

**University of Minnesota Health System
Board of Governors
Executive Committee
May 1, 1996
8:00 - 9:30 a.m.
Board Room**

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UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Office of the Chief of Staff

*Box 707
420 Delaware Street S.E.
Minneapolis, MN 55455-0392
612-626-1945*

TO: Members of the Board of Governors

FROM: Marvin E. Goldberg, MD, Chief of Staff
Chairman, Medical Staff-Hospital Council

DATE: April 15, 1996

SUBJECT: Credentials Committee/Medical Staff-Hospital Council
Report and Recommendations.

The Medical Staff-Hospital Council, on April 9, 1996, approved the attached Credentials Committee Report and Recommendations.

I am forwarding these recommendations to you for your review and approval. If you have any questions, please feel free to call me.

MEG/cfg

Attachment

mshc/bog/mar

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Medical Staff Office

*Box 707
420 Delaware Street S.E.
Minneapolis, MN 55455-0392
612-626-1945
Fax: 612-626-3028*

TO: Medical Staff-Hospital Council

FROM: Wesley Miller, MD
Chairman, Credentials Committee

DATE: April 9, 1996

RE: Credentials Committee Report and Recommendations

After examining all pertinent information provided to them concerning the professional competence and other necessary qualifications, the Credentials Committee, at its April 8, 1996 meeting, recommends the approval of provisional status and clinical privileges to the following applicants to the Medical Staff of the University of Minnesota Hospital and Clinic:

1. Applications for Appointment and Requests for Clinical Privileges

Department	Category	Temporary Expires
<u>Dermatology</u> David L. Swanson, MD	CS	July 4, 1996
<u>Family Practice</u> Linda Bergum, MD	AS	July 4, 1996
<u>Laboratory Medicine and Pathology</u> Michael Gilcrease, MD	CS	June 16, 1996
<u>Pediatrics</u> Laurel Erickson, MD	CS	--
<u>Psychologists</u> Walter Bockting, PhD <i>(Family Practice and Community Health)</i>	AS	--
Matt Kuschner, PhD <i>(Psychiatry)</i>	AS	--

2. Clinical Chief Recommendations for Regular Appointment

Department of Orthopaedics
James Gannon, MD

Category
CS

Date Eligible
December 28, 1995

3. Resignations

Department of Radiology
Robert Weinmann IV, MD

Category
AS

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

Date: April 18, 1996

TO: UMHC Board of Governors Finance Committee

FROM: Clifford P. Fearing
Senior Associate Director, UMHC



SUBJECT: Bad Debts - Third Quarter
Fiscal Year 1995-96

The total amount recommended for bad debts for Hospital and Clinic accounts receivable during the third quarter of 1995-96 is \$421,098 represented by 622 accounts. Bad debt recoveries during the period amounted to \$4,386 (47 accounts) leaving a net charge-off of \$416,712.

The net bad debts of \$416,712 for the quarter were .43% of gross charges. This compares to a budgeted level of bad debts of .45% (\$469,540).

For the fiscal year, the net bad debts to-date of \$1,199,975 were .40% of gross charges. This compares to a budgeted level of bad debts of .45% (\$1,393,940).

A statistical summary is attached along with a detailed description of losses \$10,000 and higher and recoveries \$10,000 and higher for each month of the third quarter.

Along with the quarter attachments, we have also included a fiscal year statistical summary and a breakdown of bad debts by residence and admitting clinical services.

CPF:lmj
Attachments

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UMHC Hospital Billing Department

Bad Debt Statistics:

Third Quarter and Year-to-Date, Fiscal Year 1996

By Service

Admitting Service	Third Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Anesthesiology	0.00	0	0.00	0
Clinical Research	21.60	1	47.80	2
Community Neo	0.00	0	24.70	1
Dentistry	0.00	0	0.00	0
Dermatology	0.00	0	0.00	0
Family Practice	0.00	0	1,297.30	1
OB	0.00	0	0.00	0
NB	0.00	0	0.00	0
GYN	0.00	0	1,321.51	1
GYN-Oncology	207.85	3	97,714.50	16
Hematology	188,802.41	1	190,020.90	6
Medicine-General	0.00	0	11,451.13	7
Medicine-Blue	6,089.12	10	18,936.33	18
Green	0.00	0	13,529.28	2
Masonic (Onc)	761.96	2	2,307.22	8
Purple	1,330.80	1	1,999.52	4
Red A	0.00	0	0.00	0
Red B	0.00	0	0.00	0
Rose A	0.00	0	0.00	0
Rose B	0.00	0	0.00	0
White A	12,452.26	3	142,963.62	22
White B	0.00	0	0.00	0
White C	0.00	0	0.00	0
Yellow A	51.50	1	1,147.24	2
Yellow B	10,547.70	4	17,453.17	7
Neurology	0.00	0	2,357.08	7
Neuro-epilepsy	0.00	0	0.00	0
Neurosurgery	2,462.21	8	23,116.98	22
New Born-General	0.00	0	552.53	1
Obstetrics-General	442.36	1	442.36	1
-Midwife	0.00	0	0.00	0
Ophthalmology	0.00	0	956.94	2
Oral Surgery	381.08	1	381.08	1
Orthopaedic Surgery	23,617.75	9	33,594.28	21
Otolaryngology	588.73	2	15,038.13	8
Pediatrics-General	0.00	0	24,831.20	6
BMT	1,000.00	1	4,908.84	2
Cardiac - OP	0.00	0	0.00	0
Cardiology	19,643.63	1	19,643.63	1
Dentistry	0.00	0	0.00	0
Dermatology	0.00	0	0.00	0
Gastro-Intestinal	6,037.07	2	6,037.07	2
Hematology Oncology	0.03	1	168.22	4
Neonatology	0.00	0	1,013.11	3
Neurology	0.00	0	0.00	0
Neurosurgery	0.00	0	3,879.31	1
Ophthalmology	0.00	0	0.00	0
Orthopaedics	0.00	0	500.00	1
Otolaryngology	0.00	0	9,340.23	1
Pulmonary	0.00	0	370.23	2
Renal	0.00	0	1,598.48	2
Surgery Green	7,506.41	1	7,506.41	1

UMHC Hospital Billing Department

Bad Debt Statistics:

Third Quarter and Year-to-Date, Fiscal Year 1996

By Service

Admitting Service	Third Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Surgery Orange	0.00	0	28.60	1
Surg. Transplant	0.00	0	0.00	0
Urology	0.00	0	684.22	1
Physical Med. & Rehab.	2,563.75	2	3,126.06	7
Psychiatry-Child	64.97	2	17,490.43	6
-Adult	13,117.41	8	64,247.08	25
Radiology	0.00	0	0.00	0
Surgery-Blue	0.00	0	1,527.45	6
Orange	840.40	2	7,139.81	5
Purple	1,138.71	2	6,909.46	8
Red	488.87	1	3,585.96	5
White	125.70	1	12,922.47	11
Therapeutic Radiology	66.37	1	66.37	1
Urology	0.00	0	3,133.61	7
Unknown OP	119,960.99	589	547,612.48	2,713
Unknown IP	0.00	0	712.19	1
Total	420,311.64	661	1,325,636.52	2983
Medicare Bad Debt*	(9,195.92)	(44)	(103,250.70)	(241)
Legal Settlements	9,326.45	3	35,606.67	9
Bad Debt Agcy Und \$50	0.00	0	0.00	0
Bad Debt - Med NC Chgs	656.40	2	9,842.23	7
Grand Total	421,098.57	622	1,267,834.72	2,758
701/702 Recoveries	(4,386.16)	(47)	(67,859.70)	(138)
Net Total	416,712.41	575	1,199,975.02	2,620

* NOTE: Medicare Bad Debts are included in the State Breakdown but are no longer included as a Bad Debt.

UMHC Hospital Billing Department

Bad Debt Statistics:

Third Quarter and Year-to-Date, Fiscal Year 1996
By State

State	Third Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Alabama	0.00	0	90.00	2
Alaska	0.00	0	0.00	0
Arizona	20.81	1	20.81	1
Arkansas	0.00	0	124.91	2
California	26.17	1	6,178.31	14
Colorado	0.00	0	7,789.46	5
Connecticut	0.00	0	3,242.49	4
Delaware	0.00	0	0.00	0
Dist. of Columbia	25.00	1	25.00	1
Florida	0.00	0	2,399.71	9
Georgia	0.00	0	25.00	1
Hawaii	0.00	0	0.00	0
Idaho	0.00	0	0.00	0
Illinois	412.63	3	1,662.24	12
Indiana	0.00	0	3,085.95	5
Iowa	57.48	2	7,947.37	13
Kansas	0.00	0	81.91	2
Kentucky	0.00	0	0.00	0
Louisiana	0.00	0	0.00	0
Maine	0.00	0	0.00	0
Maryland	0.00	0	0.00	0
Massachusetts	156.32	1	1,708.20	17
Michigan	217.36	2	11,894.26	19
Minnesota	168,540.22	572	753,151.15	2,553
Mississippi	0.00	0	80.00	1
Missouri	149.36	1	149.36	1
Montana	6,131.86	4	7,624.28	11
Nebraska	1,217.94	3	5,178.08	14
Nevada	0.00	0	0.00	0
New Hampshire	0.00	0	0.00	0
New Jersey	25.00	1	66.53	2
New Mexico	0.00	0	500.00	1
New York	0.00	0	3,871.23	9
North Carolina	0.00	0	0.00	0
North Dakota	190,710.80	7	344,704.41	70
Ohio	0.00	0	1,392.13	3
Oklahoma	1,470.46	4	1,809.72	6
Oregon	39.04	1	325.35	4
Pennsylvania	0.00	0	0.00	0
Puerto Rico	0.00	0	446.10	3
Rhode Island	2,151.89	2	2,201.89	4
South Carolina	1,045.31	1	1,150.31	2
South Dakota	28,316.83	10	82,240.12	49
Tennessee	0.00	0	775.62	3
Texas	2,770.64	8	10,737.20	13
Utah	0.00	0	0.00	0
Vermont	0.00	0	0.00	0
Virginia	301.48	2	364.48	3
Washington	0.00	0	1,203.55	6

West Virginia	0.00	0	3,908.84	1
Wisconsin	13,671.03	15	42,123.79	90
Wyoming	50.30	1	50.30	1
Out-of-Country	2,803.71	18	15,306.46	26
Total	420,311.64	661	1,325,636.52	2,983
Medicare Bad Debt*	(9,195.92)	(44)	(103,250.70)	(241)
Legal Settlements	9,326.45	3	35,606.67	9
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Net Total	416,712.41	575	1,199,975.02	2,620

* NOTE: Medicare Bad Debts are included in the State Breakdown but are no longer included as a Bad Debt.

