administrative structure consolidation

5

Increase research funding of existing faculty

6

Increase philanthropy



OPERATING AND FINANCIAL PERFORMANCE

Kenneth P. Kates

Associate Vice President

& Chief Executive Officer, UI Hospitals and Clinics

Doug True

Interim Associate Vice President for Finance

& Chief Financial Officer

Volume and Financial Highlights

Through February 2018

Operating Margin

- February year-to-date actual 2.2%, budget of 1.7%
- Continuing good financial recovery against budget

Volume Growth

- Year-over-year: Inpatient 3.6%, Surgeries 4.4%, Clinic Visits 7.0%

Acuity

- Case Mix Index continues to be high – above 2.0 for all payers (2.05) and Medicare (2.28)
- At the 79th percentile compared to other AMCs

Census

- Many days above 90% occupancy
- 7 additional beds opened in January
- 2 more ORs to open in Children's Hospital in FY19
- Closer relationship with post-acute providers being developed

Length of Stay Index (through December)

- Adult at .90 – below the expected index of 1.0
- Pediatrics at the expected index of 1.0
 - much progress achieved over past several months

Readmission Rates (through September)

- Adult at 12.02% - below target of 12.23%
- Pediatrics at 9.91% - above target of 8.25%
 - Patients with multiple comorbidities and chronic illness

Revenues

- 1.7% above budget year-to-date

Payer Mix

- Medicare growth continues
- FY17: 35.7%, FY18: 36.8%

Accounts Receivable

- Positive trend for government and out-of-state payers
- Progress resolving older cases

Salary Expenses

- 2.2% below budget year-to-date

Non Salary Expenses

- 4.8% above budget year-to-date
- Implant and pharmacy costs

Volume - Highlights and Trends

Inpatient Discharges

- Continue to increase year over year – up 821; 3.6% compared to last fiscal year to date
- All major clinical areas have grown year over year except Pediatric Psychiatry – down 14%
 - driven by our continued challenges to place these patients when they no longer require acute care
 - average length of stay has increased 30%
- Over the past three years (July through February), total discharges have increased by 1,542; 7.1%

Surgical Cases

- Continue to make progress in surgical case volume growth since the slow start in July
- Year to date, case volumes are up by 918 cases; 4.4% compared to the same time period last fiscal year
- All services experiencing growth except Otolaryngology/Head and Neck Surgery
 - decline driven by the departure of two faculty members. One has been replaced with recruitment underway for the second
- Over the past three years (July through February), total surgical cases have increased by 1,254 cases; 6.8%

Volume - Highlights and Trends

Emergency Department Visits

- Volumes continue to run below last fiscal year – down 611 visits; 1.5%
 - decline driven by:
 - lower acuity patients seeking care at other sites (i.e. Quick Care)
 - increases in psychiatry patients who require inpatient services when our psychiatry beds are often filled
 - days with very high inpatient census resulting in patients having to wait in the ED for admission
- New outpatient Crisis Stabilization Unit to open for patients requiring emergency psychiatric care
- Acuity of patients continues to increase – 34.6% are admitted compared to 33.1% last year
- Over the past three years (July through February), Emergency Department visits have increased by 680 visits; 1.8%

Volume - Highlights and Trends

Outpatient Visits

- Continue to experience growth year over year – up a total of 42,000 visits; 7% increase
- Increased volumes at all locations; main campus, Iowa River Landing (IRL) and off-site
- All services experiencing growth year over year except Family Medicine and Neurology
 - The reported decline in General Surgery visits due to the planned relocation of the Vascular Surgery Clinic and the Vascular Ultrasound Lab to the new Heart and Vascular Center facility that opened in mid Sept 2017. Excluding the vascular patients, General Surgery Clinic visits are up year over year by 655 visits; 6%
 - Family Medicine is showing a year-over-year decline due to the closure of three of our Quick Care locations, one of which has now reopened, and one outreach clinic. From ongoing operations, visits have increased by 1,691 visits or 1.5%
 - Neurology volumes are down due to four faculty members who have departed. Three replacements have been hired that started working in the clinic in September
- Over the past three years (July through February), total clinic visits have increased by 82,680, 13.6%

Financials - Highlights and Trends

- **Revenue**

- Given the strong volume, year to date net revenue is 1.7% above budget
- Collections for the second half of the fiscal year will be impacted by \$6.5M of governmental payment reductions
- Significant collections of very old accounts receivable (AR > 270 days old) occurred in October – December of FY18. This was the result of diligent collection processes and structured communications with the Medicaid MCO's. This represents significant progress, but some challenges with collection efforts for this payer group still exists.

