

Contact: Keith Saunders

**MINUTES OF THE OCTOBER 29, 2008
UNIVERSITY OF IOWA HOSPITALS AND CLINICS COMMITTEE
BOARD OF REGENTS, STATE OF IOWA
MEMORIAL UNION, SUN ROOM
IOWA STATE UNIVERSITY
AMES, IOWA**

Committee Members

Robert Downer, Chair
Bonnie Campbell
Jack Evans

Michael Gartner
Ruth Harkin
Greta Johnson

Craig Lang (absent)
David Miles
Rose Vasquez

Staff Members

Keith Saunders

University of Iowa

Ken Fisher, Ken Kates, Jean Robillard, Paul Rothman

Chair Downer called the meeting to order at 8:41 a.m.

- MOVED by EVANS, SECONDED by GARTNER, to approve the minutes from the September 17, 2008 UIHC Committee Meeting as corrected by Regent Gartner. MOTION APPROVED UNANIMOUSLY.

SUI Vice President for Medical Affairs, Jean Robillard; Associate Vice President and Chief Executive Officer, Ken Kates; Associate Vice President for Finance and Chief Financial Officer, Ken Fisher; and Carver College of Medicine Dean, Paul Rothman appeared before the Board.

CFO Fisher provided an update on the operating and financial performance of the UIHC. The first quarter of the fiscal year showed a drop in total net revenue. This was attributed to the impact of the flood and due to expenses growing faster than revenues. There was also a significant shift from inpatient to outpatient procedures. Overall, net revenue was nearly 13 percent above last year and total operating expense before capital was 16.5 percent above last year. This resulted in a cash flow operating margin that is over \$10 million below the targeted budgeted amount.

Regent Gartner asked whether the shift from inpatient procedures to outpatient procedures represented a fundamental change in the business model of the hospital. CFO Fisher responded that they felt it was an aberration. Inpatient surgical volume continues to grow, however the hospital has recently opened additional outpatient surgical capacity. This has resulted in outpatient surgeries growing at a faster rate than inpatient surgeries. Additionally, to free up inpatient surgery capacity, more ambulatory surgeries are being taken out of the main OR and being moved to an outpatient surgery facility.

Regent Gartner inquired about anticipated trends in the growth of inpatient versus outpatient surgeries. CFO Fisher responded that inpatient surgeries had increased over last year, but at a rate less than budgeted.

Chair Downer inquired whether the shift from inpatient surgery to outpatient is due more to economic conditions or due to changes in health care. CFO Fisher responded it is almost all due to changes in health care.

President Miles inquired about the 13 percent increase in revenues without a corresponding cost increase. CFO Fisher responded that there are few hospitals in the country that are seeing that type of growth due to volume increases. This growth however came at a higher cost than it should have.

President Miles asked about the anticipated rate of growth for the remainder of the year. CFO Fisher responded that they anticipate strong revenue growth for the rest of the year.

President Pro Tem Evans inquired about the growth of days in accounts receivable. CFO Fisher responded that two major computer conversions had minor technical problems in their implementation and the effect of the flood all contributed to the growth of days in accounts receivable. These problems have been resolved.

President Pro Tem Evans inquired about the ability of UIHC to meet year end budget projections. Vice President Robillard responded that they anticipate being on budget with a three percent margin of growth.

Regent Gartner asked whether the length of stay is the single greatest cost control issue. CFO Fisher responded that the length of stay is not the single greatest cost control issue, but it is a significant one.

CEO Kates detailed efforts at the UIHC to moderate expense growth.

Chair Downer inquired about the steps being taken to educate hospital staff on the relationship between the length of stay of patients and the financial performance of the hospital. CEO Kates replied that the best way to do this is to focus on specific areas of the hospital where changes are necessary, implement the changes and then move on the next area where changes are needed.

Chair Downer asked if all department chairs support the changes. CEO Kates responded that all department chairs understand the importance of the length of stay issue and are committed to helping to increase revenues while moderating expenses.

Regent Gartner inquired about length of stay data and whether that data is available by doctor; if so, how is that data being used. CEO Kates replied that the data is available and it is being used to align incentives.

Regent Campbell asked if costs associated with follow-up care are shifted after a patient is discharged. CEO Kates replied that it is best to have as much follow-up care done on an outpatient basis as possible. Readmission rates are watched very closely. CFO Fisher added that Medicaid's reimbursement rate is modeled on the levels of care that should be provided on an inpatient basis versus outpatient.

CEO Kates provided additional information regarding the UIHC FY 2009 budget. Net patient revenues are budgeted at \$917 million and total operating expenses are budgeted at \$863 million. Through the first quarter, operating expenses have increased by \$7 million (10 percent) and net patient revenue has increase by only \$4 million (5 percent).

Regent Gartner asked why gross patient revenue is tracked. CEO Kates responded that gross patient revenue is an excellent proxy for total activity.

President Pro Tem Evans asked how much of the increase in operating expenses was due to new capacity at the hospital. CEO Kates replied he thought the bulk of it was due to increased capacity. Regent Harkin asked for an approximate percentage. CEO Kates replied 50 or 60 percent.

Regent Gartner inquired why gross charges are tracked instead of net charges. CEO Kates replied that gross charges are used simply as a proxy for total activity at the hospital.

Regent Vasquez asked whether or not information regarding gross and net charges was important in negotiating with third party payers. CFO Fisher responded that most payers negotiate off of fee schedules that are forced on hospitals.

President Pro Tem Evans asked whether or not hospital prices should be adjusted to help address the FY 2009 budget deficit. CFO Fisher replied that pricing is not a solution due to the small percentage of patients who pay the actual charged price.

Regent Gartner asked whether the State's decision to go exclusively with Wellmark as a health insurance provider for state employees would have any financial impact on the hospital. CFO Fisher responded that the State's decision could have a substantial financial impact on the hospital.

President Miles complimented Dr. Robillard and his management team for their transparency in addressing the UIHC's budget difficulties, their quick action in making adjustments to the budget, and their commitment to the Board's objectives related to the UIHC.

Chair Downer adjourned the meeting at 9:28 a.m.