

Contact: Mark Braun

UNIVERSITY OF IOWA HOSPITALS AND CLINICS COMMITTEE

Action Requested: The Board of Regents, as Trustees of the University of Iowa Hospitals and Clinics, is requested to:

Report from Regent Downer, Chair of University of Iowa Hospitals and Clinics Committee and preliminary approval of the FY 2009 budget.

Executive Summary:

The Board of Regents, as Trustees of the University of Iowa Hospitals and Clinics, will be provided an update on the presentations made to the University of Iowa Hospitals and Clinics Committee presentations (a separate booklet has been provided with the Board meeting materials).



Presentation to
Board of Regents,
State of Iowa

**April 30 - May 1
2008**

Today's Overview

- **Capital Expansion Project Management**
- **IowaCare**
- **Operating and Financial Performance**
- **FY2009 Proposed Budget**

Capital Expansion Project Management

Gordon Williams

Interim Chief Executive Officer, UIHC

Architectural Selection Process

- Process to select Architect of Record initiated via March 14 letter to American Institute of Architects, Iowa Chapter, (which AIA makes available to virtually all Iowa firms); and March 16 Des Moines Register advertisement
- In consultation with UIHC staff and specialized consultants engaged by UIHC, Architect of Record will undertake master planning, programming and design for a Children's Hospital, Critical Care Tower and renovation of existing facilities
- In accord with Iowa Code, preference will be accorded to firms based in Iowa or with permanent offices in Iowa
- Firms will be selected to interview on the basis of materials submitted for review by the UIHC Architectural Selection Committee

Architectural Selection Committee

Michael Artman, M.D.

Mr. Jose Fernandez

Mr. Ken Fisher

Mr. Tim Gaillard

Mr. Rod Lehnertz

Ms. Chris Miller

Ms. Joan Racki

Mr. Brandt Echternacht,
Committee Staff

Jean Robillard, M.D.

Paul Rothman, M.D.

John Staley, Ph.D.

Craig Syrop, M.D.

Mr. Doug True

Ron Weigel, M.D.

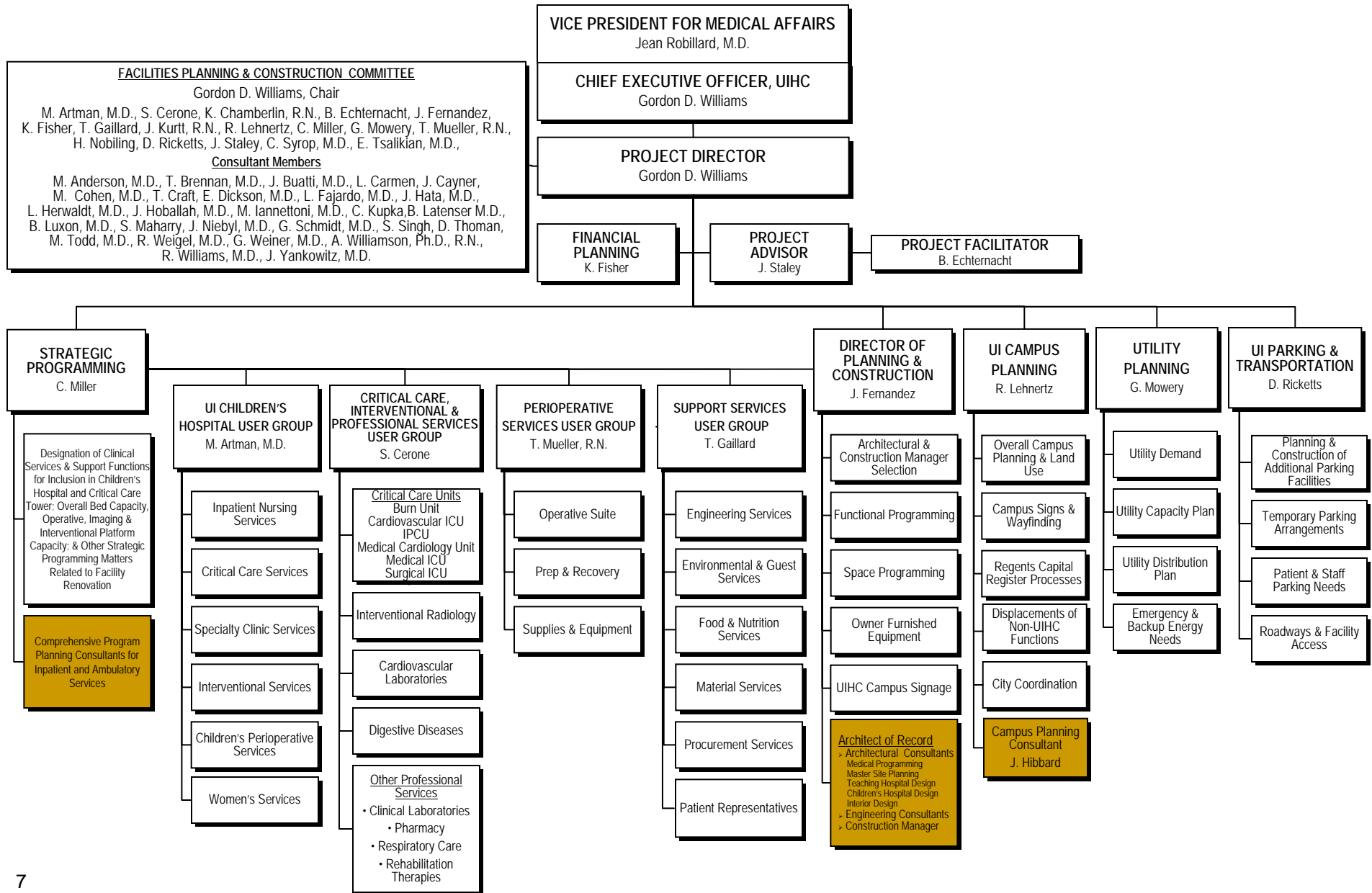
Ann Williamson, Ph.D., R.N.

Mr. Gordon D. Williams, Chair

Role of Architect of Record

- Architect of Record will work with UIHC to evaluate and UIHC will then select:
 - architectural consultant with medical programming, master site planning, teaching hospital and children's hospital design experience,
 - interior designer,
 - engineering consultants, and
 - construction manager
- The Architect of Record will manage the overall project design, including work of the consultants and architect

ORGANIZATIONAL STRUCTURE FOR PLANNING AND CONSTRUCTING REPLACEMENT HOSPITAL ADDITIONS AND RENOVATING CURRENT FACILITIES



IowaCare

Jean Robillard, M.D.

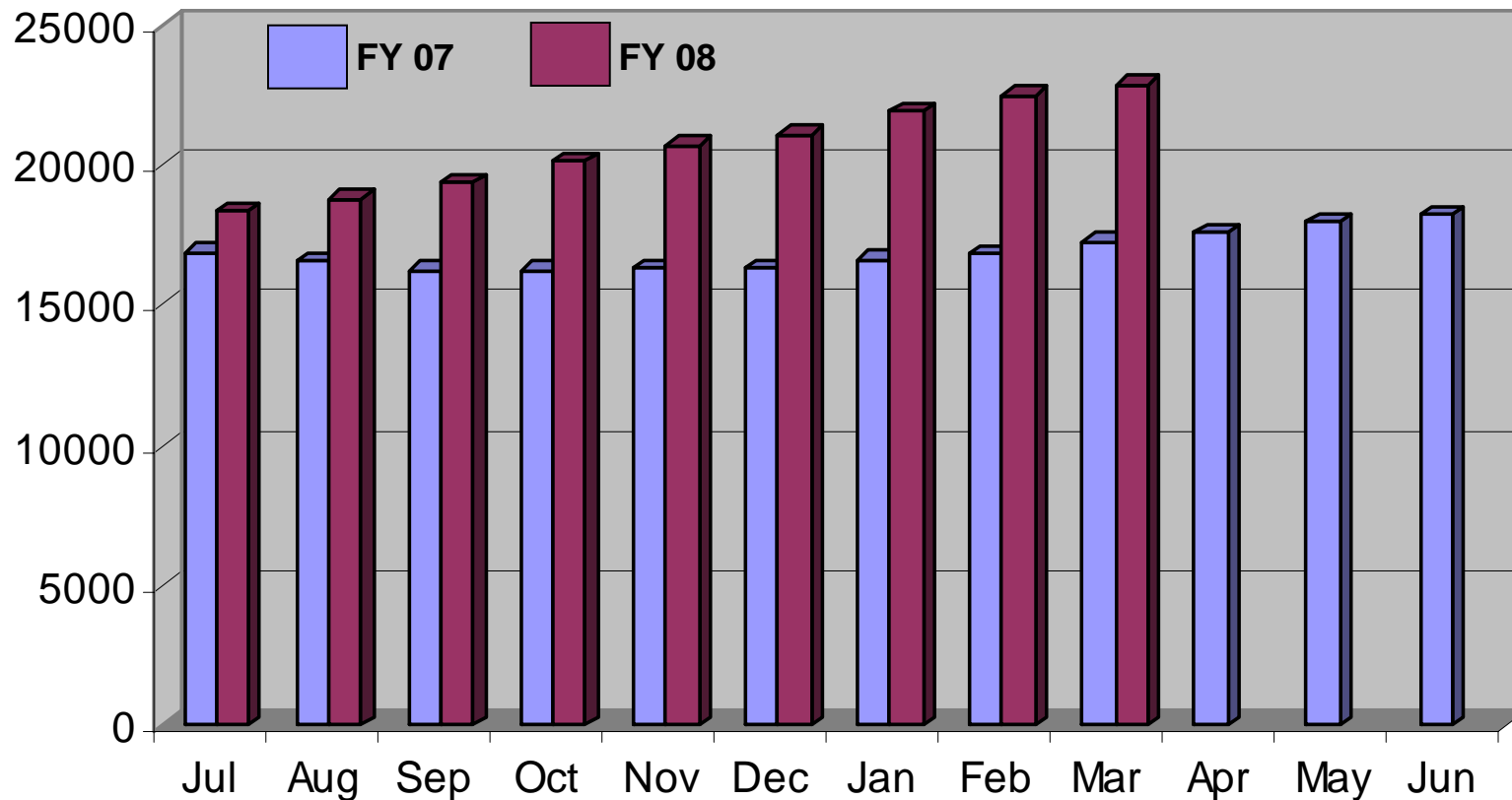
Vice President for Medical Affairs and
Dean, UI Carver College of Medicine