RESOLUTION

WHEREAS, the Board of Governors of the University of Minnesota Health System (UMHS) is empowered to appoint certain directors to the Board of Interstate Medical Center (IMC), and

WHEREAS, a UMHS Appointee, Albert Hanser, has resigned from the UMHS Board.

IT IS HEREBY RESOLVED, Dr. Ted Thompson is hereby designated and appointed to serve on the Board of Directors of Interstate Medical Center.

May 1, 1996

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

April 30, 1996

TO: Members, Board of Governors

FROM: Clifford P. Fearing
Senior Associate Director

SUBJECT: Report of Operations for the Period
July 1, 1995 through March 31, 1996

The Hospital and Clinic's operations for the month of March reflect inpatient admissions, patient days and outpatient encounters to be less than anticipated.

INPATIENT CENSUS: For the month of March, inpatient admissions totaled 1,265 and were 237 less than the budgeted admissions of 1,502. Patient days for March totaled 8,858 and were 2,054 days below budget. Admissions were greater than budgeted levels this month in the areas of Gynecology, Otolaryngology, and Urology. These were offset by less than anticipated volumes in all other service areas including Clinical Research, Medicine, Neurology, Neurosurgery, Ophthalmology, Orthopedics, Pediatrics, and Adult and Child Psychology, and Surgery.

OUTPATIENT CENSUS: Ambulatory care encounters (including CUHCC and Home Health) for the month of March totaled 33,745, which was 3,529, or 9.5%, below budgeted volumes of 37,274. Encounters were greater than budgeted levels in Dialysis, Geriatrics, Home Health, Physical Medicine and Rehabilitation, and Patient Learning Center. Encounters were under budgeted levels in Ambulatory Surgery, CUHCC, Dermatology, Emergency room, Endoscopy, Family Practice, Medicine, Neurology, Neurosurgery, Oncology, Ophthalmology, Orthopedics, Pediatrics, Psychiatry, Surgery and Women's Health.

To recap our census:

Monthly Data					YTD Data					
94/95	95/96	95/96		%	94/95	95/96	95/96		%	
Actual	Budget	Actual	Variance	Var	Actual	Budget	Actual	Variance	Var	
1,588	1,502	1,265	(237)	(15.8)	Admissions	12,821	12,478	11,723	(755)	(6.1)
11,054	10,912	8,858	(2,054)	(18.8)	Patient Days	92,945	91,237	83,602	(7,635)	(8.4)
7.0	7.3	6.6	(0.7)	(9.1)	Avg. Length of Stay	7.2	7.3	7.1	(0.2)	(2.9)
356.6	352.0	285.7	(66.3)	(18.8)	Avg. Daily Census	339.2	331.7	304.0	(27.7)	(8.4)
65.8	64.9	64.4	(0.5)	(0.8)	Percent Occupancy	62.2	61.2	59.4	(1.8)	(3.0)
36,107	37,274	33,745	(3,529)	(9.5)	Amb Care Encounters	304,297	305,840	307,353	1,513	0.5

REPORT OF OPERATIONS

March 1996

PAGE 2

FINANCIAL OPERATIONS: The Hospital and Clinic's Statement of Operations shows year to date operating revenues being less than expenses by \$3,819,000. This is an unfavorable variance of \$3,442,000. For the month of March 1996, the Hospital and Clinic had an operating loss of \$859,000, an unfavorable variance of \$2,405,000. Non-operating income for March was \$784,000, bringing the year-to-date non-operating income to \$7,930,000, or \$598,000 over projected levels. This brings year-to-date revenue in excess of expenses to \$4,111,000, or \$2,844,000 less than expected.

Patient care charges in March totaled \$31,138,000, which was 15.7% less than budgeted. Ancillary revenue was \$4,354,000 (16.2%) below budget and routine revenue was \$1,433,000 (14.4%) below budget. Inpatient revenue averaged \$17,592 per admission compared to the budgeted average of \$18,001. Outpatient revenue averaged \$263 per encounter compared to the budgeted average of \$265.

Deductions from charges totaled \$10,879,000 which was \$56,000 or 0.5% under budgeted deductions of \$10,935,000. Deductions from charges were greater than anticipated primarily due to an increase in the number of cases and lower reimbursement per case in the HMO/PPO payor group, specifically Group Health, PreferredOne and PHP.

Operating expenditures in March totaled \$23,114,000 and were \$3,448,000 (13.0%) below budgeted levels of \$26,562,000. All expense categories with the exception of contract compensation were at or below budgeted levels as management is adjusting spending levels to account for lower volumes.

ACCOUNTS RECEIVABLE: The balance in net patient accounts receivable as of March 31, 1996, totaled \$54,321,000 and represents 63.8 days of net revenue outstanding.

CONCLUSION: On a year-to-date basis net patient service revenues are \$13,528,000 below budgeted levels, largely as a result of inpatient admissions being 6.1% below budget. As inpatient volumes have declined, we have also managed expense levels to a position of \$10,356,000 below budget. As of March 31, 1996, UMHC's operating revenues were \$3,819,000 less than operating expenses, and the total revenue in excess of expenses was \$4,111,000 including investment income.

**UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
MANAGEMENT SUMMARY STATEMENT OF OPERATIONS
FOR THE PERIOD ENDED JULY 1, 1996 TO MARCH 31, 1996**

1994-95 MARCH ACTUAL	1995-96 MARCH BUDGETED	1996-96 MARCH ACTUAL	VARIANCE OVER/(UNDER) BUDGET	VARIANCE %		1994-95 MARCH YTD ACTUAL	1995-96 MARCH YTD BUDGETED	1996-96 MARCH YTD ACTUAL	VARIANCE OVER/(UNDER) BUDGET	VARIANCE %
\$35,285,000	\$36,925,000	\$31,138,000	(\$5,787,000)	-15.7%	GROSS PATIENT REVENUE	\$292,762,000	\$306,933,000	\$297,563,000	(\$9,370,000)	-3.1%
9,827,000	10,935,000	10,879,000	(56,000)	-0.5%	DEDUCTIONS FROM REVENUE	80,709,000	90,849,000	85,007,000	4,158,000	4.6%
25,458,000	25,990,000	20,259,000	(5,731,000)	-22.1%	NET PATIENT SERVICE REVENUE	212,053,000	216,084,000	202,556,000	(13,528,000)	-6.3%
					OTHER OPERATING REVENUE					
1,162,000	1,087,000	1,087,000	0		APPROPRIATION AND SUPPORT	10,458,000	9,784,000	9,784,000	0	
880,000	1,031,000	908,000	(122,000)	-11.8%	OTHER REVENUE	8,250,000	8,798,000	8,528,000	(270,000)	-3.1%
2,042,000	2,118,000	1,995,000	(122,000)	-5.8%	TOTAL OTHER REVENUE	18,708,000	18,582,000	18,312,000	(270,000)	-1.5%
27,500,000	28,108,000	22,255,000	(5,853,000)	-20.8%	TOTAL REVENUE FROM OPERATIONS	230,761,000	234,666,000	220,868,000	(13,798,000)	-5.9%
					OPERATING EXPENSES					
10,911,000	10,450,000	9,846,000	(805,000)	-7.7%	SALARIES	95,758,000	95,141,000	92,860,000	(2,491,000)	-2.6%
2,395,000	2,402,000	2,370,000	(32,000)	-1.3%	FRINGE BENEFITS	20,186,000	21,615,000	20,813,000	(802,000)	-3.7%
1,884,000	1,815,000	1,818,000	3,000	0.2%	CONTRACT COMPENSATION	15,732,000	16,336,000	16,866,000	(471,000)	-2.9%
6,079,000	6,281,000	4,486,000	(1,816,000)	-28.9%	SUPPLIES AND SERVICES	51,769,000	52,066,000	49,083,000	(2,983,000)	-5.7%
1,072,000	1,017,000	882,000	(135,000)	-13.3%	UTILITIES AND MAINTENANCE	9,368,000	9,591,000	8,938,000	(653,000)	-6.8%
1,541,000	1,566,000	1,258,000	(308,000)	-19.7%	GENERAL SUPPLIES AND EXPENSE	13,668,000	13,919,000	11,871,000	(2,048,000)	-14.7%
107,000	106,000	74,000	(32,000)	-30.2%	INSURANCE	936,000	958,000	788,000	(172,000)	-18.0%
1,622,000	1,797,000	1,808,000	9,000	0.5%	DEPRECIATION AND AMORTIZATION	14,203,000	15,564,000	15,586,000	21,000	0.1%
503,000	587,000	580,000	(7,000)	-1.2%	INTEREST	5,373,000	5,362,000	5,208,000	(154,000)	-2.9%
1,000	337,000	286,000	(42,000)	-12.5%	MINNESOTA CARE TAX	2,843,000	2,799,000	2,593,000	(206,000)	-7.4%
7,000	204,000	(58,000)	(263,000)	-128.9%	PROVISION FOR UNCOLLECTIBLES	1,541,000	1,692,000	1,295,000	(397,000)	-23.5%
26,612,000	26,562,000	23,114,000	(3,448,000)	-13.0%	TOTAL OPERATING EXPENSE	231,377,000	235,043,000	224,687,000	(10,356,000)	-4.4%
888,000	1,548,000	(859,000)	(2,405,000)		NET REVENUE FROM OPERATIONS	(616,000)	(377,000)	(3,819,000)	(3,442,000)	
972,000	848,000	784,000	(64,000)	-7.5%	NONOPERATING GAINS: INVESTMENT INCOME	8,666,000	7,332,000	7,830,000	598,000	8.2%
					REVENUE AND GAINS IN EXCESS OF EXPENSE BEFORE EXTRAORDINARY ITEM	8,050,000	6,955,000	4,111,000	(2,844,000)	
1,860,000	2,394,000	(75,000)	(2,469,000)							
0	0	0	0		EXTRAORDINARY GAIN (LOSS)	0	0	0	0	
1,860,000	2,394,000	(75,000)	(2,469,000)		REVENUE AND GAINS IN EXCESS OF EXPENSE	8,050,000	6,955,000	4,111,000	(2,844,000)	
1994-95 MARCH ACTUAL	1995-96 MARCH BUDGETED	1996-96 MARCH ACTUAL	VARIANCE OVER/(UNDER) BUDGET	VARIANCE %		1994-95 MARCH YTD ACTUAL	1995-96 MARCH YTD BUDGETED	1996-96 MARCH YTD ACTUAL	VARIANCE OVER/(UNDER) BUDGET	VARIANCE %
1,588	1,502	1,266	(237)	-15.8%	ADMISSIONS	12,821	12,478	11,723	(755)	-6.1%
11,054	10,912	8,858	(2,054)	-18.8%	PATIENT DAYS	92,945	91,237	83,802	(7,635)	-8.4%
7.0	7.3	6.6	(0.7)	-9.1%	AVERAGE LENGTH OF STAY	7.2	7.3	7.1	(0.2)	-2.9%
356.6	352.0	285.7	(66.3)	-18.8%	AVERAGE DAILY CENSUS	339.2	331.7	304.0	(27.7)	-8.4%
65.8	64.9	64.4	(0.5)	-0.8%	PERCENT OCCUPANCY	62.2	61.2	58.4	(1.8)	-3.0%
1,107	37,274	33,746	(3,529)	-9.5%	AMBULATORY CARE ENCOUNTERS	304,297	305,840	307,363	1,513	0.5%

**University of Minnesota Hospital and Clinic
Operating Assumptions for the 1996-97 Budget**

Census Data

- Inpatient Admissions:

February 1996 year-to-date clinical service data was used as a basis for seasonally projecting the remaining months of the 1995-96 fiscal year. For fiscal year 1996-97, admissions are projected to decline at an average rate of 3.6% to 15,000 admissions based on strategic planning data developed during the fall of 1995.