- **Expenses**

- Salary expenses are 2.2% below budget, due to successes in the \$86M budget initiative plans
- Non-Salary expenses are 4.8% above budget, mainly due to supply and pharmacy expense
The expense increases are directly tied to increasing surgical volume and acuity, and specific pharmacy initiatives

Financials - Highlights and Trends

Update - \$86M Revenue Enhancement/Expense Reduction Initiatives

- Achieving good progress to date on our \$86M plan
- \$31.2M has been realized through January
- 60% of the initiatives to achieve the \$86M were planned for the second half of the fiscal year
- Over half of the full year target is tied to reduced labor costs
- 500 FTE targeted savings - through March 9th – 486.9 FTEs achieved
- Goal to reduce agency nurses by 149 positions – 183 positions reduced through March 9th. Replaced with UIHC nurses
- Progress being achieved on revenue growth and expense reductions (examples include: PET/MRI expanded hours, pharmacy initiatives, contracts for virtual hospitalist services, supply reductions)
- Deferred the start of some capital projects and major equipment acquisitions. This will reduce capital spending this fiscal year by about \$60M

Financials – Highlights and Trends

Update – Medicaid MCOs

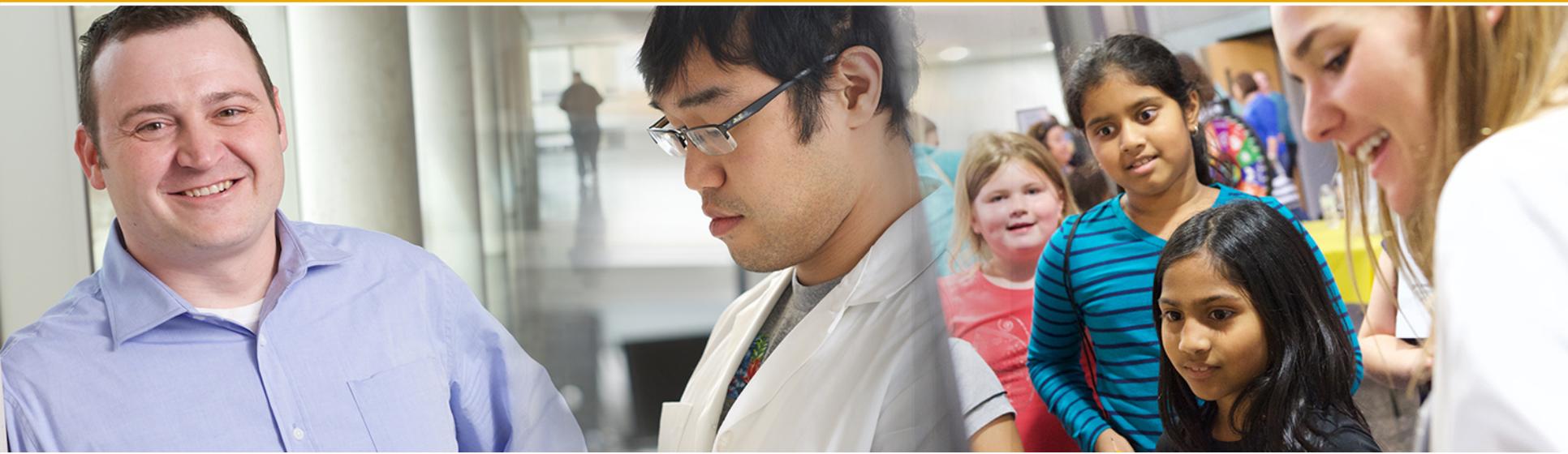
- Days in Accounts Receivable for Medicaid MCOs is in a range of 51 to 67
- 21% of Medicaid hospital claims require UIHC action after initial claim submission compared to 10% for commercial payors
- Overall MCO denial rate is 2.5 times greater when compared to other commercial payors for hospital claims
- Percent of hospital Accounts Receivable over 180 days is in a range of 15% to 25% across the MCOs
- AmeriHealth Resolution
 - Actively working through resolution of claims
 - Estimated Net Accounts Receivable was \$12M at end of November. Current net estimate of Accounts Receivable outstanding is \$5.1M
 - Goal is to resolve all claims by June 30th