Stacey Cyphert

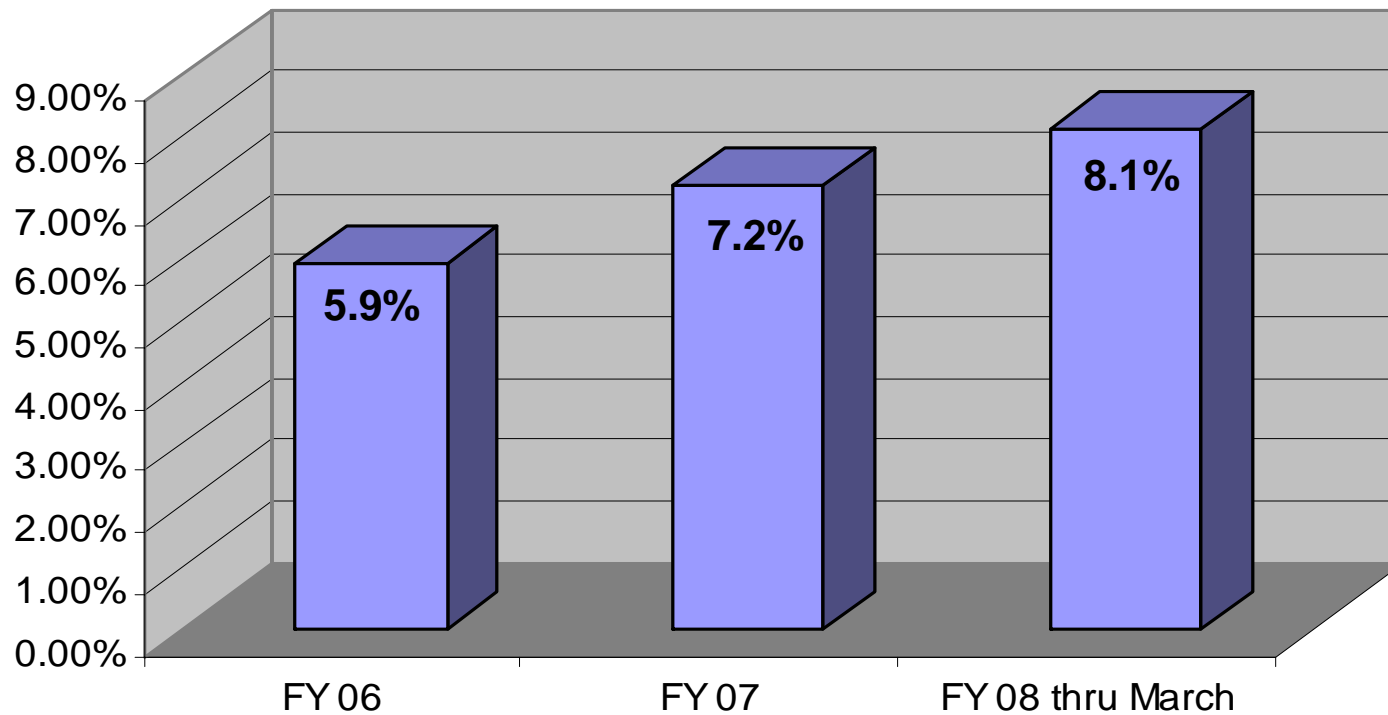
Assistant Vice President for Health Policy

IowaCare & Chronic Care Enrollment (Net of Disenrollments) Monthly Comparison for FY 07 & FY 08

FY 08 IowaCare enrollment is significantly higher than FY 07 enrollment at the same time last year and is at record levels.



IowaCare Patient Encounters at the UIHC as a Percentage of Total Patient Encounters



10,021 Unique IowaCare & Chronic Care Patients Have Accounted for 49,731 Visits at the UIHC Through March of FY 08

Lyon 6 34	Osceola 7 14	Dickinson 21 120	Emmet 17 99	Kossuth 28 83	Winnebago 17 103	Worth 20 98	Mitchell 18 84	Howard 23 130	Winneshiek 50 241	Allamakee 29 237	
Sioux 5 25	O'Brien 13 71	Clay 30 121	Palo Alto 24 88	Hancock 19 84	Cerro Gordo 126 486	Floyd 60 254	Chickasaw 37 195	Fayette 88 428	Clayton 66 329		
Plymouth 11 63	Cherokee 19 87	Buena Vista 26 97	Pocahontas 14 94	Humboldt 22 86	Wright 33 153	Franklin 21 120	Butler 28 167	Bremer 48 253			
Woodbury 72 255	Ida 12 50	Sac 17 90	Calhoun 37 218	Webster 136 591	Hamilton 47 252	Hardin 64 394	Grundy 20 118	Black Hawk 432 2,049	Buchanan 90 379	Delaware 62 294	Dubuque 347 1,596
Monona 15 60	Crawford 18 128	Carroll 20 59	Greene 23 97	Boone 62 300	Story 133 539	Marshall 150 644	Tama 73 364	Benton 106 567	Linn 1,075 5,903	Jones 90 397	Jackson 108 499
Harrison 4 19	Shelby 14 50	Audubon 7 34	Guthrie 26 141	Dallas 64 276	Polk 550 2,004	Jasper 177 892	Poweshiek 106 640	Iowa 83 452	Johnson 1,089 6,082	Cedar 106 603	Clinton 283 1,373
Pottawattamie 48 235	Cass 19 106	Adair 13 68	Madison 27 206	Warren 65 320	Marion 114 498	Mahaska 130 710	Keokuk 88 481	Washington 199 964	Muscatine 296 1,636	Scott 663 3,445	
Mills 7 49	Montgomery 15 73	Adams 3 25	Union 38 167	Clarke 24 101	Lucas 40 188	Monroe 35 238	Wapello 292 1,284	Jefferson 204 924	Henry 173 1,039	Louisia 68 378	
Fremont 6 13	Page 17 68	Taylor 19 120	Ringgold 14 34	Decatur 34 233	Wayne 24 126	Appanoose 60 272	Davis 31 139	Van Buren 64 365	Des Moines 232 964	Lee 276 1,216	

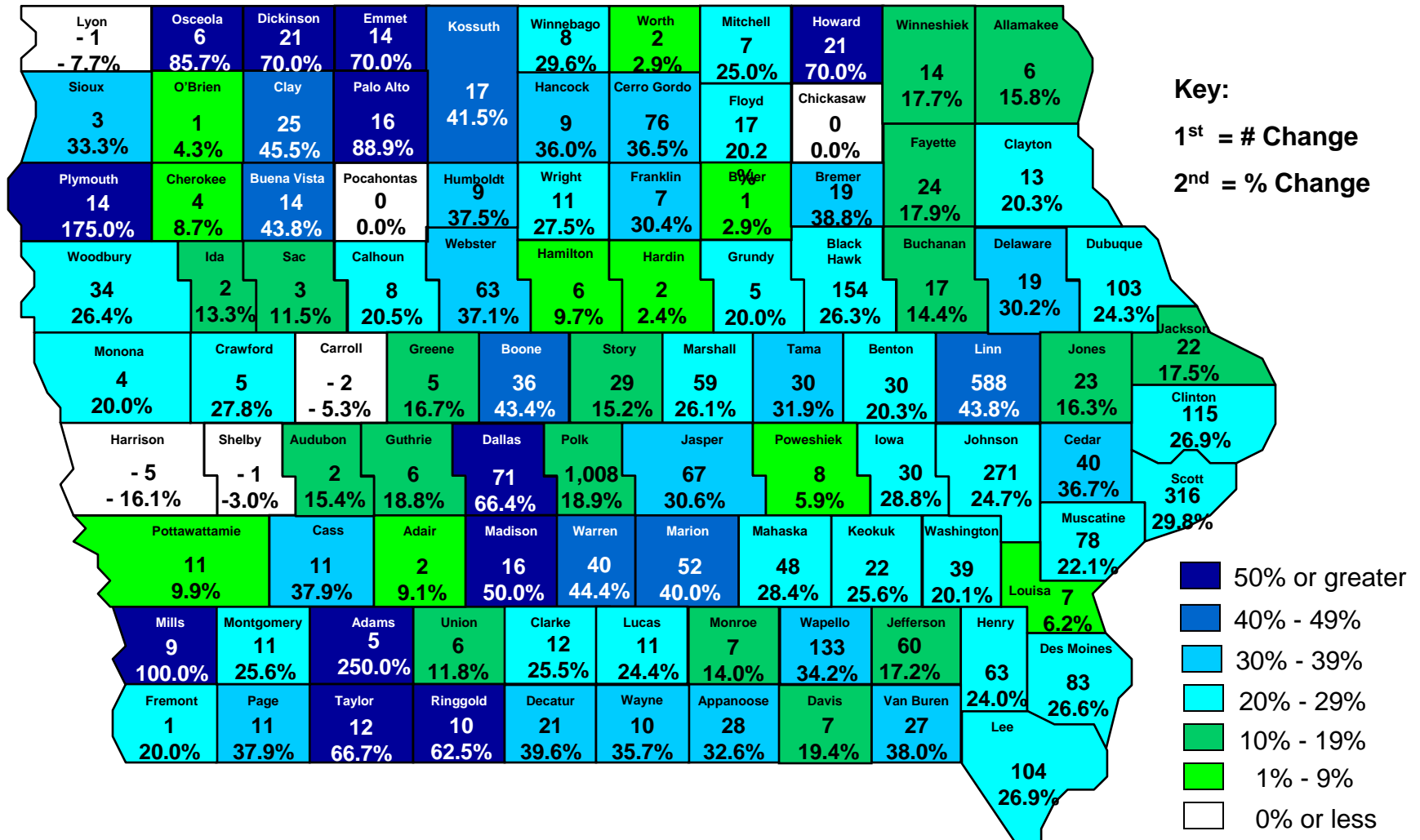
These 9 month totals represent 101% of the IowaCare and Chronic Care unique patients seen and 86% of the visits to the UIHC for all of FY 07.

Key:
1st = # Unique Pts.
2nd = # Visits

Approximately 4,500 unique patients from Iowa's 99 counties were seen annually under the State Papers Program.

Total includes patients whose residence appears to be outside Iowa. It also includes patients for whom a claim has not yet been submitted to DHS.

Comparison of IowaCare Enrollment By Percentage Growth July 2007 – March 2008



UI Health Care Contributions to the IowaCare Program

Area	1 st Eight Months FY 08 Subsidy
Assistance Center	\$0.5 M
Durable Medical Equipment	\$0.6 M
Pharmaceuticals	\$3.3 M
Physician Services	\$11.4 M
Transportation	\$0.5 M
TOTAL	\$16.3 M*

*Excludes care for state institution patients for the 1st nine months of FY 08 valued at \$5.3 M using Iowa Medicaid rates.