- Average Length of Stay:

We have incorporated an ALOS of 7.1 days in the 1996-97 budget. The underlying assumption is that as we lose inpatient volumes it will be the relatively less acute, short length of stay cases, that will shift to an ambulatory setting, and that the remaining cases will be aggressively managed.

- Outpatient Encounters:

February 1996 year-to-date clinical service data was used as a basis for seasonally projecting the remaining months of the 1995-96 fiscal year. For fiscal year 1996-97, encounters are projected to increase an average of 1.0%. This trend continues to reflect the shift of patient care to an ambulatory setting.

	<u>Actual</u> <u>1994-95</u>	<u>Projected</u> <u>1995-96</u>	<u>Projected</u> <u>1996-97</u>
Inpatient Admissions	16,855	15,582	15,000
Inpatient Days	122,552	110,306	105,940
Average Daily Census	335.8	301.4	290.2
Average Length of Stay	7.3	7.1	7.1
Outpatient Encounters	412,294	417,734	420,937

Payor Mix

We have taken our actual experience through February 1996 as a basis for the 1995-96 fiscal year. For fiscal year 1996-97 we assumed that there would be:

- an increase in the proportion of Medicare business as the population ages;
- an increase in the proportion of Medicaid (Medical Assistance) as eligibility increases;
- no change in Blue Cross market penetration;
- a decline in the remaining Commercial payor population as the market continues to shift to a HMO/PPO, managed care environment.

	<u>Actual</u> <u>1994-95</u>	<u>Projected</u> <u>1995-96</u>	<u>Projected</u> <u>1996-97</u>
Medicare Revenue %	24.2%	24.1%	24.4%
Medicaid Revenue %	11.8%	11.6%	11.9%
Blue Cross Revenue %	14.7%	14.9%	14.9%
Commercial Revenue %	9.8%	8.2%	5.2%
HMO/PPO Revenue %	25.4%	27.6%	31.1%
Other Revenue %	<u>14.0%</u>	<u>13.6%</u>	<u>12.4%</u>
Total	100.0%	100.0%	100.0%

Revenue (Price) Increases

The proposed 1996-97 budget includes a 3.5% price increase which yields approximately \$13,600,000 in increased patient charges. Volume changes also impact patient charge levels. Outpatient ancillary revenue is expected to increase approximately \$3,300,000 due to higher outpatient census. The decline in inpatient census levels will reduce gross patient charges by \$11,100,000. The combination of the price increases and changes in volumes will increase overall patient charges by approximately \$5,800,000.

Payor Reimbursement

Medicare:

DRG rate increase - We have assumed an increase of 0.5% for fiscal years 1996-97. This level of increase is based on our actual increase of 0.4% for 1995-96 and a projected increase of 0.5% for 1996-97.

Indirect Medical Education (IME) - We assumed that the IME reduction from the current funded basis of a 7.7% would not be reduced in excess of 14.3% in the budget year. This would amount to a level not less than 6.6%.

Direct Medical Education (DME) - The effective rate of increase reflects a 3.5% average annual increase for residents in primary care programs (family practice, internal medicine, OB/GYN, pediatrics). There is no increase in reimbursement for non-primary care residents on the basis of current legislation. We have also assumed no change in the base year cost per resident.

Capital - In 1995-96 there were sunset provisions relating to capital that congress overlooked and this resulted in a significant increase in capital reimbursement. This situation is being changed for 1996-97 and hence reflects a reduction of 10% in that year.

Medicare (cont.):

Exempt Units - The increase of 1.0% assumed within the 1996-97 budget reflects our actual experience through 1995-96 carried forward. We are not aware of any legislation changes that would materially change this assumption at this time.

Outpatient - We have assumed that there are no material changes to the current outpatient reimbursement methodologies. The increase in projected payment levels of 1.0% in the 1996-97 Budget reflects continued cost based reimbursement and Part B screen limits.

	<u>Actual</u> <u>1994-95</u>	<u>Projected</u> <u>1995-96</u>	<u>Projected</u> <u>1996-97</u>
Diagnostic Related Group Increase	2.0%	0.4%	0.5%
Indirect Medical Education Factor	7.7%	6.7%	6.6%
Direct Medical Education Increase	1.5%	1.5%	1.3%
Capital (Change from Base Rate)	3.0%	12.0%	-10.0%
Exempt Units Increase	1.0%	1.0%	1.0%
Outpatient Increase	2.5%	2.5%	1.0%

Medicaid (Medical Assistance):

Inpatient Medical Assistance (M.A.) reimbursement levels were reduced by approximately 10% for 1995-96 as a result of the state rebasing payment levels off the 1990-91 fiscal year together with a regrouping of payment categories. For fiscal years 1996-97, we have assumed an average increase in payment levels of 1.9% which represents a more normative change.

Outpatient M.A. reimbursement assumes no change to the existing fee screens for fiscal years 1995-96 and 1996-97.

	<u>Actual</u> <u>1994-95</u>	<u>Projected</u> <u>1995-96</u>	<u>Projected</u> <u>1996-97</u>
Inpatient	1.9%	-10.0%	1.9%
Outpatient	1.5%	0.0%	0.0%

Blue Cross:

The reduction assumed for fiscal years 1995-96 and 1996-97 reflect intentions by Blue Cross Blue Shield of Minnesota to reduce provider payment levels by 25-30% by the end of the decade. This equates to an average reduction of approximately 5.0% per year.

	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
Blue Cross Reimbursement	3.0%	-4.7%	-5.0%

HMO/PPO:

Given the position taken by Blue Cross in reducing their payment levels we believe other payors in the local market will also follow with payment reductions.

	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
HMO/PPO Reimbursement	2.5%	2.3%	-2.0%

Transplant:

Given UMHC's market position locally and nationally with regard to the bone marrow transplants and solid organ transplants, we believe there is more opportunity for moderate payment increases and have assumed an average increase of approximately 2.4%.

	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
Transplant Reimbursement	2.5%	2.3%	2.4%

Appropriation Support

We have included appropriations support levels in budget year 1996-97 that are equal to support we are receiving in fiscal 1995-96.

	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
Appropriation Revenue	\$13,944,000	\$13,045,000	\$13,045,000

Expenses

The expense profile used within the 1996-97 budget was developed using a February 29, 1996 year-to-date actual expense position as a basis for projection, and adjusted for anticipated volumes, new programs, and cost reductions.

We have incorporated the compensation increases according to the negotiated contracts we have with the bargaining units and automatic step increases nursing employees receive. The dollar impact of the compensation plan including fringe benefits for these employees is approximately \$2,100,000. We have not included the impact of a compensation plan on non-bargaining units. If we assumed a 3.5% increase for these employees, the dollar impact including fringe benefits would be approximately \$3,451,000.

Inflation on non-wage expense added approximately \$3,166,000 to our expense base in the 1996-97 budget.

Inflation	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
Salaries and Wages	7.4%	3.3%	4.2%
Non Wage Expenses			3.1%

	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
Staffing (FTE's)	3,482	3,270	3,098

Capital Plan:

The capital plan reflects anticipated spending for equipment, renovations, and strategic initiatives. The timing of equipment and renovation expenditures is based on our current estimates of needed replacements and upgrades.

Capital Plan	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
Capital Plan Total	\$32,922,000	\$16,042,000	\$27,224,000
Other Cash Flow Items			
Fairview Integration	\$0	\$5,000,000	\$0
Molecular and Cellular Therapy Bldg	\$0	\$1,000,000	\$1,000,000

University of Minnesota Hospital & Clinic
For Fiscal Year 1995/96 and Budget Year 1996/97
Summary Statement of Operations