Comparative Financial Results

Fiscal Year to Date February 2018, Dollars in Thousands

NET REVENUES	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Patient Revenue	\$1,053,493	\$1,035,565	\$951,067	\$17,928	1.7%	\$102,426	10.8%
Other Operating Revenue	34,112	33,551	33,183	561	1.7%	929	2.8%
Total Revenue	\$1,087,605	\$1,069,116	\$984,250	\$18,489	1.7%	\$103,355	10.5%
EXPENSES							
Salaries and Wages	\$513,296	\$524,601	\$483,572	(\$11,305)	-2.2%	\$29,724	6.1%
General Expenses	482,858	460,938	424,056	21,920	4.8%	58,802	13.9%
Operating Expense before Capital	\$996,154	\$985,539	\$907,628	\$10,615	1.1%	\$88,526	9.8%
Cash Flow Operating Margin	\$91,451	\$83,577	\$76,622	\$7,874	9.4%	\$14,829	19.4%
Capital- Depreciation and Amortization	67,721	65,338	54,590	2,383	3.6%	13,131	24.1%
Total Operating Expense	\$1,063,875	\$1,050,877	\$962,218	\$12,998	1.2%	\$101,657	10.6%
Operating Income	\$23,730	\$18,239	\$22,032	\$5,491	30.1%	\$1,698	7.7%
Operating Margin %	2.2%	1.7%	2.2%		0.5%		0.0%
Gain (Loss) on Investments	26,938	8,057	6,923	18,881	234.3%	20,015	289.1%
Other Non-Operating	(8,444)	(9,035)	(4,490)	591	6.5%	(3,954)	-88.1%
Net Income	42,224	\$17,261	\$24,465	\$24,963	144.6%	\$17,759	72.6%
Net Margin %	3.8%	1.6%	2.5%		2.2%		1.3%

* Gain/(Loss) on Investments based on information available at close. Final investment return for this period is reflected in Fiscal Year to Date returns in the subsequent reporting cycle.



PRELIMINARY FY19 OPERATING BUDGET

Kenneth P. Kates

Associate Vice President

& Chief Executive Officer, UI Hospitals and Clinics

Doug True

Interim Associate Vice President for Finance

& Chief Financial Officer

Preliminary Capital Planning

UI Hospital and Clinics will fund \$142.7 million in capital projects and equipment for FY2019.

- Major Projects
 - Radiology Replacement/Upgrades and New Equipment - \$19.8 M
 - Development of Off-Site Central Sterilization Services \$15.0 M
 - Acute Leukemia and Bone Marrow Transplant Unit \$10.4 M
 - Pediatric Specialty Clinic Expansion \$8.8 M
 - Pathology Core Lab Expansion \$6.5 M
 - Inpatient Psychiatry Expansion and Renovation \$6.5 M
- Clinical Equipment \$11.9 M
- IT Hardware and Software \$4.6 M
- Other routine renovation and equipment replacement \$59.2 M

UIHC expects to seek board issuance of \$30 million in revenue bonds in the summer of 2018 to finance board approved capital projects.