Operating and Financial Performance

Year-to-Date February 2008

Kenneth Fisher

Associate Vice President for Finance, UI Health Care
and CFO, UIHC

Volume Indicators

July 2007 through March 2008



	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Operating Review (YTD)							
Admissions	21,850	20,547	20,587	1,303	6.3% ●	1,263	6.1% ●
Patient Days	144,639	132,486	136,241	12,153	9.2% ●	8,398	6.2% ●
Length of Stay	6.62	6.45	6.62	0.17	2.6% ●	0.00	0.0% ○
Average Daily Census	525.96	481.77	497.23	44.19	9.2% ●	28.73	5.8% ●
Surgeries – Inpatient	8,247	8,699	8,028	(452)	-5.2% ●	219	2.7% ●
Surgeries – Outpatient	8,479	8,799	8,119	(320)	-3.6% ●	360	4.4% ●
Emergency Treatment Center Visits	32,354	29,065	28,745	3,289	11.3% ●	3,609	12.6% ●
Outpatient Clinic Visits	521,477	523,514	510,115	(2,037)	-0.4% ○	11,362	2.2% ○
Case Mix	1.7691	1.7994	1.8000	(0.0303)	-1.7%	(0.0309)	-1.7%
Medicare Case Mix	1.9182	1.9801	1.9797	(0.0619)	-3.1%	(0.0615)	-3.1%

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

UIHC Comparative Financial Results

Fiscal Year to Date March 2008

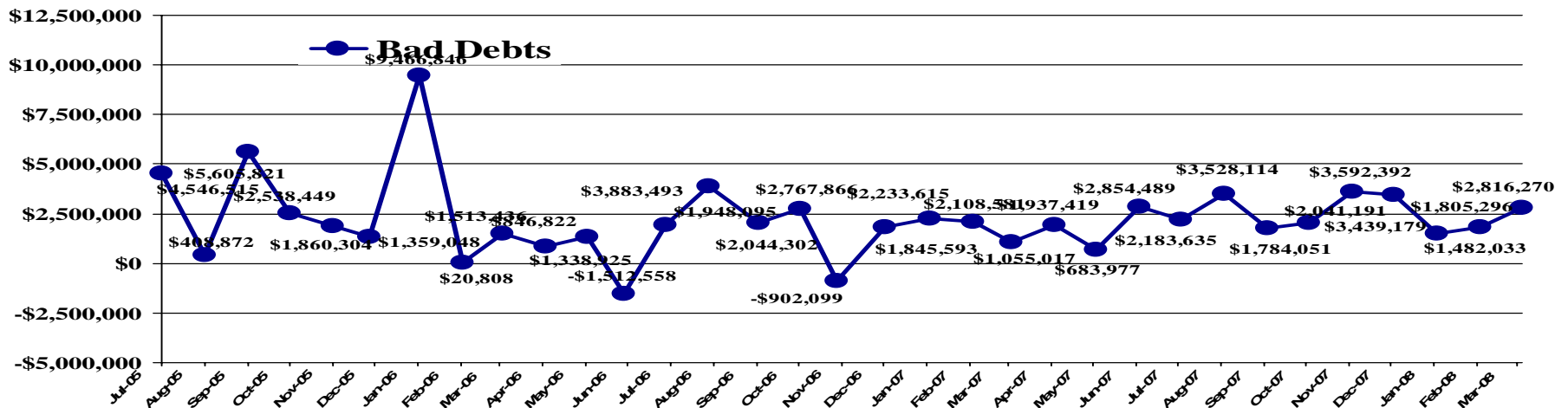
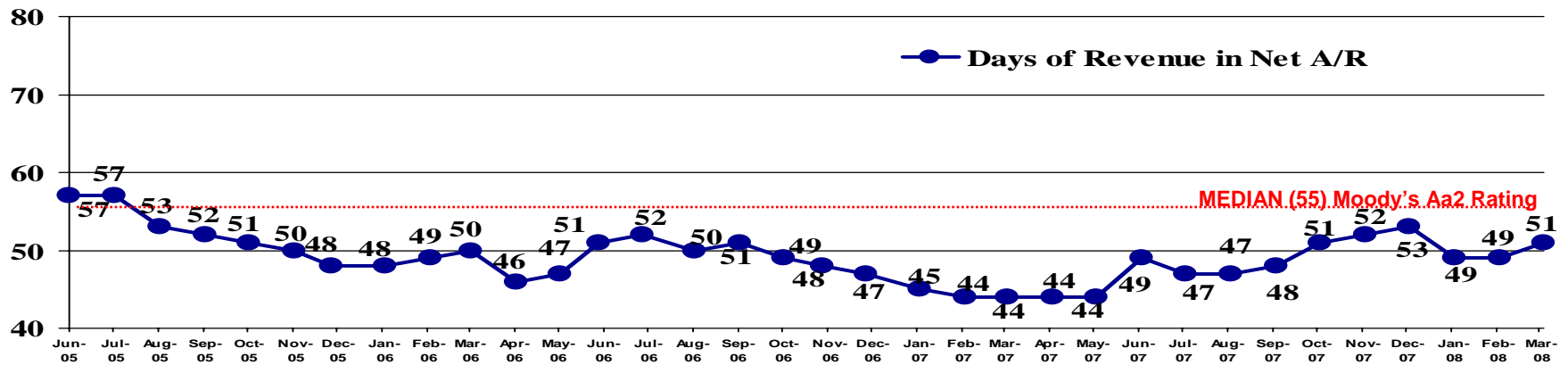


	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
NET REVENUES:							
Patient Revenue	\$610,613	\$604,131	\$568,719	\$6,482	1.1%	\$41,894	7.4%
Appropriations	10,536	10,536	10,055	0	0.0%	481	4.8%
Other Operating Revenue	32,145	31,575	29,894	570	1.8%	2,251	7.5%
Total Revenue	\$653,294	\$646,242	\$608,668	\$7,052	1.1%	\$44,626	7.3%
EXPENSES:							
Salaries and Wages	333,694	\$337,361	\$300,208	(\$3,667)	-1.1%	\$33,486	11.2%
General Expenses	243,430	236,372	219,032	7,058	3.0%	24,398	11.1%
Operating Expense before Capital	577,124	573,733	519,240	3,391	0.6%	57,884	11.2%
Cash Flow Operating Margin	76,170	72,509	89,428	3,661	5.1%	(13,258)	-14.8%
Capital- Depreciation and Amortization	52,009	48,091	43,912	3,918	8.1%	8,097	18.4%
Total Operating Expense	\$629,133	\$621,824	\$563,152	\$7,309	1.2%	\$65,981	11.7%
Operating Income	\$24,161	\$24,418	\$45,516	(\$257)	-1.1%	(\$21,355)	-46.9%
Operating Margin %	3.7%	3.8%	7.5%	-0.1%	-2.6%	-3.8%	-50.7%
Gain (Loss) on Investments	14,686	15,468	17,136	(782)	-5.1%	(2,450)	-14.3%
Non-Recurring Items	-	-	-	0	0.0%	0	0.0%
Net Income	38,847	39,886	62,652	(1,039)	-2.6%	(23,805)	-38.0%
Net Margin %	5.8%	6.0%	10.0%	-0.2%	-3.3%	-4.2%	-42.0%

Comparative Accounts Receivable at March 31, 2008






	June 30, 2006	June 30, 2007	March 31, 2008
Net Accounts Receivable	\$95,976,921	\$101,254,328	\$117,086,476
Net Days in AR	51	49	51



Admissions by Clinical Department July 2007 through March 2008




	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Operating Review (YTD)							
Family Medicine	887	752	735	135	18.0% ●	152	20.7% ●
General Surgery	2,283	2,305	2,310	(22)	-1.0% ○	(27)	-1.2% ○
Internal Medicine	6,532	5,991	5,909	541	9.0% ●	623	10.5% ●
Neurology	1,070	1,051	1,055	19	1.8% ○	15	1.4% ○
Neurosurgery	1,498	1,477	1,508	21	1.4% ○	(10)	-0.7% ○
Obstetrics/Gynecology	2,227	2,199	2,207	28	1.3% ○	20	0.9% ○
Ophthalmology	78	76	73	2	2.6% ●	5	6.9% ●
Orthopedics	1,776	1,730	1,726	46	2.7% ●	50	2.9% ●
Otolaryngology	499	447	450	52	11.5% ●	49	10.9% ●
Pediatrics	2,054	1,804	1,865	250	13.9% ●	189	10.1% ●
Psychiatry	1,697	1,623	1,654	74	4.6% ●	43	2.6% ●
Cardiothoracic	341	394	400	(53)	-13.5% ●	(59)	-14.8% ●
Urology	710	545	534	165	30.3% ●	176	33.0% ●
Other	198	155	161	43	27.7% ●	37	23.0% ●
Total	21,850	20,547	20,587	1,303	6.3% ●	1,263	6.1% ●

 Greater than 2.5% Favorable	 Neutral	 Greater than 2.5% Unfavorable
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Inpatient Surgeries – by Clinical Department

July 2007 through March 2008




	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Operating Review (YTD)							
Cardiothoracic	674	780	729	(106)	-13.6% ●	(55)	-7.5% ●
Dentistry	118	95	94	23	24.8% ●	24	25.5% ●
Dermatology	0	0	0	0	0.0% ○	0	0.0% ○
General Surgery	2,081	2,192	2,032	(111)	-5.1% ●	49	2.4% ○
Gynecology	570	639	581	(69)	-10.8% ●	(11)	-1.9% ○
Internal Medicine	0	1	1	(1)	-100% ●	(1)	-100% ●
Neurosurgery	1,347	1,347	1,270	0	0.0% ○	77	6.1% ●
Ophthalmology	107	126	89	(19)	-14.8% ●	18	20.2% ●
Orthopedics	2,079	2,271	2,080	(192)	-8.4% ●	(1)	0.0% ○
Otolaryngology	639	648	600	(9)	-1.3% ○	39	6.5% ●
Pediatrics	0	0	0	0	0.0% ○	0	0.0% ○
Urology w/ Procedure Ste.	632	602	552	30	5.0% ●	80	14.5% ●
Total	8,247	8,699	8,208	(452)	-5.2% ●	219	2.7% ●

		
Greater than 2.5% Favorable	Neutral	Greater than 2.5% Unfavorable

Outpatient Surgeries – by Clinical Department

July 2007 through March 2008

	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Operating Review (YTD)							
Cardiothoracic	54	66	61	(12)	-17.8% ●	(7)	-11.5% ●
Dentistry	372	374	357	(2)	-0.6% ○	15	4.2% ●
Dermatology	41	2	3	39	1550% ●	38	1267% ●
General Surgery	1,146	1,155	1,097	(9)	-0.8% ○	49	4.5% ●
Gynecology	482	504	441	(22)	-4.3% ●	41	9.3% ●
Internal Medicine	7	6	7	1	16.7% ●	0	0.0% ○
Neurosurgery	73	76	68	(3)	-3.3% ●	5	7.4% ●
Ophthalmology	2,221	2,261	2,038	(40)	-1.8% ○	183	9.0% ●
Orthopedics	1,995	1,946	1,795	49	2.5% ●	200	11.1% ●
Otolaryngology	1,266	1,526	1,424	(260)	-17.0% ●	(158)	-11.1% ●
Pediatrics	6	2	3	4	200.0% ●	3	100.0% ●
Urology w/ Procedure Ste.	816	882	825	(66)	-7.5% ●	(9)	-1.1% ○
Total	8,479	8,799	8,119	(320)	-3.6% ●	360	4.4% ●




		
Greater than 2.5% Favorable	Neutral	Greater than 2.5% Unfavorable

Emergency Treatment Center

July 2007 through March 2008

Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
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Operating Review (YTD)							
ETC Visits	32,354	29,065	28,745	3,289	11.3% ●	3,609	12.6% ●
ETC Admits	8,744	8,255	8,093	489	5.9% ●	651	8.0% ●
Conversion Factor	27.0%	28.4%	28.2%		-4.8% ●		-4.0% ●
ETC Admits / Total Admits	40.0%	40.2%	39.3%		-0.4% ○		1.8% ○