	FY 95 Actual	FY 96 Budget	FY 96 Projected	Variance '96 Projected vs '96 Budget	Variance %	Adjusted FY 97 Budget After Inflation	Change Adj. '97 Bud After Inf vs '96 Projected	% Change
Gross Patient Revenue	390,031,000	410,215,000	395,976,000	(14,239,000)	-3.47%	401,775,000	5,799,000	1.46%
Deductions From Revenue	105,861,000	121,440,000	126,400,000	4,960,000	4.08%	141,880,000	15,480,000	12.25%
Net Patient Service Revenue	284,170,000	288,775,000	269,576,000	(19,199,000)	-6.65%	259,895,000	(9,681,000)	-3.59%
Appropriations & Support	13,944,000	13,045,000	13,045,000	0	0.00%	13,045,000	0	0.00%
Other Revenue	8,989,000	11,764,000	11,516,000	(248,000)	-2.11%	11,930,000	414,000	3.59%
Total Other Revenue	22,933,000	24,809,000	24,561,000	(248,000)	-1.00%	24,975,000	414,000	1.69%
Total Revenue from Operations	307,103,000	313,584,000	294,137,000	(19,447,000)	-6.20%	284,870,000	(9,267,000)	-3.15%
Salaries	127,996,000	126,208,000	122,476,000	(3,732,000)	-2.96%	117,712,000	(4,764,000)	-3.89%
Fringe Benefits	27,538,000	28,776,000	27,206,000	(1,570,000)	-5.46%	26,773,000	(433,000)	-1.59%
Contract Compensation	21,138,000	21,782,000	21,336,000	(446,000)	-2.05%	21,076,000	(260,000)	-1.22%
Supplies And Services	67,779,000	69,837,000	67,580,000	(2,257,000)	-3.23%	69,779,000	2,199,000	3.25%
Utilities And Maintenance	12,546,000	12,750,000	12,391,000	(359,000)	-2.82%	13,205,000	814,000	6.57%
General Supplies And Expense	18,980,000	18,545,000	16,541,000	(2,004,000)	-10.81%	17,939,000	1,398,000	8.45%
Insurance	1,181,000	1,278,000	1,013,000	(265,000)	-20.74%	1,144,000	131,000	12.93%
Depreciation And Amortization	19,265,000	20,689,000	20,641,000	(48,000)	-0.23%	20,543,000	(98,000)	-0.47%
Interest	7,265,000	7,110,000	6,853,000	(257,000)	-3.61%	6,274,000	(579,000)	-8.45%
Minnesota Care Tax	3,714,000	3,737,000	3,447,000	(290,000)	-7.76%	3,527,000	80,000	2.32%
Provision for Uncollectibles	2,114,000	2,265,000	2,031,000	(234,000)	-10.33%	2,102,000	71,000	3.50%
Total Operating Expense	309,516,000	312,977,000	301,515,000	(11,462,000)	-3.66%	300,074,000	(1,441,000)	-0.48%
NET REVENUE FROM OPERATIONS	(2,413,000)	607,000	(7,378,000)	(7,985,000)	-1315.49%	(15,204,000)	(7,826,000)	106.07%
Nonoperating Gains: Investment Income	13,383,000	10,334,000	10,423,000	89,000	0.86%	9,880,000	(543,000)	-5.21%
Revenue And Gains In Excess Of Expense Before Extraordinary Item	10,970,000	10,941,000	3,045,000	(7,896,000)	-72.17%	(5,324,000)	(8,369,000)	-274.84%
Extraordinary Gain (Loss)	0	0	0	0		0	0	0.00%
Revenue And Gains In Excess of Expense	10,970,000	10,941,000	3,045,000	(7,896,000)	-72.17%	(5,324,000)	(8,369,000)	-274.84%

**University of Minnesota Hospital and Clinic
1996-97 Budget
Issues**

	Included in Budget	Potential Cost Not Included in Budget
Compensation Plan:		
Unit 3 - Teamsters	\$315,000	
Unit 4 - AFSME	698,000	
Unit 5 - Nursing	665,000	\$1,549,000
Unit 6 - AFSME	327,000	
Unit 7 - Technical	93,000	
Unit 10 - Graduate Assistants		5,000
Unit 12 - Professionals		1,023,000
Unit 13 - Supervisors		363,000
Unit 97 - Students, ETC		229,000
Unit 98 - Managerial		243,000
Unit 99 - Exclusionary		<u>41,000</u>
Total Compensation Plan	<u>\$2,098,000</u>	<u>\$3,453,000</u>

Outsourcing:

Warehouse	\$ 220,000	
PWB Housekeeping	100,000	
Laboratories	500,000	
Linen	140,000	
Vendor Delivery to Units	100,000	
Inventory (one time cash infusion)	900,000	
Parking	50,000	

Payments to Medical School/DPG's:

Resident	\$ 11,251,000	
Academic	1,219,000	
Medical Directors	4,673,000	
Purchased Services	3,586,000	

**University of Minnesota Hospital and Clinic
1996-97 Budget
Issues**

Programs:

Ambulatory Care	
CUHCC	\$ (146,000)
Home Health	(1,515,000)
Social Services	1,453,000
Palliative Care	
Outreach Laboratory	2,957,000
UMCA Contract	
Clinical Effectiveness	\$ 3,000,000
• Bone Marrow Transplant	
• Wound Healing	
• Kidney Transplant	
• Eating Disorders	
• Other Vascular Services	

	Actual <u>1994-95</u>	Projected <u>1995-96</u>	Projected <u>1996-97</u>
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**University of Minnesota Hospital and Clinic
1996-97 Budget
Issues**

Compensation Plan:	<u>Included in Budget</u>	<u>Potential Cost Not Included in Budget</u>
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Unit 99 - Exclusionary		41,000
Total Compensation Plan	<u>\$2,098,000</u>	<u>\$3,453,000</u>

Outsourcing:	<u>Potential Savings to Budget</u>
Warehouse	220,000
PWB Housekeeping	100,000
Laboratories	500,000
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Vendor Delivery to Units	100,000
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**University of Minnesota Hospital and Clinic
1996-97 Budget
Issues**

Programs:	<u>Impact to Bottom Line</u>
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• Bone Marrow Transplant	
• Wound Healing	
• Kidney Transplant	
• Eating Disorders	
• Other Vascular Services	

UNIVERSITY OF MINNESOTA

University of Minnesota Health System

Board of Governors

*Box 604
420 Delaware Street S.E.
Minneapolis, MN 55455
612-626-5003
Fax: 612-624-7183*

To: UMHS Board of Governors Executive Committee Members
From: Peter Rapp
Re: Executive Committee Agenda
Date: May 20, 1996

Mike Dougherty indicated preference for a full board meeting in June to review both budget status and the progress on the Fairview project. As such, we have scheduled an Executive Committee for this month.

Included in the packet, for your information, are April's financial statements and several items for action; the first item is the budget for the University Medical Center Mesabi and the Mesaba Clinic. (Approval is required per the University of Minnesota Health System Board of Governors Bylaws.) The second is the Range Physicians Budget. The third is our Medical Staff Credentials. As always the Credentials Committee and the Chief of Staff's Office have reviewed and recommend these actions.

~~**We will be meeting by phone to minimize your inconvenience.**~~

Our June meeting will be as scheduled and be a full Board schedule.

Thanks.

PFR/ge

**University of Minnesota Health System
Board of Governors
Executive Committee
May 22, 1996
2:30 - 4:00 p.m.
Board Room**

A G E N D A

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2. Credentials Committee/Medical Staff-Hospital Council Report and Recommendations	3
3. April 30, 1996 UMHC Financials	9
4. University Medical Center - Mesabi Budget	11
5. UMHSAC Budget - Mesaba Clinic/Range Physicians	21
6. Other Business	

**University of Minnesota Health System
Board of Governors
Executive Committee
May 1, 1996
8:00 - 9:30 a.m.
Board Room**

MINUTES

Present: Frank Cerra, M.D.
Michael Dougherty
Art Kydd
Tom Madison
John Morrison
Peter Rapp
Roby Thompson, M.D.

Staff: Cliff Fearing
Gail Eckel

Mr. Michael Dougherty called the meeting to order at 8:15 a.m. on May 1, 1996.

1. Mr. Dougherty called on Mr. Peter Rapp to present the recommendations of the Credentials Committee/Medical Staff-Hospital Council to the members of the Executive Committee. The recommendations were unanimously approved as presented.
2. Mr. Dougherty called on Mr. Cliff Fearing to present the Bad Debts - Third Quarter - Fiscal Year 1995-96. The Bad Debts were unanimously approved as presented.
3. Mr. Dougherty presented the Resolution to appoint Dr. Ted Thompson to the Board of Directors of the Interstate Medical Center in Red Wing. The

appointment was unanimously approved as presented.

4. Mr. Dougherty called on Mr. Fearing to give the Budget Report. Extensive discussion took place regarding The University of Minnesota Hospital and Clinic Budget. Further budget preparation will continue with final 1996-97 budget action scheduled for the June 1996 Board of Governors meeting. Plans were made for members of the Executive Committee to attend the Board of Regents meeting to inform the Regents of the status of the budget process for The University of Minnesota Hospital and Clinic.

The meeting adjourned at 9:25 a.m.

Respectfully submitted,



Gail Eckel
Executive Secretary
Board of Governors Office

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Office of the Chief of Staff

*Box 707
420 Delaware Street S.E.
Minneapolis, MN 55455-0392
612-626-1945*

TO: Members of the Board of Governors

FROM: Marvin E. Goldberg, MD, Chief of Staff
Chairman, Medical Staff-Hospital Council

DATE: May 15, 1996

SUBJECT: Credentials Committee/Medical Staff-Hospital Council
Report and Recommendations.

The Medical Staff-Hospital Council, on May 14, 1996, approved the attached Credentials Committee Report and Recommendations.

I am forwarding these recommendations to you for your review and approval. If you have any questions, please feel free to call me.

MEG/cfg

Attachment

mshc/bog/mar

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Medical Staff Office

Box 707
420 Delaware Street S.E.
Minneapolis, MN 55455-0392
612-626-1945
Fax: 612-626-3028

TO: Medical Staff-Hospital Council
FROM: Wesley Miller, MD
DATE: May 10, 1996
RE: Credentials Committee Report and Recommendations

After examining all pertinent information provided to them concerning the professional competence and other necessary qualifications, the Credentials Committee, at its May 10, 1996 meeting, recommends the approval of provisional status and clinical privileges to the following applicants to the Medical Staff of the University of Minnesota Hospital and Clinic:

1. Applications for Appointment and Requests for Clinical Privileges

Department	Category	Temporary Expires
<u>Anesthesiology</u> Ilya Rubin, MD	AS	May 31, 1996
<u>Dentistry</u> Douglas Talus, DDS	CS	August 17, 1996
<u>Dermatology</u> Judith Shank, MD	CS	July 4, 1996
<u>Family Practice</u> Deanna Bass, MD	AS	May 25, 1996
<u>Laboratory Medicine and Pathology</u> Susan Lorimer, MD Alan Rose, MD	AS AS	June 1, 1996 May 29, 1996
<u>Medicine</u> Mara Horwitz, MD Michael Lutarewych, MD	AS AS	July 1, 1996 June 19, 1996

2. Applications for Change in Medical Staff Category

<u>Department of Radiology</u>	<u>Current Category</u>	<u>Requested Category</u>
Charles Dietz, MD	CS	AS
Steven Hommeyer, MD	AS	CS