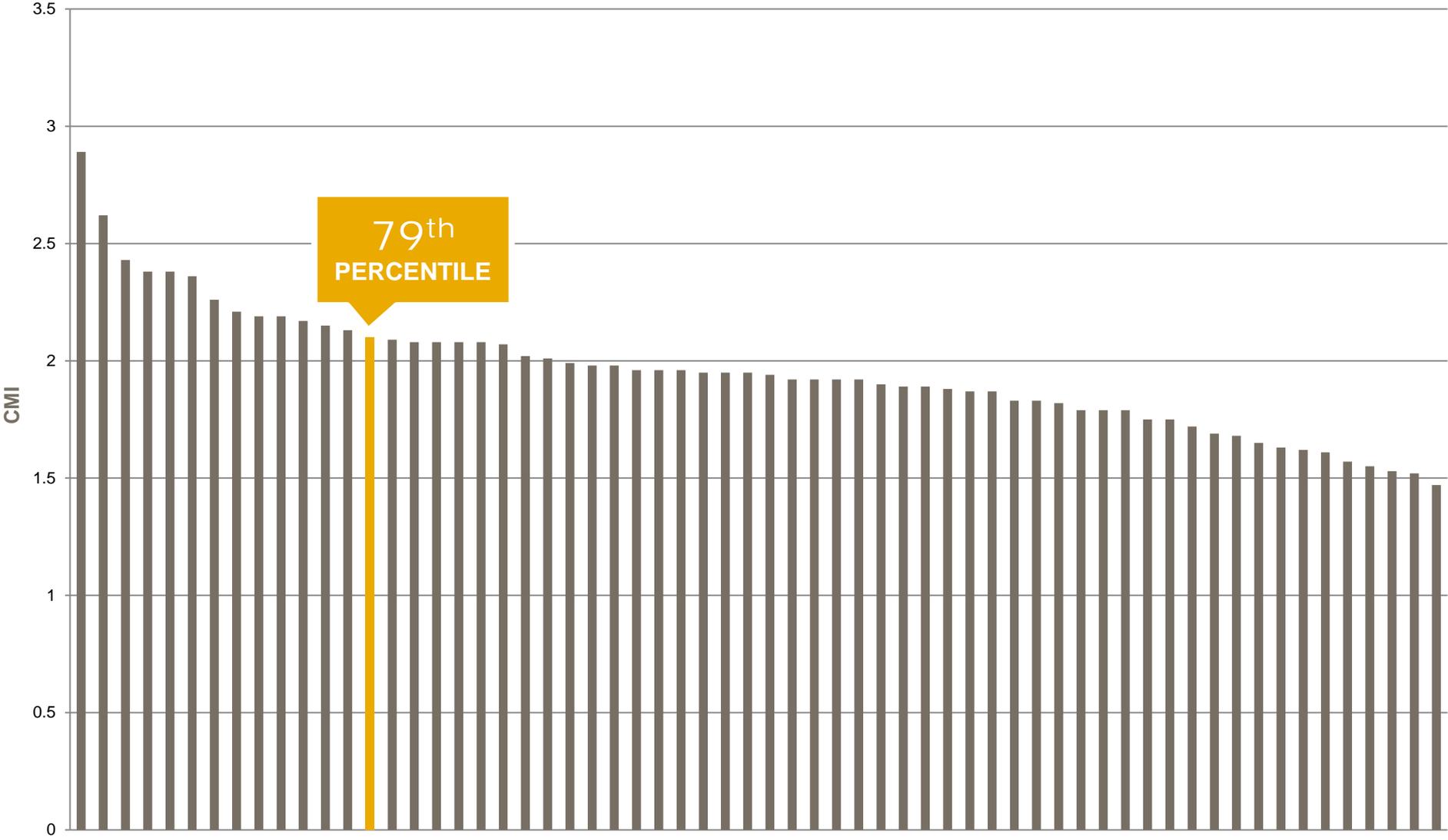
Preliminary Key Drivers

UI Health Care Operating Budget FY2019

Revenue			
Volume Growth			
	Inpatient		3.00%
	Outpatient		5.00%
Physician Work RVUs			
			4.41%
Payor Rate Increase			
			-0.10%
Charge Increase			
			6.00%
Expense			
Salary Increase Assumptions			
	SEIU		2.00%
	Merit		1.00%
	P&S		2.00%
	Faculty		2.00%
	Blended Fringe Benefit Rate		40.20%
Non-Salary Increase Assumptions			
	Drugs		7.50%
	Supplies		3.00%
	Utilities		3.50%
	Other Non-Salary Expenses		3.00%