		
Greater than 2.5% Favorable	Neutral	Greater than 2.5% Unfavorable

Clinic Visits by Clinical Department

July 2007 through March 2008



	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Operating Review (YTD)							
Anesthesia	12,579	12,847	12,467	(268)	-2.1% ○	112	0.9% ○
CDD	5,128	4,923	4,754	205	4.2% ●	374	7.9% ●
Clinical Research	6,035	5,791	5,724	244	4.2% ●	311	5.4% ●
Dermatology	18,060	17,654	16,736	406	2.3% ○	1,324	7.9% ●
ETC	31,226	29,199	28,472	2,027	6.9% ●	2,754	9.7% ●
Employee Health Clinic	12,424	11,564	11,214	860	7.4% ●	1,210	10.8% ●
Family Care Center	76,086	77,770	77,322	(1,684)	-2.2% ○	(1,236)	-1.6% ○
General Surgery	19,620	19,945	19,168	(325)	-1.6% ○	452	2.4% ○
Hospital Dentistry	17,073	16,906	16,161	167	1.0% ○	912	5.6% ●
Internal Medicine	78,261	79,081	76,612	(820)	-1.0% ○	1,649	2.2% ○
Neurology	11,668	11,917	11,606	(249)	-2.1% ○	62	0.5% ○
Neurosurgery	6,718	6,625	6,434	93	1.4% ○	284	4.4% ●
Obstetrics/Gynecology	48,098	49,673	48,035	(1,575)	-3.2% ●	63	0.1% ○
Ophthalmology	46,824	46,620	45,881	204	0.4% ○	943	2.1% ○
Orthopedics	38,631	39,201	38,288	(570)	-1.5% ○	343	0.9% ○
Otolaryngology	20,180	21,637	21,206	(1,457)	-6.7% ●	(1,026)	-4.8% ●
Pediatrics	25,168	23,711	23,068	1,457	6.2% ●	2,100	9.1% ●
Psychiatry	29,019	29,912	28,917	(893)	-3.0% ●	102	0.4% ○
Cardiothoracic	1,598	1,669	1,545	(71)	-4.2% ●	53	3.3% ●
Urology	11,253	11,600	11,359	(347)	-3.0% ●	(106)	-0.9% ○
Other	5,828	5,271	5,146	557	10.6% ●	682	13.3% ●
Total	521,477	523,514	510,115	(2,037)	-0.4% ○	11,362	2.2% ○



UNIVERSITY OF IOWA HEALTH CARE
COMBINED BALANCE SHEET
As of March 31, 2008
Numbers in thousands ('000's)

<u>ASSETS</u>	<u>UIHC</u>	<u>UIP</u>	<u>Eliminations</u>	<u>CLINICAL TOTAL (w/ eliminations)</u>	<u>CCOM</u>	<u>Eliminations</u>	<u>TOTAL (w/ eliminations)</u>
<u>Current Assets</u>							
Total Cash & Short-Term Investments.....	\$ 69,466	\$ 12,715	\$ -	\$ 82,181	\$ 104,436	\$ -	\$ 186,616
Net Patient Receivables.....	147,836	16,268	-	164,104	(865)	-	163,239
Other Current Assets.....	37,063	657	-	37,719	870	-	38,589
Due from Related Parties - UIHC, UIP, CCOM, and University.....	-	21,876	(21,876)	-	5,109	(5,109)	-
Total Current Assets.....	\$ 254,365	\$ 51,515	\$ (21,876)	\$ 284,004	\$ 109,549	\$ (5,109)	\$ 388,444
<u>Designated Assets</u>							
Investments in United States Government and Other Securities Held for Plant Replacement and Improvement and Bond Funds	\$ 442,699	\$ -	\$ -	\$ 442,699	\$ 24,547	\$ -	\$ 467,245
<u>Long - Term Assets</u>							
Net Plant and Equipment.....	\$ 499,736	\$ -	\$ -	\$ 499,736	\$ 28,620	\$ -	\$ 528,357
Other Long Term Assets.....	\$ 1,052	\$ -	\$ -	\$ 1,052	-	-	\$ 1,052
TOTAL UNRESTRICTED ASSETS.....	\$ 1,197,852	\$ 51,515	\$ (21,876)	\$ 1,227,491	\$ 162,716	\$ (5,109)	\$ 1,385,099
<u>LIABILITIES AND FUND BALANCE</u>							
<u>Current Liabilities</u>							
Current Portion of Long Term Debt.....	2,884	-	-	2,884	-	-	-
Accounts Payable	30,245	285	-	30,531	1,657	-	32,187
Accrued Payroll Expenses and Interest Payable & Other Current Liab..	70,690	12,679	-	83,369	32,597	-	115,967
Due to Related Parties - UIHC, UIP, CCOM, and University.....	30,746	-	(21,876)	8,870	-	(5,109)	3,761
Total Current Liabilities.....	\$ 134,566	\$ 12,965	\$ (21,876)	\$ 125,654	\$ 34,254	\$ (5,109)	\$ 151,915
<u>Long Term Liabilities</u>							
Long-Term Debt, excluding current installments.....	\$ 76,905	-	-	\$ 76,905	\$ 20,119	\$ -	\$ 97,024
Fund Balance.....	\$ 986,382	\$ 38,551	\$ -	\$ 1,024,932	\$ 108,343	\$ -	\$ 1,136,160
TOTAL UNRESTRICTED LIABILITIES AND FUND BALANCE.....	\$ 1,197,852	\$ 51,515	\$ (21,876)	\$ 1,227,491	\$ 162,716	\$ (5,109)	\$ 1,385,099

**UNIVERSITY OF IOWA HEALTH CARE
COMBINED INCOME STATEMENT
FISCAL YEAR TO DATE
MARCH FY 2008**
Numbers in thousands ('000's)

	UIHC	UIP	Eliminations	CLINICAL TOTAL (w/ eliminations)	CCOM	Eliminations	TOTAL (w/ eliminations)
Operating Revenue							
Total Patient Revenues.....	\$ 1,300,396	\$ 429,094	\$ -	\$ 1,729,490	\$ 001	\$ -	\$ 1,729,491
Total Allowances /Adjustments.....	\$ (689,783)	\$ 302,768	\$ -	\$ (387,016)	\$ (171)	\$ -	\$ (387,016)
Net Patient Revenue	\$ 610,613	\$ 126,326	\$ -	\$ 736,940	\$ 172	\$ -	\$ 737,111
State Appropriation/General Ed Funds	10,536	-	-	10,536	48,740	-	59,276
Gift	-	-	-	-	6,716	-	6,716
Grants	-	-	-	-	120,704	-	152,849
Other Operating Revenue	32,145	38,706	(41,913)	28,937	28,096	(6,824)	50,209
Total Net Operating Revenue.....	\$ 653,294	\$ 165,032	\$ (41,913)	\$ 776,413	\$ 204,428	\$ (6,824)	\$ 974,017
Operating Expenses:							
Salary, Benefits, and Contract Labor	\$ 333,694	\$ 117,527	\$ -	\$ 451,221	\$ 138,789	\$ -	\$ 590,011
Supplies and Drugs	125,185	3,985	(008)	129,162	25,999	-	155,161
Services	51,968	215	(44,304)	7,879	3,649	-	11,527
Capital Expenses	34,842	699	(1,646)	33,895	1,734	-	35,629
Insurance	662	1,777	-	2,439	(603)	-	1,836
Licenses, Fees and Other Expenses	21,868	35,057	(11,081)	45,843	46,386	8,303	100,532
Administrative Services - UI	8,905	2,490	000	11,395	065	-	11,459
Total Operating Expense.....	\$ 577,124	\$ 161,750	\$ (57,040)	\$ 681,834	\$ 216,019	\$ 8,303	\$ 906,156
Cash Flow Operating Margin	\$ 76,170	\$ 3,282	\$ 15,127	\$ 94,579	\$ (11,591)	\$ (15,127)	\$ 67,861
CFO margin %.....	11.66%	1.99%		12.18%	-5.67%		6.97%
Capital Costs (Deprec.Amort.& Int Exp).....	\$ 52,009	\$ -	\$ -	\$ 52,009	\$ 1,213	\$ -	\$ 53,222
Total Operating Expense.....	\$ 629,133	\$ 161,750	\$ (57,040)	\$ 104,710	\$ 217,232	\$ 8,303	\$ 330,245
Operating Income (Loss).....	\$ 24,161	\$ 3,282	\$ 15,127	\$ 42,570	\$ (12,804)	\$ (15,127)	\$ 14,639
Operating Margin %.....	3.70%	1.99%		5.48%	-6.26%		1.50%
Gain (Loss) on Investments	\$ 14,687	\$ -	\$ -	\$ 14,687	\$ 2,847	\$ -	\$ 17,534
Net Income (Loss).....	\$ 38,847	\$ 3,282	\$ 15,127	\$ 57,257	\$ (9,957)	\$ (15,127)	\$ 32,173
Net Income Margin %.....	5.82%	1.99%		7.24%	-4.80%		3.24%

University of Iowa Hospitals and Clinics

FY 2009 Proposed Budget

Kenneth Fisher

Associate Vice President for Finance, UI Health Care
and CFO, UIHC

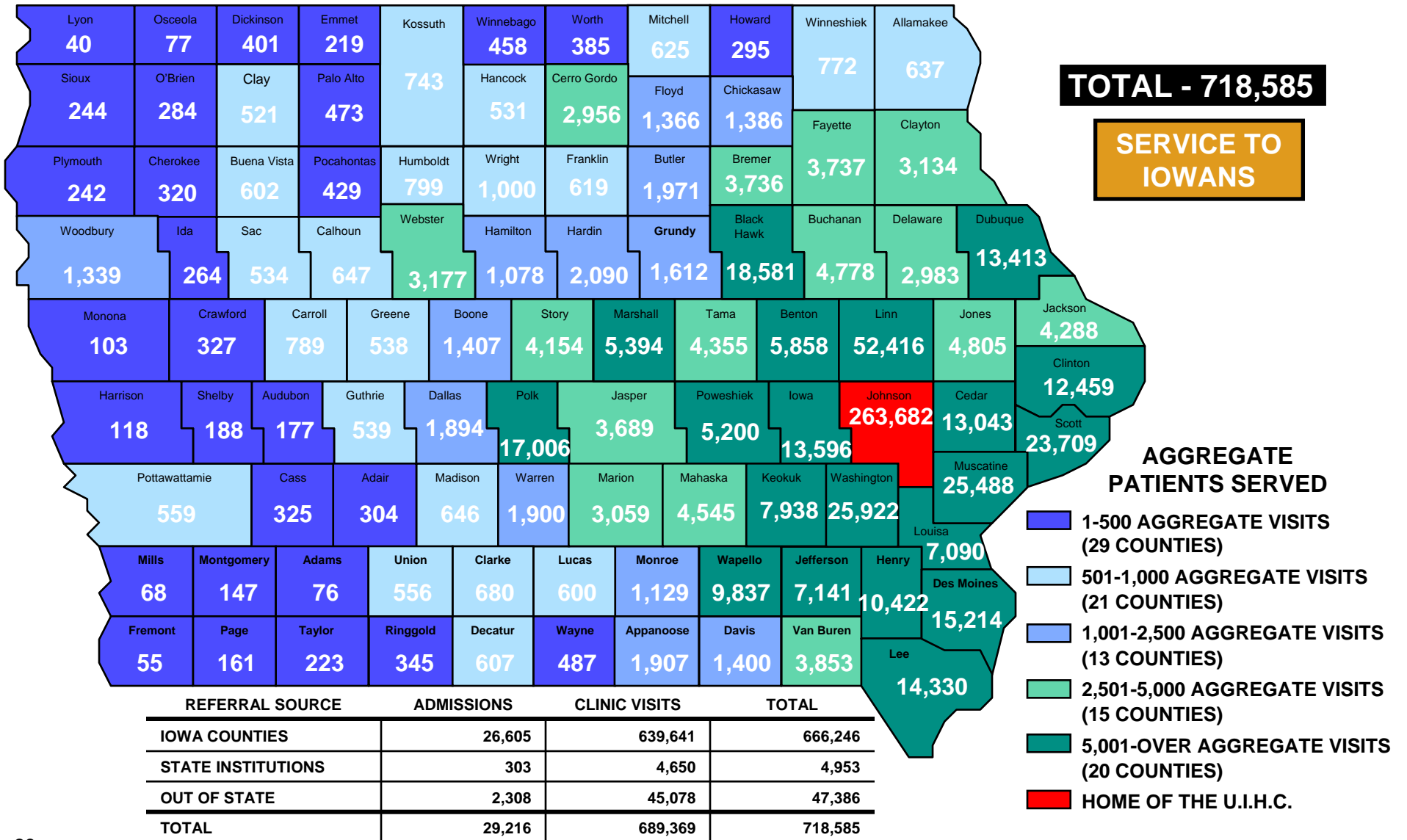
Table of Contents

- **Mission and Imperatives**
- **Strategic Initiatives and Critical Success Factors**
 - **Examples of improvement initiatives**
- **Patient Service Area**
- **Drivers of Cost in Healthcare**
- **FY09 Proposed Budget Numbers**
- **Conclusion**