3. Applications for Additional Clinical Privileges

Medicine

Gladwin Das, MD

Addition of interventional cardiology

4. Clinical Chief Recommendations for Regular Appointment

Department of Family Practice

Cathy Bryant, MD

Category

CS

Date Eligible

3-27-96

Department of Medicine

Stephen Derose, MD

AS

3-27-96

Patrick Gaffney, MD

AS

3-27-96

David Kendall, MD

AS

3-27-96

Gary McVeigh

AS

3-27-96

Department of Neurology

Richard Ziegler, PhD, psychologist

AS

3-27-96

Department of Obstetrics and Gynecology

Jonathan Cosin, MD

AS

3-27-96

Department of Pediatrics

Andrew Sagan, MD

CS

3-27-96

Department of Radiology

Audrey Caine, MD

AS

3-27-96

Larissa Hood, MD

AS

3-27-96

Kristine King, MD

AS

3-27-96

James Krikham, MD

CS

3-27-96

Hugh Neeson, MD

AS

3-27-96

Gordon Teel, MD

AS

3-27-96

5. Resignations

Department of Medicine

Waleed Amra, MD

Category

AS

Effective Date

3-26-95

Todd Greatens, MD

AS

3-26-96

Department of Neurosurgery

Deepak Awasthi, MD

CS

1-1-96

Department of Pediatrics

Carroll Brennan, MD

AS

3-31-95

Albert Rocchini, MD

AS

8-16-95

Robert Vernier, MD

AS

6-30-95

Department of Psychiatry

James Mitchell, MD

AS

5-1-96

Department of Radiology

Christopher A. Jackson, MD
Anne Krutchen, MD

AS
AS

6-30-95
6-30-95

6. Reappointments

Department of Otolaryngology

George Adams, MD
Arndt Duvall, MD
Markus Gapany, MD
David Hamlar, MD
Mario Imola, MD
Samuel Levine, MD
Stephen Liston, MD
Barbara Malone, MD
Rick Odland, MD

Department of Pediatrics

Cathryn Angel, MD
Bruce Blazar, MD
Bruce Bostrom, MD
John Cich, MD
Robert Fisch, MD
David Hendrick, MD
Harumi Jyonouchi, MD
Emmanuel Katsanis, MD
Daniel Kohen, MD
William Krivit, MD
Bonnie Landrum, MD
Norma Ramsay, MD
Susan Sencer, MD
Alan Sinaiko, MD
John Wagner, MD

Department of Physical Medicine and Rehabilitation

Ronald Bateman, MD
Alan Bensman, MD
Dennis Dykstra, MD
Murali Krishnamurthy, MD
Karen Ryan, MD
LeAnn Snow, MD
Bonnie Warhol, MD
Marilyn Weber, MD

Department of Radiology

Kurt Amplatz, MD
Haraldur Bjarnason, MD
Becky Carpenter, MD
Charles Dietz, MD
Rene du Cret, MD
Christopher Engeler, MD

Department of Radiology (con't)

Mary Foshager, MD
Marvin Goldberg, MD
Henry Griffiths, MD
Stephen Hite, MD
David Hunter, MD
Charles Krenzel, MD
Christopher Kuni, MD
Kristine King, MD
Lorraine LaRoy, MD
David Lee, MD
Michael Madison, MD
William Mize, MD
Gwen Nazarian, MD
Hugh Neeson, MD
Kent Remley, MD
Arthur Stillman, MD
Carol Steenson (Coleman), MD *name change*
Gordon Teel, MD
William Thompson, MD
Stephen Trenkner, MD
Charles Truwit, MD
James Walsh, MD

Department of Surgery

Jerome Abrams, MD
Gregory Beilman, MD
Ralph Bolman, III, MD
Michael Caldwell, MD
Frank Cerra, MD
Bruce Cunningham, MD
John Delaney, MD
David Dunn, MD
Robert Goodale, MD
Rainer Gruessner, MD
Vibhu Kshetry, MD
Arnold Leonard, MD
Arthur Matas, MD
John Najarian, MD
William Payne, MD
Steven Santilli, MD
Sara Shumway, MD
Herbert Ward, MD
Lucile Wrenshall, MD

Psychologists

Gerald August
Pi-Nian Chang
Kate Hathaway
Dorothy Hatsukami

**UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
MANAGEMENT SUMMARY STATEMENT OF OPERATIONS
FOR THE PERIOD ENDED JULY 1, 1995 TO APRIL 30, 1996**

1994-95 APRIL ACTUAL	1995-96 APRIL BUDGETED	1995-96 APRIL ACTUAL	VARIANCE OVER/(UNDER) BUDGET	VARIANCE %		1994-95 APRIL YTD ACTUAL	1995-96 APRIL YTD BUDGETED	1995-96 APRIL YTD ACTUAL	VARIANCE OVER/(UNDER) BUDGET	VARIANCE %
\$31,914,000	\$34,622,000	\$34,026,000	(\$596,000)	-1.7%	GROSS PATIENT REVENUE	\$324,676,000	\$341,555,000	\$331,890,000	(\$9,665,000)	-2.9%
8,876,000	10,256,000	10,226,000	(30,000)	-0.3%	DEDUCTIONS FROM REVENUE	89,585,000	101,105,000	106,234,000	4,129,000	4.1%
23,038,000	24,366,000	23,800,000	(566,000)	-2.3%	NET PATIENT SERVICE REVENUE	235,091,000	240,450,000	228,366,000	(14,094,000)	-5.9%
					OTHER OPERATING REVENUE					
1,162,000	1,087,000	1,087,000	0		APPROPRIATION AND SUPPORT	11,620,000	10,871,000	10,871,000	0	
826,000	989,000	918,000	(71,000)	-7.2%	OTHER REVENUE	9,075,000	9,787,000	9,445,000	(342,000)	-3.5%
1,988,000	2,076,000	2,006,000	(71,000)	-3.4%	TOTAL OTHER REVENUE	20,695,000	20,658,000	20,316,000	(342,000)	-1.7%
25,026,000	26,442,000	25,806,000	(637,000)	-2.4%	TOTAL REVENUE FROM OPERATIONS	255,786,000	261,108,000	248,672,000	(14,436,000)	-5.5%
					OPERATING EXPENSES					
10,333,000	10,391,000	9,728,000	(663,000)	-6.4%	SALARIES	106,254,000	105,531,000	102,378,000	(3,153,000)	-3.0%
2,348,000	2,392,000	2,238,000	(153,000)	-6.4%	FRINGE BENEFITS	22,569,000	24,008,000	23,063,000	(955,000)	-4.0%
1,801,000	1,815,000	1,743,000	(72,000)	-4.0%	CONTRACT COMPENSATION	17,533,000	18,151,000	17,807,000	(544,000)	-3.0%
5,693,000	5,929,000	5,532,000	(397,000)	-6.7%	SUPPLIES AND SERVICES	57,467,000	57,995,000	54,818,000	(3,379,000)	-5.8%
994,000	1,047,000	1,128,000	81,000	7.7%	UTILITIES AND MAINTENANCE	10,363,000	10,638,000	10,068,000	(572,000)	-5.4%
1,330,000	1,522,000	1,036,000	(487,000)	-32.0%	GENERAL SUPPLIES AND EXPENSE	15,003,000	15,441,000	12,906,000	(2,535,000)	-16.4%
104,000	106,000	76,000	(31,000)	-29.2%	INSURANCE	1,040,000	1,065,000	961,000	(204,000)	-19.2%
1,616,000	1,706,000	1,816,000	210,000	12.3%	DEPRECIATION AND AMORTIZATION	15,819,000	17,270,000	17,501,000	231,000	1.3%
621,000	577,000	504,000	(73,000)	-12.7%	INTEREST	5,993,000	5,939,000	5,712,000	(227,000)	-3.8%
253,000	315,000	288,000	(47,000)	-14.9%	MINNESOTA CARE TAX	3,098,000	3,114,000	2,861,000	(253,000)	-8.1%
179,000	192,000	166,000	(26,000)	-13.5%	PROVISION FOR UNCOLLECTIBLES	1,719,000	1,884,000	1,480,000	(424,000)	-22.5%
25,272,000	25,992,000	24,334,000	(1,658,000)	-6.4%	TOTAL OPERATING EXPENSE	256,856,000	261,036,000	249,021,000	(12,015,000)	-4.6%
(246,000)	450,000	1,471,000	1,021,000		NET REVENUE FROM OPERATIONS	(1,070,000)	72,000	(2,349,000)	(2,421,000)	
1,065,000	792,000	1,108,000	316,000	39.9%	NONOPERATING GAINS: INVESTMENT INCOME	9,939,000	8,124,000	8,038,000	914,000	11.3%
819,000	1,242,000	2,579,000	1,337,000		REVENUE AND GAINS IN EXCESS OF EXPENSE BEFORE EXTRAORDINARY ITEM	8,869,000	8,196,000	6,689,000	(1,507,000)	
0	0	0	0		EXTRAORDINARY GAIN (LOSS)	0	0	0	0	
819,000	1,242,000	2,579,000	1,337,000		REVENUE AND GAINS IN EXCESS OF EXPENSE	8,869,000	8,196,000	6,689,000	(1,507,000)	
1,342	1,401	1,328	(75)	-5.4%	ADMISSIONS	14,163	13,879	13,048	(830)	-6.0%
10,158	9,962	9,077	(885)	-8.9%	PATIENT DAYS	103,103	101,199	92,878	(8,520)	-8.4%
7.4	7.1	7.1	(0.0)	-0.1%	AVERAGE LENGTH OF STAY	7.3	7.3	7.1	(0.2)	-2.6%
338.6	332.0	302.8	(29.4)	-8.9%	AVERAGE DAILY CENSUS	339.2	331.8	303.9	(27.9)	-8.4%
62.5	61.3	68.3	7.0	11.5%	PERCENT OCCUPANCY	62.2	61.2	60.2	(1.0)	-1.7%
34,852	36,109	37,018	907	2.5%	AMBULATORY CARE ENCOUNTERS	339,149	341,949	344,369	2,420	0.7%

**UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BALANCE SHEETS
APRIL 30, 1996 AND JUNE 30, 1995**

	<u>4/30/96</u>	<u>6/30/95</u>		<u>4/30/96</u>	<u>6/30/95</u>
ASSETS			LIABILITIES AND FUND BALANCES		
<u>General Funds</u>			<u>General Funds</u>		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$42,372,000	\$50,949,000	Current maturities of long-term debt and capital lease obligations	\$3,928,000	\$8,725,000
Receivables:			Accounts payable	25,342,000	25,029,000
Patient services, net of allowances and uncollectible accounts of \$29,193,000 at April '96 and \$27,756,000 at June '95	55,260,000	50,759,000	Due to third-party payors	7,325,000	3,184,000
State appropriations	1,824,000	912,000	Accrued liabilities:		
Other	1,574,000	2,347,000	Salaries, wages and employee benefits	23,151,000	25,447,000
Inventories	6,675,000	6,547,000	Interest	773,000	1,584,000
Prepaid expenses and other	<u>606,000</u>	<u>146,000</u>	Deferred revenue	<u>783,000</u>	<u>393,000</u>
Total current assets	<u>108,311,000</u>	<u>111,660,000</u>	Total current liabilities	<u>61,302,000</u>	<u>64,362,000</u>
Assets whose use is limited:					
Board for property and equipment replacement and expansion	136,610,000	133,848,000			
Under bond indenture agreement held by trustee	<u>9,990,000</u>	<u>12,815,000</u>			
Total assets whose use is limited	<u>146,600,000</u>	<u>146,663,000</u>			
Property and Equipment, net	150,230,000	157,245,000	Long-term debt and capital lease obligations, less current maturities	135,577,000	139,479,000
Other Assets:					
Long-term portion - promissory note	4,897,000	5,332,000			
Deferred third-party reimbursement	0	0			
Deferred financing costs	641,000	751,000			
Other	<u>2,665,000</u>	<u>3,126,000</u>			
Total other assets	<u>8,203,000</u>	<u>9,209,000</u>	Fund Balance	<u>216,465,000</u>	<u>220,936,000</u>
TOTAL ASSETS	<u>\$413,344,000</u>	<u>\$424,777,000</u>	TOTAL LIABILITIES AND FUND BALANCE	<u>\$413,344,000</u>	<u>\$424,777,000</u>
Restricted Funds			Fund Balances:		
Investments	<u>\$10,397,000</u>	<u>\$9,688,000</u>	Endowment funds	\$3,955,000	\$3,696,000
			Specific purpose funds	<u>6,442,000</u>	<u>5,992,000</u>
				<u>\$10,397,000</u>	<u>\$9,688,000</u>