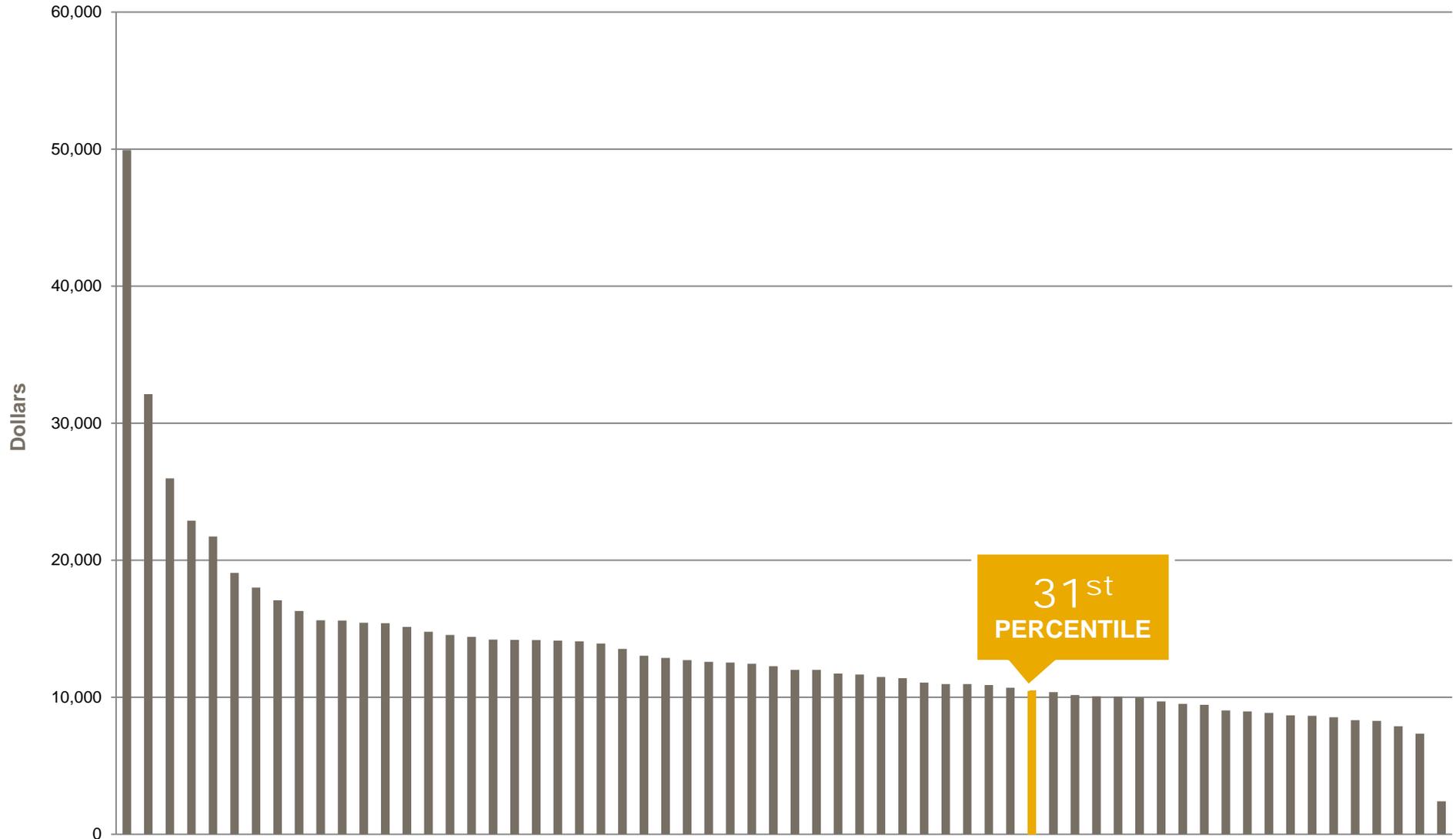
Preliminary Operating Margin Range 2.5% to 3.2%

Hospital Case Mix Index



Action OI Data – CY2017 Quarter 3

Net Operating Revenue per CMI Weighted Adjusted Discharge



Action OI Data – CY2017 Quarter 3

Chargemaster Price Increase

UI Health Care Operating Budget FY2019

- The University of Iowa Hospitals and Clinics is proposing a 6.0% rate increase for FY19.
- UIHC charges have an impact on certain prospective contractual rates set by payers. They also directly impact current reimbursement for percent of charge, carve-out and outlier payment terms. The estimated impact of a 6% price increase is a .6% yield or \$10M.

Chargemaster Price Increase

UI Health Care Operating Budget FY2019

- Benchmarking: UIHC charges are low compared to peer institutions.
 - In the most recently issued Vizient comparison, UIHC acuity adjusted charges are at the 29th percentile of Midwest Academic Medical Centers.
 - Over the past 5 years, our acuity adjusted charge percentile has decreased from 33rd percentile to the current 29th percentile.
- Self-Pay Impact: UIHC has a charity care program that shields the medically indigent from being impacted by increases in charges. The program discounts charges for services using a sliding scale based upon the Federal Poverty Limit (adjusted for family size). This program starts at 350% of the FPL.

Chargemaster Price Increase

UI Health Care Operating Budget FY2019

- Support requested from the Board of Regents for a 6% rate increase at the University of Iowa Hospital and Clinics effective July 1, 2018.

Thank You

University of Iowa Health Care