Mission and Imperatives

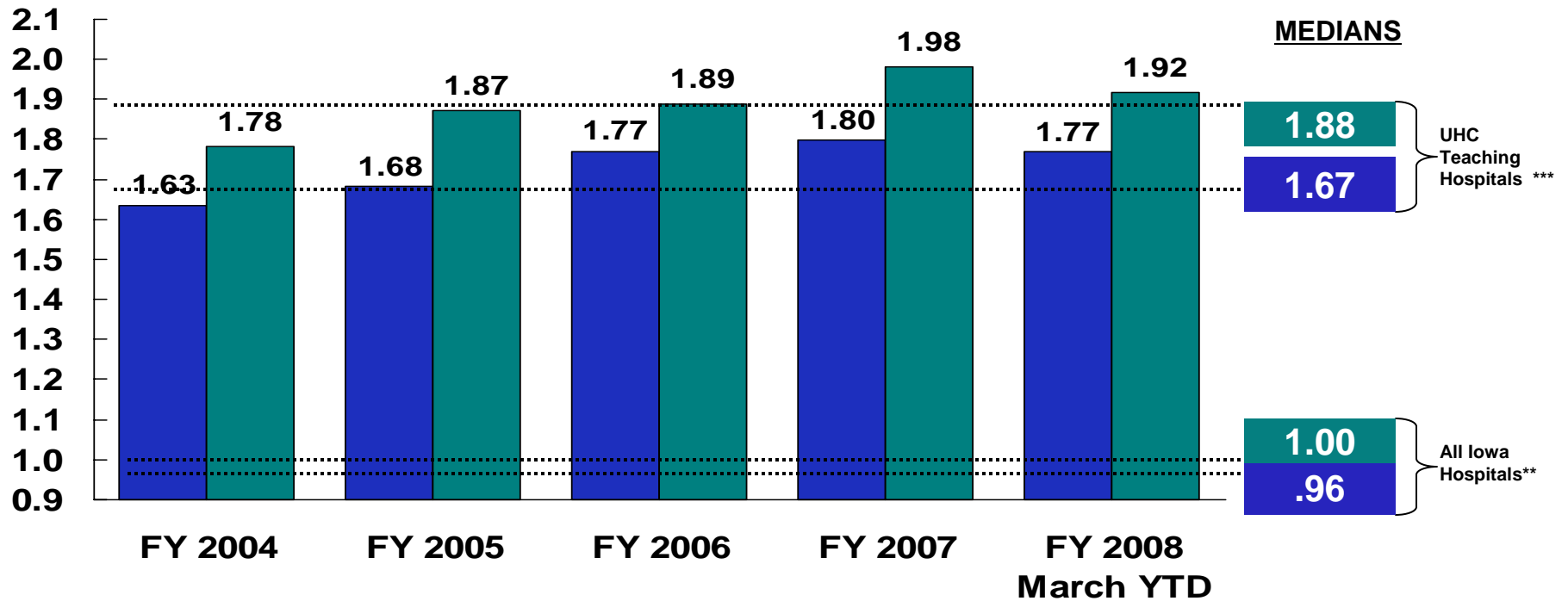
- **Mission**
 - Quality patient care
 - Focus on education and research
 - UIHC as a high quality academic medical center
 - Strong resource for the State of Iowa
- **Imperatives**
 - Preserve University and State bond ratings
 - Continue to fund capital needs without State support
 - Replace aging facilities and equipment
 - Invest in new technology

AGGREGATE PATIENTS SERVED BY COUNTY 2006-07



CASE MIX INDEX - ACUTE INPATIENTS (excl normal newborn)*

CASE MIX INDEX - MEDICARE INPATIENTS*



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

** MEDICARE CMI - ALMANAC OF HOSPITAL FINANCIAL OPERATING INDICATORS, 2006 CHIPS, 2005 DATA
 ALL ACUTE CMI - ALMANAC OF HOSPITAL FINANCIAL OPERATING INDICATORS, 2005 CHIPS, 2004 DATA
 A TEACHING HOSPITAL IS ONE AT WHICH MEDICAL GRADUATES TRAIN AS RESIDENTS.

***UNIVERSITY HEALTH SYSTEM CONSORTIUM CY2007.

Strategic Initiatives

Innovative Care

- New and More Efficient Healthcare Delivery Models
- Positioning Select UIHC Clinical Services

Excellent Service

- Patient and Family Satisfaction
- Referring Physician Satisfaction
- Engaged Faculty, Staff and Volunteers

Exceptional Outcomes

- Patient and Staff Safety
- Clinical Outcomes

FY'08 Critical Success Factors

- Improving service levels and patient satisfaction
- Improving efficiencies and increasing volumes across the clinical enterprise
 - Ambulatory recommendations
 - Surgical Services recommendations
- Financial integrity and capital planning
 - IowaCare funding
 - Completion/Execution of business plans
 - Completion/approval of Facilities Master Plan
- System activation of EPIC, OR, and Radiology Management Systems

Process Improvement Initiatives

- Ambulatory Care
 - Improve patient throughput
 - Continue to build organizational structure that aligns incentives, leadership vision, and definition of success by creating accountability with performance standards and metrics
 - Improve faculty productivity with targets and monitoring, making appropriate use of mid-level providers
 - Develop benchmarked staffing models adjusting levels and responsibility for appropriate complement and skill mix
 - Increase customer service levels by improving the patient and family experience
- Operating Room
 - Improve quality and safety
 - Create more predictability in scheduling while accommodating growth and enhancing the work environment
 - Improve utilization of nursing and anesthesiology faculty, along with increasing case volume
 - Enhance efficiency and reduce costs of supplies and equipment

Drivers of Cost in an Academic Healthcare System

- Patients
- Labor
- Patient care
- Buildings and equipment
- Outside regulation
- New technology
- Safety
- Teaching

Cost Drivers

- Patients
 - Visits, procedures, patient days, diagnostic test all ordered by a physician
 - Direct labor related to each encounter
 - Patient in a medical bed will require 8 hours of direct labor from nursing per day
 - Patient in an Intensive Care Unit bed will require 18 hours of direct labor from nursing per day
 - Visit to the Emergency Treatment Center will require about 2.5 hours of direct labor

Cost Drivers (cont'd)

- Labor
 - Supply and demand
 - Pharmacists can work for Walgreens – retail pays more
 - RN can work in a clinic (8-5) no weekends or nights
 - Union agreements – 85% of labor force and 69% of labor cost
 - University benefit structure
 - Holidays, vacation and sick leave– hours per FTE of work
 - Full-Time Employee of work is 1,760 hours out 2,080 paid – 8 weeks of time away from a job

Cost Drivers (cont'd)

- Patient Care
 - Direct supplies
 - From basic necessities to implants - individually packaged and delivered to the patient
 - New technology
 - Pharmaceuticals
 - Delivery method – individual dose brought to a patient and recorded in the chart
 - Changes in therapeutic agents
 - Patient room
 - Space for equipment, family and medical personnel

Cost Drivers (cont'd)

- Buildings and Equipment
 - Acquisition – Cost basis of physical plant is \$969 million
 - Construction in progress (CIP) = \$78 million
 - Maintenance – 3.5 million square feet
 - Utilities – purchase from University
 - Trained technicians to use and maintain the clinical equipment

Cost Drivers (cont'd)

- Processes required by others
 - Joint Commission on Accreditation of Healthcare Organizations (JCAHO)
 - Medication Reconciliation
 - Medicare
 - Centers for Medicare & Medicaid Services (CMS) Quality Indicators
 - Nuclear Regulatory Commission
 - Radiation Therapy
 - Accreditation Council for Graduate Medical Education (ACGME)
 - 80 hour work week

*There are over 200 regulatory and accrediting bodies that provide oversight for some or all of UIHC

Cost Drivers (cont'd)

- New technology and innovation
 - Example of new emerging technology
 - Dual Source CT System - \$2.7 million
 - 128 Slice CT Scanner for the ETC - \$2.0 million
 - Robot for Inpatient Pharmacy - \$1.6 million
- Infrastructure
 - Data Center to Support Information Technology
 - Electrical Switchboard Connectivity
 - Wireless Mobile Communication System
- Renewal
 - Increase inpatient bed capacity

FY 2009 Proposed Budget

- **For Fiscal Year 2008-2009**
 - 6.0% rate increase
 - 3.0% operating margin
 - 11.2% Cash Flow Operating Margin
 - Change in Capitalization Threshold
 - Implementation of EPIC clinical information system
 - Training
 - Software and hardware maintenance
 - Achieve Aa rating medians for S&P and Moody's

Aa Bond Rating Key Financial Ratio Comparison

	UIHC FY 09 Budget*	Median Moody's Aa Rating**
Days Cash on Hand	240	253.3
Operating Cash Flow Margin	11.2%	11.2%
Operating Margin	3.0%	4.5%
Debt to Capitalization Percent	10%	29.3%
Days in Accounts Receivable	50	51.2
Average Age of Plant	8.3	8.8

** Data is compiled from Moody's Investors Service publication "Not for Profit Healthcare: 2007 Preliminary Medians."

Key Expense and Inflation Assumptions

- Salaries and wages (Contracts for SEIU, AFSCME) 5.0%
- Patient care supplies (Novation pricing report) 3.0%
- Departmental supplies (Novation pricing report) 2.0%
- Drugs (American Journal of Health-System Pharmacy) 7.0%
- Utilities (Purchase from UI including capital facility costs) 7.0%
- Professional services 2.5%
- Medical services (Novation pricing report) 4.0%
- Food products (USDA pricing estimate) 3.5%

FY 2009 Operating Budget Assumptions

Income Statement

- Volume growth
 - Inpatient admissions 3.0% increase
 - Outpatient visits 2.5% increase
- Cash Flow Operating Margin
 - Margin budgeted at 11.2% or \$103.5 million
- Operating margin budgeted at 3.0%, or operating income of \$27.7million
 - Equal to the Moody's Aa median rating
 - Margin is required to generate future capital capacity and fund current capital plans
 - Maintain cash liquidity as measured by days cash on hand

FY 2009 Operating Budget Assumptions (cont'd)

Balance Sheet

- Net days in patient accounts receivable at 50 days
 - Reflective of improved revenue cycle performance
- Days cash on hand at year-end projected to be 240 days
 - Aa median of 253 days

Six Year Summary Operating Indicators

	FY2004	FY2005	FY2006	FY2007	Projected FY2008	Budgeted FY2009
Acute Admissions*	25,384	25,063	26,030	27,829	29,184	30,060
Length of Stay*	6.94	6.99	6.64	6.55	6.4	6.4
Surgical Cases	20,644	20,820	21,008	21,952	22,750	24,496
Clinic Visits	669,045	668,456	673,947	689,369	701,041	719,640
Market Share	7.0%	6.9%	7.1%	7.6%	7.9%	8.0%
Net Patient Revenue**	\$590.0M	\$624.3M	\$688.0M	\$762.6M	\$869.3M	\$922.9M
Cash Flow Operating Margin	\$51.5M	\$71.9M	\$82.0M	\$107.8M	\$104.7M	\$103.5M
Cash Flow Operating Margin Percentage	8%	10.6%	11.1%	13.2%	12.0%	11.2%
Operating Income	\$10.2M	\$20.5M	\$27.0M	\$49.0M	\$35.5M	\$27.7M
Operating Margin	1.6%	3.0%	3.7%	6.0%	4.1%	3.0%
Case Mix Index***						
Acute Inpatients (excl nnsy)	1.6342	1.6821	1.7690	1.7994	1.7320	1.7400
Medicare Inpatients	1.7822	1.8734	1.8887	1.9801	1.9182	1.9200

* All years presented exclude newborn nursery utilization.