FY 1997 BUDGET

**UNIVERSITY
MEDICAL CENTER
MESABI**

 UNIVERSITY OF MINNESOTA HEALTH SYSTEM

CENSUS

Inpatient Admissions are budgeted to decrease 2% from FY 1996. Admissions have declined in two of the last three years. An increase in the number of Outpatient Observation Admissions offsets the impact of fewer inpatient admissions. The net result is an adjusted daily census of 91.6 patients per day which will mirror FY 1996.

Patient Days are budgeted to decrease 1.5% from projected 1996 levels. The Medical Staff, during the course of 1996, lowered the average length of stay from 4.3 days to 3.9 days. We expect this trend to continue.

Please see the appendix for more detail.

Outpatient Units have been budgeted to increase 3.8% over 1996 activity. The addition of a second Orthopaedic Surgeon, the ancillary benefit of the Radiation Therapy Center, and the opening of a Retail Pharmacy contribute to the increase.

Revenue and Discounts

Net patient revenues are budgeted at \$28,041,000. This is a 2% increase over projected 1996 revenues. A 5% rate increase was applied to all hospital departments with the exceptions to Pharmacy (Hospital and Retail) and Central Supply. The charges in these areas are adjusted as needed. Because of the high percentage of fixed payors, the rate increase of 5% produced slightly less than 2% of increased revenue. The balance is made up of the New Retail Pharmacy operation and the addition of an orthopaedic surgeon. The configuration of the Medical Staff is presumed to remain basically unchanged throughout FY 1997. HealthLine is budgeted to contribute a profit of \$145,000 to other revenue.

Financial Class Assumptions

- 1) **Medicare:** Reimburses at a fixed amount per inpatient case and cost based reimbursement on some outpatient procedures. Other selected outpatient procedures such as Lab, Radiology and Outpatient Surgeries are reimbursed under specific target rates. A 1% increase in Medicare payments are presumed for FY1997.
- 2) **Medicaid:** Reimburses under a fixed payment per case methodology for inpatients and a fee schedule for outpatients. Medicaid rates were rebased in January of 1995. A 1% increase in MA and AFDC is budgeted for FY 1997. No increase in GA is projected. Favorable contracts are in place for the Prepaid Medical Assistance population; however volumes are difficult to forecast.
- 3) **BCBS:** Reimburses on a prospective reimbursement per day with case maximums. BCBS typically will increase payments in categories where the maximums allowed are not charged. MRMC has very few categories where we are not paid at the maximum; therefore, no significant increases in payments are budgeted - outpatients @ 90% charges. Contract was guaranteed for two years.

4) All other payors continue the trend of aligning with Claims Administrators who request discounts. Patient deductibles and co-pays become the issue. It is increasingly evident that commercial insurances no longer pay 100% and in most cases 20% of the hospital charge is being assumed by the patient. This trend has effectively eliminated the cost shifting potential hospitals have had in the past. Commercial payments have been budgeted to increase 3.0%.

Discounts:

Third party discounts are budgeted at 26.6% of gross revenues. This reflects the current trend.

Revenue by pay group is as follows:

Medicare	47.0%
Medicaid	13.9%
BCBS	12.5%
HMO's	2.4%
Commercial	11.4%
Other	<u>12.8%</u>
	100.0%

EXPENSES:

Salaries and Benefits:

Salary expense assumes a small pay rate increase. FTE's have been reduced 5.6 from current operating levels due to some consolidations. Staffing, as always, is expected to fluctuate according to census where appropriate. All three labor contracts are open during the budget period.

Benefits:

A reduction in health insurance due to re-evaluation of stop loss premium for self funded plan.

Fees:

Consistent with prior years. Adjusted for inflation with the exception of the Emergency Room contract.

Supplies:

Supplies are budgeted based on volumes. An inflation factor of 3% was used. Large increase in volume due to addition of Outpatient Pharmacy.

Building & Equipment Costs:

Building and Equipment costs were inflation adjusted at 3%. Allowances were also made for new building addition.

Depreciation & Amortization - increased due to new building addition.

	ACTUAL PER AUDIT 1995	APPROVED BUDGET 1996	ESTIMATE 1996	BUDGET 1997	1997 OVER/UNDER 1996 EST.
HOSPITAL:					
Inpatient Rev.-Board & Care	7,122	7,749	7,589	7,877	288
Inpatient Rev.-Ancillary	14,595	14,662	13,988	14,098	110
Outpatient Revenue	14,311	14,863	14,616	15,596	980
HOME:					
Resident Revenue					0
Total Patient Revenue	36,028	37,274	36,193	37,571	1,378
Deduct 3rd Party Discounts	8,940	9,863	8,846	9,640	794
Deduct Bad Debts	168	214	262	300	38
Deduct Free Care	68	56	71	68	(3)
Net Patient Revenue	26,852	27,141	27,014	27,563	549
Add Miscellaneous Income	361	407	455	478	23
Total Revenue	27,213	27,548	27,469	28,041	572
Salaries	12,568	13,043	12,611	12,647	36
Employee Benefits	2,887	2,390	2,803	2,706	(97)
Fees	2,759	2,515	2,817	2,853	36
Supplies	3,675	3,785	3,558	4,437	879
Building & Equipment Cost	1,380	1,381	1,435	1,504	69
Depreciation	1,680	1,758	1,685	1,888	203
Amortization	28	19	15	0	(15)
Interest Expense	699	670	670	625	(45)
Rental Expense	101	113	102	90	(12)
Other Expense	1,816	1,823	1,761	1,237	(524)
Total Expenses	27,593	27,497	27,457	27,987	530
Net Revenue	(380)	51	12	54	42
% of Total Revenue	-1.4%	0.2%	0.0%	0.2%	0.1%
Interest Income	15	24	30	27	(3)
Depreciation Fund Income	116	142	153	160	7
Subtotal	(249)	217	195	241	46
% of Total Revenue	-0.9%	0.8%	0.7%	0.9%	0.1%
Extraordinary Gain/Loss	269	0	0	0	0
Excess of Rev. Over Exp.	20	217	195	241	46
Return on Equity	-3.1%	0.0%	2.1%	2.2%	0.1%
Return on Invested Capital	2.8%	0.0%	5.0%	4.7%	-0.3%
Hospital Patient Revenue/Adj. Admit	4,501	4,387	4,218	4,314	96
Hospital Patient Revenue/Adj. Day	787	782	811	824	13
Hospital Outpatient Revenue/Admit	177	177	177	182	5
Hospital Cost/Adj. Admit	4,625	4,444	4,287	4,380	93
Hospital Cost/Adj. Day	809	792	824	837	13

UNIVERSITY MEDICAL CENTER - MESABI OPERATIONAL RESULTS BY SERVICE
 (000's omitted)

HOSPITAL:	ACTUAL PER AUDIT 1995	APPROVED BUDGET 1996	ESTIMATE 1996	BUDGET 1997	1997 OVER/UNDER 1996 EST.
Patient Charges	36,028	37,274	36,193	37,571	1,378
Deduct 3rd Party Discounts	8,940	9,863	8,846	9,640	794
Deduct Bad Debts	168	214	262	300	38
Deduct Free Care	68	56	71	68	(3)
Allocation of Misc. Income	361	407	455	478	23
Net Patient Revenue	27,213	27,548	27,469	28,041	572
Direct Expenses - Hospital	27,593	27,497	27,457	27,987	530
Allocated Expenses					0
Total Hospital Expenses	27,593	27,497	27,457	27,987	530
Net Revenue (Loss)	(380)	51	12	54	42
NURSING HOME:					
Resident Charges					0
Deduct Bad Debts					0
Allocation of Misc. Income					0
Net Resident Revenue	0	0	0	0	0
Direct Expenses - Home					0
Allocated Expenses					0
Total Home Expenses	0	0	0	0	0
Net Revenue (Loss)	0	0	0	0	0
OTHER SERVICES:					
Net Income					0
Direct Expenses					0
Allocated Expenses					0
Net Revenue	0	0	0	0	0
Interest Income	15	24	30	27	(3)
Depreciation Fund Income	116	142	153	160	7
Extraordinary Gain/Loss	269	0	0	0	0
Excess of Rev. Over Exp.	20	217	195	241	46
Nursing Home Rev./Day	0	0	0	0	0
Nursing Home Cost/Day	0	0	0	0	0

UNIVERSITY MEDICAL CENTER - MESABI ACCOUNTS RECEIVABLE ANALYSIS
(000's omitted)

	Actual JUNE 30, 1995		Estimate JUNE 30, 1996		Budget JUNE 30, 1997	
HOSPITAL PATIENT ACCOUNTS RECEIVABLE:						
Patient Charges	36,028	365	36,193	365	37,571	365
Patient Charges per Cal. Day	98.787		99.159		102.934	
Total Hospital Patient Accounts	6,602	66.9	6,737	67.9	6,987	67.9
Deduct-Reserve for Bad Debts	337	3.4	337	3.4	337	3.3
-Prepayment Balances		0.0		0.0		0.0
-CY Medicare/Medicaid Balances	1,432	14.5	1,400	14.1	1,500	14.6
Net Hospital Patient Accounts	4,833	49.0	5,000	50.4	5,150	50.0
HOME RESIDENT ACCOUNTS RECEIVABLE:						
Resident Charges		365		365		365
Resident Charges per Calendar Day	0.000		0.000		0.000	
Total Nursing Home Accounts		0.0		0.0		0.0
Deduct Reserve for Bad Debts		0.0		0.0		0.0
Net Nursing Home Accounts	0	0.0	0	0.0	0	0.0