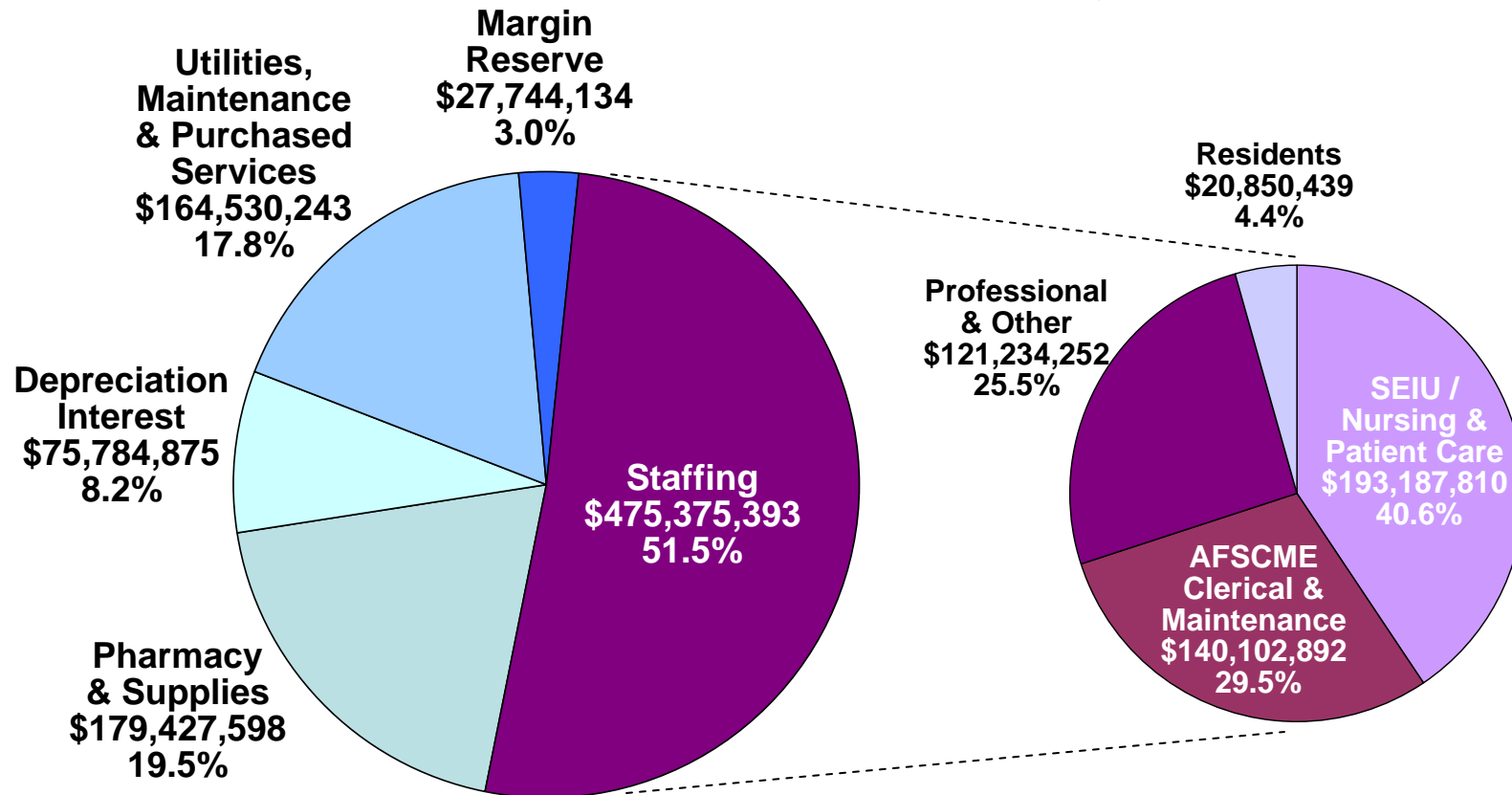
** Net Patient Revenue includes (FY04-FY05) State Indigent Care Appropriation and (FY06-FY08) Iowa Care receipts.

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

UIHC FY 2009 Proposed Budget in 000's

	Budget	Projected	Actual	Variance \$	Variance %
	FY 2009	FY 2008	FY 2007	FY09 to Proj FY08	FY09 to Proj FY08
Net Patient Revenues	\$ 872,329	\$ 819,633	\$ 762,617	\$ 52,696	6.5%
State Appropriations	6,726	6,726	13,406	-	0.0%
Other Operating Income	43,807	42,948	40,601	859	2.0%
Total Net Revenue	\$ 922,862	\$ 869,307	\$ 816,624	\$ 53,555	6.2%
Operating Expenses:					
Salaries, Wages & Benefits	475,375	442,867	404,061	32,508	7.3%
Supplies and Drugs	179,428	165,876	157,230	13,551	8.2%
Medical and Professional Services	71,635	68,257	58,702	3,378	4.9%
Repairs and Maintenance	16,093	15,700	16,001	393	2.5%
Rents and Leases	5,450	5,318	4,760	133	2.5%
Utilities	27,048	25,278	21,710	1,769	7.0%
General Expenses	44,304	41,271	46,324	3,034	7.4%
Total Operating Expenses	819,333	764,568	708,788	54,766	7.2%
EBDITA	\$ 103,529	\$ 104,739	\$ 107,837	\$ (1,210)	-1.2%
EBDITA %	11.2%	12.0%	13.2%		
Capital and Other Costs:					
Total Depreciation & Amortization	75,785	69,196	58,881	6,589	9.5%
Operating Income	\$ 27,744	\$ 35,544	\$ 48,956	\$ (7,800)	-21.9%
Operating Income %	3.0%	4.1%	6.0%		
Non-recurring Items	-	-	-	-	0.0%
Gain (Loss) on Investments	17,212	21,747	27,103	(4,534)	-20.9%
Net Income (Loss)	\$ 44,956	\$ 57,290	\$ 76,059	\$ (12,334)	-21.5%
Net Income %	4.8%	6.4%	9.0%		

UIHC Cost Structure FY 2009 Proposed Budget



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

Summary FY2009 Inflation and Volume Impact

Expense Increases Over FY 2008 Projected

	Cost Due to Inflation	Cost Due to Volume Increases	Inflation & Volume
Salaries & Wages- SEIU, AFSCME and other	\$19.6	\$9.7	\$29.3M
Benefits	16.4	3.8	20.2M
Supplies – 3% inflation	3.0	7.9	10.9M
Drugs – 7% inflation	4.6	2.0	6.6M
Utilities – 7% inflation	1.8		1.8M
Depreciation Expense	6.6		6.6M
Other Operating Expense – 2.0-4.0% inflation	6.2	1.9	8.1M
Total Expense Growth	\$58.2	\$25.3	\$83.5M

Improving Efficiencies

- Length of Stay Management
 - Decrease in average length of stay from 6.54 to 6.40 days
 - Allows for an increase in 657 patient admissions resulting in \$9.5 million of additional net revenue
- Productivity
 - 3.5% productivity improvement yields \$12.3 million in labor savings and \$4.8 million in benefits savings, totaling \$17.1 million in savings
 - No increase in agency utilization. UIHC agency experience, especially in nursing, is dramatically below other academic medical center experience

Improving Efficiencies (cont'd)

- Supply Chain Management
 - Search is underway to hire a Director of Supply Chain Management to optimize supply chain efforts and implement an inventory control system
- Pharmacy and Therapeutics Committee
 - Continue ongoing efforts to effectively maintain an infrastructure for monitoring drug utilization and costs
- Ambulatory Care Division
 - Implement recommendations of the outside consultation to improve access and efficiency in the provision of outpatient services, in collaboration with Carver College of Medicine
- Operating Room Efficiency
 - Implement recommendations from a nationally recognized Operating Room management consultant to enhance the scheduling, turn around times, supply costs, and other components of the surgical services suite

Summary FY2009 Inflation, Volume, and Efficiency Impact Expense Increases Over FY 2008 Projected

	Cost Due to Inflation	Cost Due to Volume Increases	Efficiency Initiatives	FY 2008 Budgeted Cost Increase
Salaries & Wages- SEIU, AFSCME and other	\$19.6	\$9.7	\$(12.3)	\$17.0M
Benefits	16.4	3.8	(4.8)	15.4M
Supplies – 3% inflation	3.0	7.9	(3.0)	7.9M
Drugs – 7% inflation	4.6	2.0	(1.0)	5.6M
Utilities – 7% inflation	1.8			1.8M
Depreciation Expense	6.6			6.6M
Other Operating Expense – 2.0-4.0% inflation	6.2	1.9	(1.0)	7.1M
Total Expense Growth	\$58.2	\$25.3	\$(22.1)	\$61.4M

Who pays for healthcare in Iowa?