	Actual	Estimate	Budget
BAD DEBT ANALYSIS - HOSPITAL & HOME:			
Beginning Reserve Balance	337	337	337
Add Provision for Bad Debts	167	233	255
Deduct Accounts Written Off	261	349	380
Add Collections of Write-Offs	94	116	125
Ending Reserve Balance	337	337	337
% of Hospital & Home Accounts Receivable	5.1%	5.0%	4.8%
Net Write-Offs % of Gross Hosp. & Home Charges YTD	0.5%	0.6%	0.7%

	FISCAL 1995 ACTUAL		FISCAL 1996 ESTIMATE		FISCAL 1997 BUDGET	
	Amt.	%	Amt.	%	Amt.	%
HOSPITAL Gross Revenue by Payor:						
Medicare	16,991	47.2%	17,359	48.0%	17,641	47.0%
Medicaid	5,197	14.4%	5,018	13.9%	5,225	13.9%
Blue Cross	4,638	12.9%	4,553	12.6%	4,710	12.5%
HMO's	739	2.1%	884	2.4%	912	2.4%
Commercial	4,276	11.9%	4,131	11.4%	4,271	11.4%
All Other	4,187	11.6%	4,248	11.7%	4,812	12.8%
Total	36,028	100.1%	36,193	100.0%	37,571	100.0%

	ACTUAL PER AUDIT 1995	APPROVED BUDGET 1996	ESTIMATE 1996	BUDGET 1997	1997 OVER/UNDER 1996 EST.
HOSPITAL:					
Inpatient Admissions	2,984	3,058	3,075	3,000	(75)
Patient Days	12,753	13,000	12,136	11,838	(298)
Average Length of Stay	4.3	4.3	3.9	3.9	-0.0
Average Daily Census	34.9	35.8	33.2	32.4	-0.8
Mental Health/C.D. Admissions	612	662	743	737	(6)
Mental Health/C.D. Days	7,805	7,795	7,718	7,715	(3)
Average Length of Stay	12.8	11.8	10.4	10.5	0.1
Average Daily Census	21.4	21.4	21.1	21.1	-0.0
Total Admissions	3,596	3,720	3,818	3,737	(81)
Total Patient Days	20,558	20,875	19,854	19,553	(301)
Total Average Daily Census	56.3	57.2	54.4	53.6	-0.8
Total Licensed Beds	175	175	175	175	0
Total Staffed Beds	126	126	126	126	0
% Occupancy-Licensed Beds	32.2%	32.7%	31.1%	30.6%	-0.5%
% Occupancy-Staffed Beds	44.7%	45.4%	43.2%	42.5%	-0.7%
Outpatient Admissions	81,000	83,975	82,575	85,694	3,119
Nursery Admissions	316	331	280	300	20
Nursery Days	801	825	672	720	48
Average Length of Stay	2.5	2.5	2.4	2.4	0.0
Adjusted Admissions	5,966	6,187	6,404	6,389	(15)
Adjusted Days	34,105	34,719	33,303	33,430	127
Adjusted Census	93.4	95.1	91.2	91.6	0.3
OUTPATIENT OBSERVATIONS:					
Observation Admissions	1,311	1,048	1,472	1,535	63
Observation Equivalent Days	1,593	1,633	1,703	1,770	67
Average Length of Stay	1.2	1.6	1.2	1.2	-0.0
Average Daily Census	4.4	4.5	4.7	4.8	0.2

FTE-Hours Worked	331.2	345.4	331.1	326.3	-4.8
FTE-Other Hours	55.0	56.7	55.9	55.1	-0.8
Other Hrs % of Hrs Worked	16.6%	16.4%	16.9%	16.9%	0.0%
Total FTE	386.2	402.1	387.0	381.4	-5.6
Hospital FTE	386.2	402.1	387.0	381.4	-5.6
Home FTE					0.0
Other FTE					0.0
FTE per Adj. Census-Hosp	4.1	4.2	4.2	4.2	-0.1
FTE per Adj. Census-Home	0.0	0.0	0.0	0.0	0.0
Hosp. FTE's/100 Adj. Adm.	6.5	6.5	6.0	6.0	-0.1
Average Salary Cost/Hour	\$15.65	\$15.59	\$15.67	\$15.94	\$0.28
Average Benefit Cost/Hour	\$3.59	\$2.86	\$3.48	\$3.41	(\$0.07)
Overtime Premium Exp.	\$484	\$450	\$468	\$450	(\$18)

	ESTIMATE 1996	BUDGET 1997
Funds from Operations		
Net Income	195	241
Depreciation Expense	1,685	1,888
TOTAL	1,880	2,129
Funds Used by Operations		
Capital Spending	3,586	1,863
Working Capital (Increase) Decrease	(237)	105
Principal Payments	425	458
Other - Non-Current Assets	113	(66)
Other - Fund Balance Changes	(2,380)	(358)
TOTAL	1,587	2,002
Funds Financed By		
Debt	0	0
Restricted Fund Donations	11	0
TOTAL	11	0
Net Change in Cash	304	127

Beginning Cash Balance	1,611	1,915
Ending Cash Balance	1,915	2,042
Net Cash Flow	304	127

Composition of Net Working Capital Changes:

(Increase) Decrease in Net Acct. Rec.	(167)	(150)
(Increase) Decrease in Other Current Assets	181	(30)
Increase (Decrease) in Other Current Liab.	223	75
Increase (Decrease) in Short Term Debt	0	0
Net Working Capital Increase/Decrease	237	(105)

UNIVERSITY OF MINNESOTA

The University of Minnesota Health System

Box 604
420 Delaware Street S.E.
Minneapolis, MN 55455
612-624-1970
Fax: 612-624-7183

To: Board of Governors Executive Committee

From: Cliff Fearing

Re: 1996-97 Budget for the Mesaba Clinic and Range Physician Division
of the University of Minnesota Health System Affiliated Clinics (UMHSAC)

Date: May 21, 1996

The attached documents represent the 1996-97 operating budget proposals for the Mesaba Clinic and Range Physicians (division of UMHSAC).

This budget is being brought forward for your review and action since this organization has a June 1 to May 31 fiscal year end. The entire consolidated UMHSAC budget will be reviewed at the June Meeting of the Board.

The combination of financial operations of the Mesaba UMHSAC division results in an operating margin of \$106,251 for the period July 1, 1996 to June 30, 1997. This compares to a \$266,366 projected operating loss for 1995-96. The attached narrative provides details of the 1996-97 budget.

CPF/ge

	ACTUAL PER AUDIT JUNE 30, 1995	APPROVED BUDGET JUNE 30, 1996	ESTIMATE JUNE 30, 1996	BUDGET JUNE 30, 1997
ASSETS				
Current Assets:				
Cash Plus Investments	449	178	700	822
Accounts Receivable - Net	4,833	5,000	5,000	5,150
Other Current Assets	2,351	2,240	2,170	2,200
Total Current Assets	7,633	7,418	7,870	8,172
Hospital Depreciation Funds	1,162	1,238	1,215	1,220
Bond Reserve Fund	1,050	1,057	1,050	1,050
Funds Held for Debt Retirement				
Other Assets	403	350	516	450
Property, Plant & Equipment:				
Original Cost	24,659	29,317	28,245	30,108
Less Accumulated Depreciation	13,980	15,847	15,665	17,553
Net Book Value	10,679	13,470	12,580	12,555
Total Assets	20,927	23,533	23,231	23,447
LIABILITIES AND FUND BALANCE				
Current Liabilities:				
Current Portion of Long Term Debt	614	650	614	614
Short Term Debt	0	0	0	0
Trade Accounts Payable	1,093	950	1,000	1,000
Accrued Salaries & Benefits	1,630	1,598	1,825	1,900
Other Current Liabilities	979	730	1,100	1,100
Total Current Liabilities	4,316	3,928	4,539	4,614
Long Term Debt	8,584	8,115	8,159	7,709
Fund Balance - Unrestricted Fund	8,007	11,470	10,502	11,093
Fund Balance - Restricted Fund	20	20	31	31
Total Liabilities and Fund Balance	20,927	23,533	23,231	23,447
Acid Test Ratio	0.1	0.0	0.2	0.2
Hospital Current Ratio	2.0	2.2	2.0	2.0
Debt as a Percent of Capital (Net)	51.7%	41.4%	43.6%	40.9%
Debt Service Coverage Ratio (Annualized)	2.0	2.1	2.0	2.2

May 21, 1996

TO: Members, UMHSAC Board of Governors
Members, Mesaba Clinic Board of Governors
Members, Range Physicians Board of Governors

FROM: Stephan C. Grygar
Administrator, UMHSAC



SUBJECT: Forecast Budget - Summary of Assumptions for Fiscal Year 1996-97
Mesaba Clinic; Lease of premises, Equipment, Name and Goodwill
Mesaba Clinic; Non-Physician Staff Services Agreement
Range Physicians; Medical Services Agreement
July 1, 1996 through June 30, 1997

On April 1, 1995, University of Minnesota Health System Affiliated Clinics, Inc. ("UMHSAC") entered into a Lease Agreement with Mesaba Clinic. UMHSAC leases from Mesaba Clinic the facilities Mesaba Clinic owns in Hibbing and Chisholm, together with the equipment situated in those facilities, the name "Mesaba Clinic" and the goodwill owned by Mesaba Clinic. On that same date, UMHSAC also entered into a Non-Physician Services Agreement with Mesaba Clinic for the purpose of providing supplies and non-physician staff services necessary to operate the clinic. This budget narrative describes the budgeting of Mesaba Clinic building and equipment costs and non-physician compensation and supply expenses. UMHSAC also entered into a Medical Services Agreement with Range Physicians. As part of this Agreement, Range Physicians agrees to provide physician medical services for patients of Mesaba Clinic. Summarized below is a discussion of the planning assumptions followed by a Statement of Operations, Statement of Cash Flows and supporting expense detail.

OUTPATIENT CENSUS: Mesaba Clinic census projections are as follows:

	Projected Encounters FY 1996	Projected Encounters FY 1997	Increase/ (Decrease)	Percent Change
Mesaba Clinic	185,245	190,848	5,603	3.0%

The increased volume at Mesaba Clinic is attributed to the anticipated hiring of a Family Practitioner (Ben Owens replacement) and an Orthopaedic Surgeon; both physicians are expected to start 9/1/96.