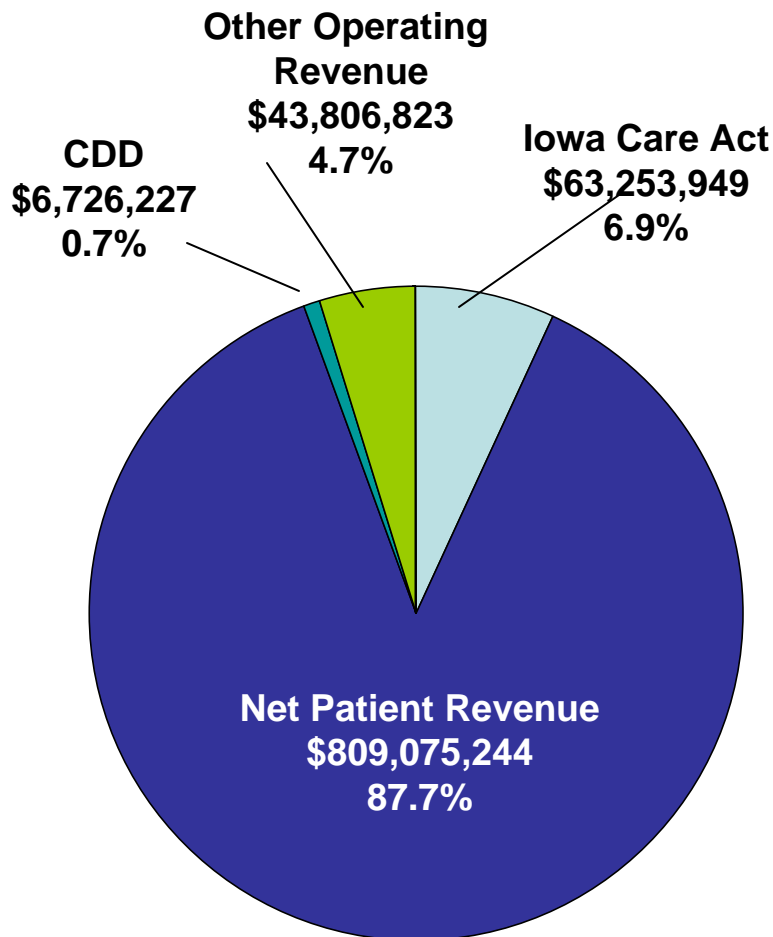
	(000's)
Operating Expense	\$ 836,557
Depreciation & Amortization	75,741
Operating Margin	<u>36,678</u>
Required Net Operating Revenue	<u><u>948,975</u></u>
 Paid by Existing Patients - current rates	
Governmental Payors	292,422
Wellmark/Blue Cross	256,609
Commercial Payors	196,361
Iowa Care	47,134
State Appropriations	6,726
Self Pay	1,428
All Other	<u>25,677</u>
	826,357
 Paid by New Patients - current rates	
Governmental Payors	7,314
Wellmark/Blue Cross	7,451
Commercial Payors	5,702
Iowa Care	10,285
State Appropriations	-
Self Pay	41
All Other	<u>746</u>
	31,539
 Paid by Contracted Rate Increase	
Governmental Payors	2,767
Wellmark/Blue Cross	9,887
All Other	<u>521</u>
	13,174
 Other Operating Revenue	
	43,807
Total Patient and Other Operating Revenue	<u><u>914,876</u></u>
Expense Savings from Efficiency Efforts	26,114
Net Cost Covered by 6% Charge Rate Increase	\$ 7,986

Summary FY2009 Rate and Volume Revenue Impact Increases Over FY 2008 Projected

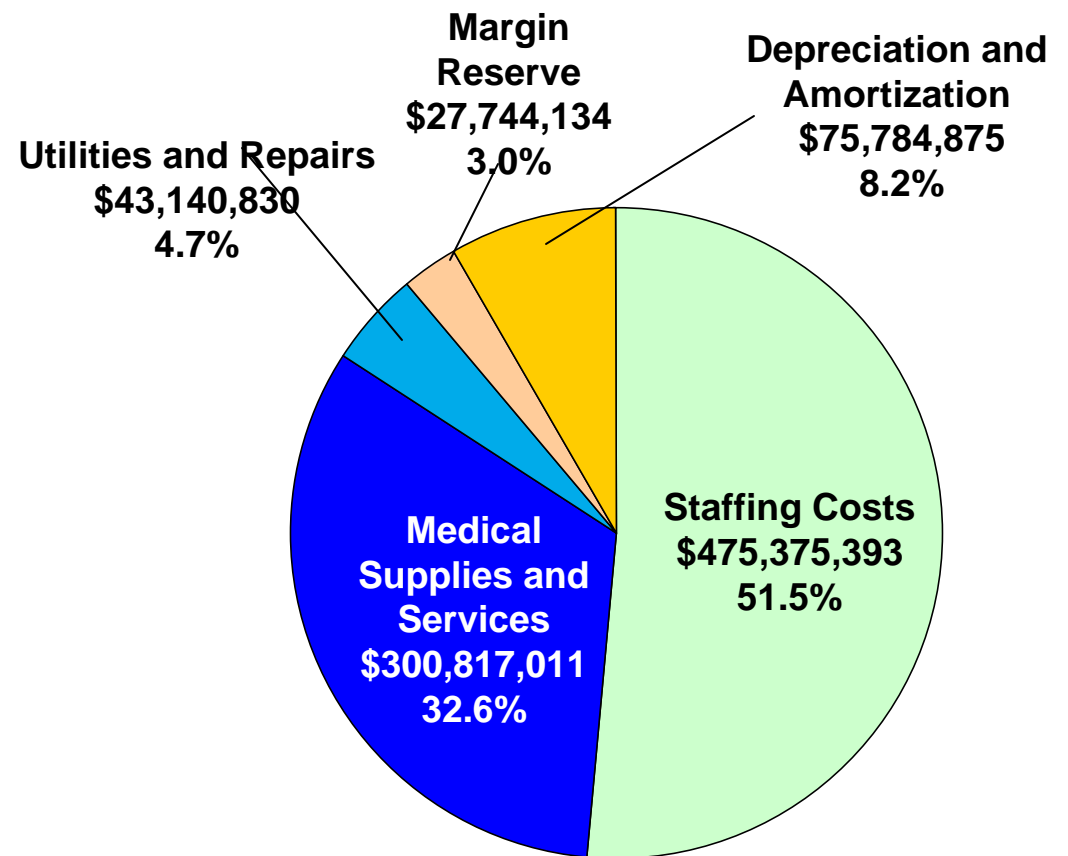
	Rate	Volume	FY 2009 Budget
Medicare – payment update factor of 2.3%	\$2.6M	\$4.9M	\$7.5M
Medicaid – no increase	0.0	2.4	2.4
IowaCare – no increase	0.0	10.3	10.3
State Institution Patients – no payment for services	0.0	0.0	0.0
Wellmark – payment update factor of 3.8%	9.9	7.5	17.4
Others – Commercial, Managed Care, and Self Pay	8.6	6.5	15.1
TOTAL	\$21.1M	\$31.6M	\$52.7M

Combined Hospitals Sources and Uses FY09 Proposed Budget

Cash Flow Operating Margin \$103.5 Million



FY09 TOTAL = \$922,862,243

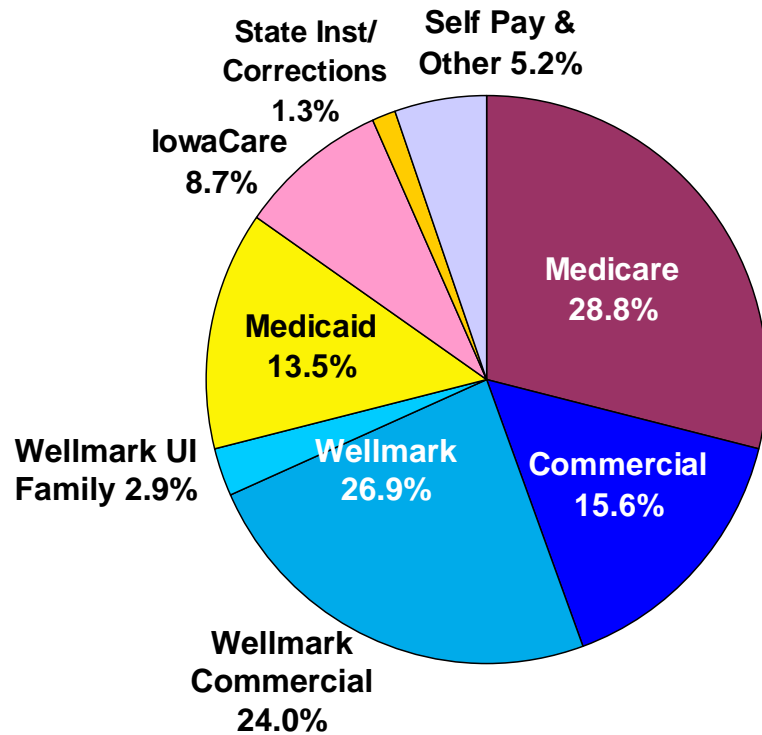


FY09 TOTAL = \$922,862,243

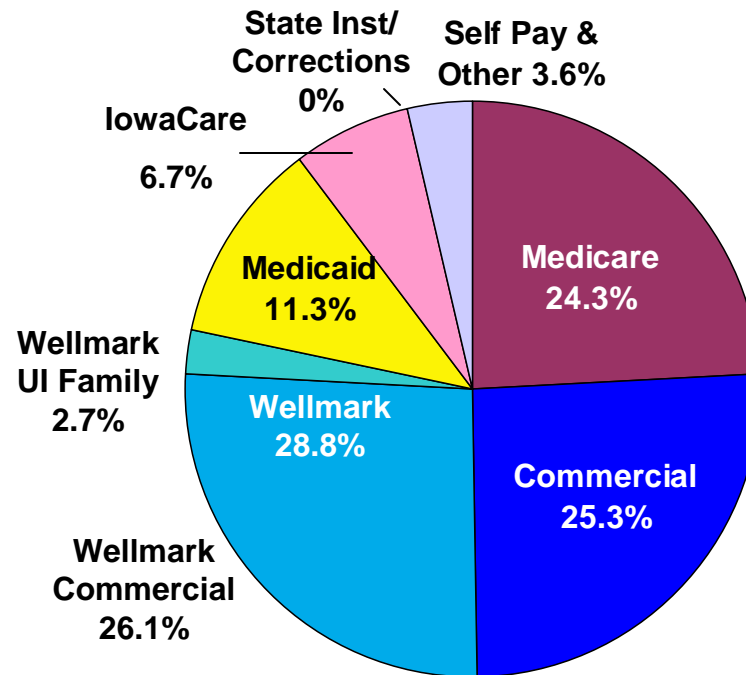
Other Operating Revenue FY 2009 Budget

Gifts & Grants	\$ 10.6M
Food Sales	9.4M
External Drug Sales	0.5M
Other External Sales	3.4M
Purchased Services – Related Party	19.9M
Total	\$43.8M

Gross Patient Charges By Primary Payor



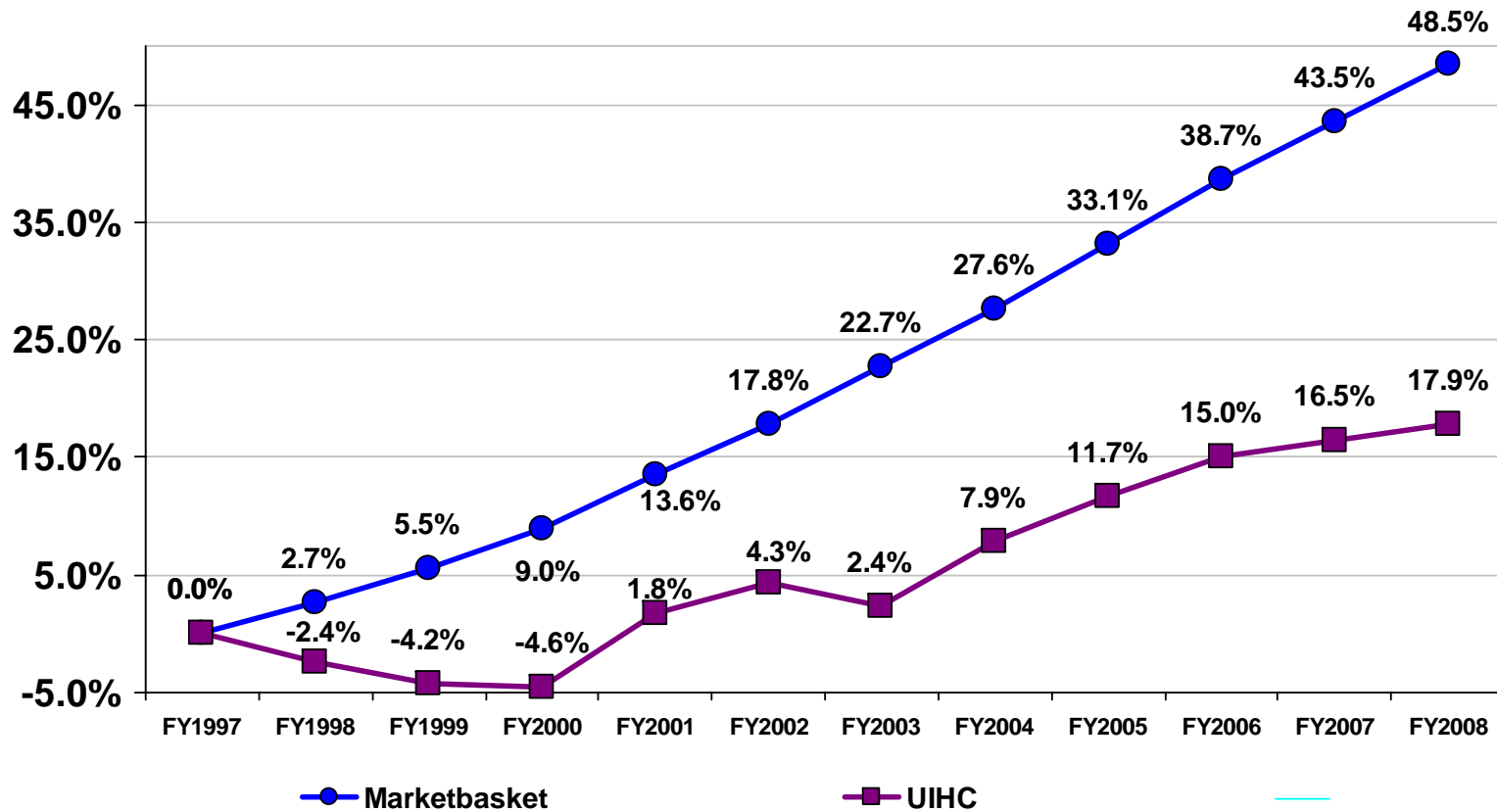
Reimbursement By Primary Payor



Year to Date February, 2008

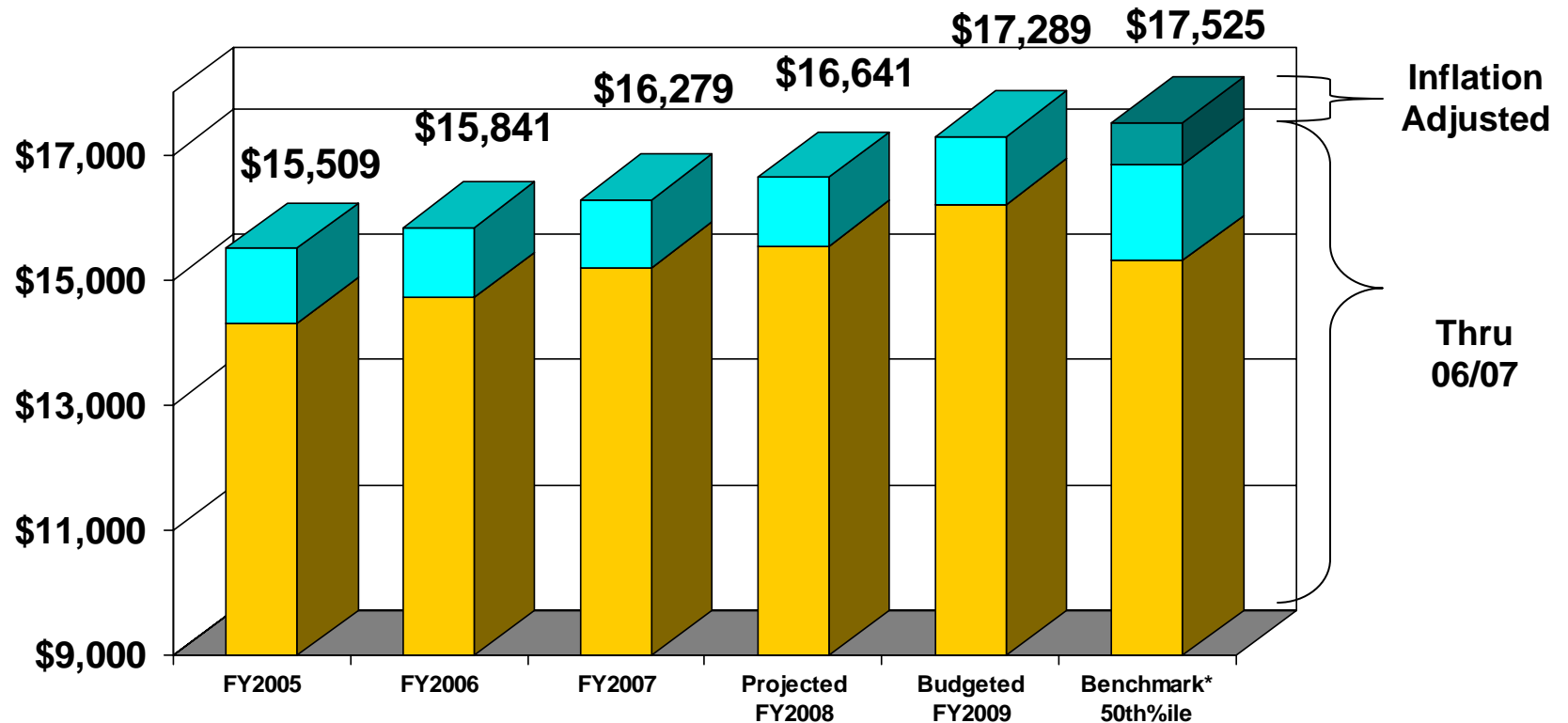
Includes Inpatient and Outpatient Services

1997 – 2008 Cumulative Medicare Hospital Rate Increases vs. Marketbasket Cost Increases



CMS Published Rule and Iowa Hospital Association Impact Analysis

Net Patient Revenue** per Adjusted Admission



* Benchmark is the 50th percentile of the University Health System Consortium for the four quarters ended June 2007 of \$16,845 plus an estimated 2% annual increase.

** Net paying patient revenue includes Chapter 255 state indigent patient care program appropriation or Iowa Care Act receipts.

Academic Medical Centers Charges per Discharge 2007

Charges Per Discharge

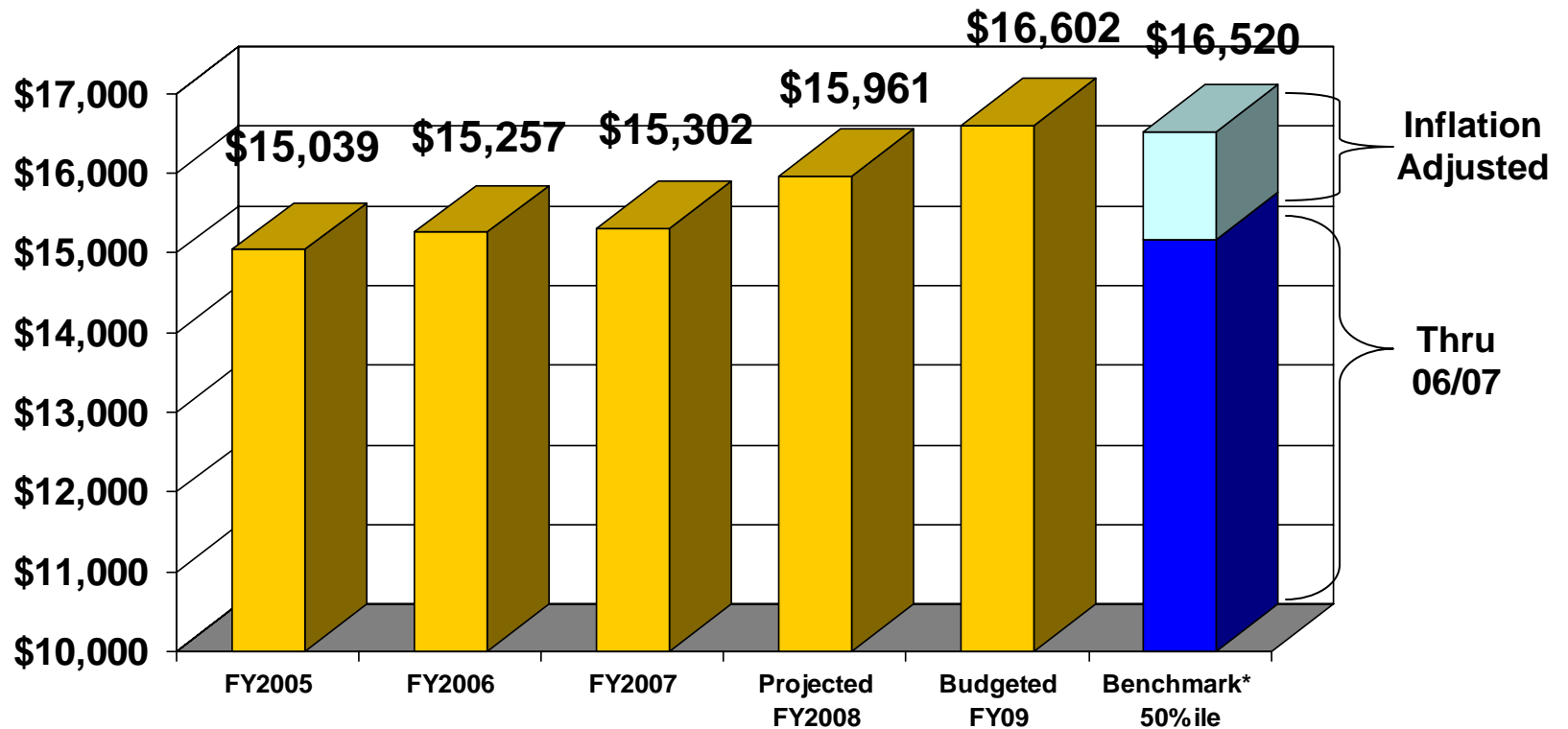
	All UHC	Midwest AMC's
Median	\$22,393	\$22,626
Iowa Percentile	33%	8%

Case Mix Adjusted - Average Charge Per Discharge

	Adjusted Charge per Case
UHC Aggregate	\$25,430
Iowa	\$18,088

Data Source: University Healthsystem Consortium Clinical Data Base
2006Q4-2007Q2

Operating Cost per Adjusted Discharge



* Benchmark is the 50th percentile of the University Health System Consortium for the four quarters ended June 2007 of \$15,172 plus 2008 Midwest Medical Care CPI of 4.35% annually.

Conclusions

- UIHC remains committed to providing healthcare for all Iowans
- UIHC has a mission to provide high quality care, education and research
- In fulfilling this mission, UIHC incurs costs for labor, equipment, supplies and pharmaceuticals
- UIHC must have funds available for capital both now and in the future
- To cover these costs, UIHC is dependent on revenue from third party payors, state appropriations, governmental payors, and self payments
- To supplement these revenues, UIHC continually increases volumes, improves productivity, enhances efficiency, and manages labor, supply and drug costs
- Even with these initiatives the end result is the need for increasing rates
 - UIHC is requesting a 6% rate increase for FY 2008-2009 and preliminary action on its FY 2009 Operating Budget