PATIENT SERVICE REVENUE: Patient service revenue for FY 1997 is projected to be \$9,513,642, which is \$1,324,648, or 16.2% greater than the projected FY 1996 level of \$8,188,994. Revenue projections are a function of anticipated encounters as shown above, current year average charge-per-encounter experience by physician and the applied rate increases for FY 1997. The applied rate increase is 6.9% for Mesaba Clinic.

DEDUCTIONS FROM REVENUE: Deductions from Revenue for FY 1997 are projected to be \$2,327,227 which is \$374,299, or 19.2% greater than the projected FY 1996 level of \$1,952,928. Deductions and discounts have been budgeted based upon current year baseline experience as well as anticipated FY 1997 third party payor fee schedule increases or decreases. Assumptions relating to payor fee schedule changes include:

- Medicare - 1% Increase
- Medical Assistance - 0% Change
- Blue Cross - 5% Decrease
- HMO/PPO - 2% Decrease

OTHER OPERATING INCOME: Other operating income consists of medical outreach income and patient accounts receivable finance charges.

LEASE OF PREMISES, EQUIPMENT, NAME AND GOODWILL: The Lease component of the FY 1997 Mesaba Clinic Non-physician Staff and Rental Income is projected to be \$263,244, which is \$31,284, or 13.5% greater than the established FY 1996 level of \$231,960. Projected FY 1996 occupancy expense is \$256,345, which is \$24,385, or 10.5% greater than the established FY 1996 level of \$231,960 (i.e., FY 1996 actual expenditures are projected to be greater than the amount transferred to Mesaba Clinic from UMHSAC). The FY 1997 budgeted amount of \$263,244 will be wired to Mesaba Clinic from UMHSAC on a monthly basis in the amount of \$21,937.

NON-PHYSICIAN STAFF SERVICES AGREEMENT: The Non-physician staff services component of the FY 1997 Mesaba Clinic Non-physician Staff and Rental Income is projected to be \$3,534,936, which is \$311,364, or 9.7% greater than the established FY 1996 level of \$3,223,572. Projected FY 1996 non-physician staff services expense is \$3,427,533, which is \$203,961, or 6.3% greater than the established FY 1996 level of \$3,223,572 (i.e., FY 1996 actual expenditures are projected to be greater than the amount transferred to Mesaba Clinic from UMHSAC).

RANGE PHYSICIAN PAYMENTS: Base compensation for the first year of the Medical Services Agreement (6/1/95 - 5/31/96) began as \$3,067,183, subject to adjustments as permitted in Exhibit 3.2 of the Medical Services Agreement. UMHSAC agrees to pay Range Physicians

Other Expenses:

This category includes - purchased services, public relations, marketing, travel, texts, education, dues, insurance, taxes, bank charges and miscellaneous. Biggest single factor was the elimination of the ServiceMaster food-dietary contract.

Cost Containment:

Cost saving measures will be continually evaluated throughout the year to improve financial performance. Several areas continue to be explored with the University in terms of efficiencies of scale.

Cash Flow:

Our cash position at 6/30/96 is projected to be \$1,915,000. Total capital requests for FY1997 are \$1,863,000 consisting of the following:

<i>Interior Remodeling</i>	<i>\$682,000</i>
<i>Equipment Replacement\Procurement</i>	<i><u>\$1,181,000</u></i>
<i>Total Capital Spending</i>	<i>\$1,863,000</i>

<i>Equipment Purchased with Regional Hub Funds</i>	<i><u>\$300,000</u></i>
<i>Cash to be Generated from Operations</i>	<i>\$1,563,000</i>

The budget as presented generates \$1,640,000 of operating cash and therefore no use of reserves is forecast.

the base compensation set forth in Exhibit 3.2 for services performed, which amount shall be payable in 24 equal bimonthly installments on the 15th day and the last day of each month or the next business day thereafter. For the second year of this Medical Services Agreement and thereafter, the base compensation shall be increased annually by a percentage equal to seventy-seven percent (77%) of the percentage of increase in consumer prices for the preceding calendar year as reflected in the Consumer Price Index - All Urban consumers for Minneapolis (1982-84 = 100). The CPI inflator used as the basis for the increase in base compensation for year two (6/1/96 - 5/31/97) is 2.2%; the actual increase factor applied for year two is 1.69% (77% of 2.2%).

Adjustments were made to FY 1996 base compensation for the departure of Dr. Ben Owens, resulting in a revised 6/30/96 year-end base compensation amount of \$3,044,294. For FY 1997, after adjusting for a replacement physician (assumed to start 9/1/96) and a new Orthopaedic Surgeon (assumed to start 9/1/96), 6/30/97 year-end base compensation is projected to be \$3,272,416.

The following is a description of the budgeting methodology as applied to the detailed Mesaba Clinic expenditure items which, for purposes of the attached Statement of Operations, are combined into a single line item entitled "Mesaba Clinic Payments."

NON-PHYSICIAN COMPENSATION AND BENEFITS: Budgeted non-physician compensation has been calculated for each employee based upon historical January 31, 1996, fiscal year-to-date information with respect to the FTE status and hourly rates of employees (or the salary equivalent in the case of such employees) assuming 2,080 annual work hours. FY 1997 Salary levels for Mesaba Clinic non-physician employees have been inflated by the expected change in the overall CPI - All Urban Consumer Price Index (2.2%). For both FY 1996 and FY 1997, non-physician salary expense excludes any type of profit distribution; both years include, however, amounts for sick leave payout and health insurance equalization. The combined sick leave payout and health insurance equalization for FY 1997 is projected to be \$187,414.

A severance pay provision was included in Michael Pfeifer's employment agreement. This provision provides that Michael Pfeifer shall receive severance pay in an amount equal to his current annual base salary. Since Mr. Pfeifer has terminated his employment, expenses associated with his severance pay are included in the FY 1996 and FY 1997 budget (One-half of the severance pay was paid on 3/29/96; the other one-half will be paid on 12/31/96). Range Physicians and Mesaba Clinic have agreed that Range Physicians will reimburse Mesaba Clinic for one half of the gross amount necessary to satisfy the severance liability. The salary budget for FY 1997 assumes a replacement for Mr. Pfeifer at the same salary level, effective 6/1/96.

Budgeted benefits include pension contributions, health insurance, taxes, year-end sick-time payouts and life insurance. Benefits were calculated for current employees on an employee-by-employee basis.

SUPPLIES: Variable supplies have been budgeted for FY 1996 and FY 1997 on a volume adjusted basis. Other fixed expenses have been budgeted based upon expenses as reported for fiscal year 1996 through the period ended January 31. Inflation rates applied 6/1/96 have been budgeted at the following rates:

- Drugs 2.5%
- Medical Supplies 1.5%
- X-Ray Supplies 3.1%
- Computer Supplies 3.1%
- Office Supplies 3.1%

OCCUPANCY EXPENSE: Expenditures are base upon expense as reported for fiscal year 1996 through the period ended January 31. Inflation rates applied 6/1/96 have been budgeted at the following rates:

- Janitorial Services 3.1%
- Housekeeping & Bldg. Supplies 3.1%
- Grounds Maintenance 3.1%
- Maint & Repairs: Building 3.1%
- Real Estate Taxes 0.0%
- Insurance Building/Grounds 3.1%
- Utilities 3.0%
- Maint & Repairs: Prof'l Equip 3.1%
- Maint & Repairs: Lab 3.1%
- Maint & Repairs: X-Ray Equip 3.1%
- Maint & Repairs: Computer 3.1%
- Maint & Repairs: FFE 3.1%

MEDICAL CONSULTING FEES: Medical Consulting Fees (specialists and moonlighters) have been budgeted for FY 1996 and FY 1997 on a volume adjusted basis. An inflationary factor of 3.1% has been included. The inflationary increase of 3.1% plus volume increases yields an overall expected increase of approximately 7.5%. Budgeted dollars are \$92,250 for FY 1996 and \$99,241 for FY 1997.

OTHER GENERAL AND ADMINISTRATIVE: All other general and administrative expenses have a 3.1% inflationary factor included.

DEPRECIATION AND AMORTIZATION: Expense in this category is equipment depreciation. The increase associated with Mesaba Clinic is due to the added depreciation associated with approximately \$150,000 of new equipment additions budgeted for FY 1997. The depreciation is calculated based on the assumption that the equipment will be bought evenly throughout the year and depreciated over an eight year life. It is expected that this equipment will be purchased through an Equipment Loan with UMHS.

INTEREST EXPENSE: Expense in this category represents budgeted interest expense associated with an equipment loan between UMHSAC and UMHS. This loan relates to Mesaba Clinic equipment purchases (\$150,000) and is expected to be drawn up and finalized prior to the beginning of the fiscal year.

MANAGEMENT FEES: Management Fees are fees paid to UAFP for accounting, payroll and human resource consulting; these fees are expected to increase substantially due to the annualized effect of UAFP dedicating more resources to UMHSAC activities.

WORKING CAPITAL CHANGES:

ACCOUNTS RECEIVABLE: The balance in net patient accounts receivable as of June 30, 1996, is projected to be \$1,026,367 and represents 60.5 days of net revenue outstanding. The balance in net patient accounts receivable as of June 30, 1997, is projected to be \$1,185,992 and represents 60.5 days of net revenue outstanding. Days of net revenue outstanding is based upon FY 1996 experience.

INCREASES/DECREASES IN ACCOUNTS PAYABLE: Changes for FY 1996 are based upon projected year-end expense accrual activity relative to FY 1995 year-end balance sheet values. Changes for FY 1997 reflect inflationary increases to projected FY 1996 year-end balance sheet values.

INVESTING ACTIVITIES: Acquisition of Property, Plant and Equipment includes planned equipment purchases during FY 1997; this is expected to be \$150,000 for Mesaba Clinic.

FINANCING ACTIVITIES: Changes for FY 1997 represent principal payments made on the equipment loan with UMHS. Equipment loan proceeds of \$150,000 relates to Mesaba Clinic.

MESABA CLINIC FINANCIAL OPERATIONS: The Clinic's Statement of Operations as projected for FY 1996 shows revenues being less than expenses by \$266,366; for FY 1997, revenues are expected to exceed expenses by \$106,251. Cash flow is projected to be a positive \$27,868 for FY 1996 and a shortfall of \$63,226 for FY 1997. The FY 1997 cash flow loss occurs because of increases in accounts receivable (even though the days in A/R are held constant, the higher average daily net revenue causes accounts receivable to increase) and increases in principal payments associated with loan repayments.

University of Minnesota Health System
Affiliated Clinics, Inc.

Statement of Operations

Clinic: UMHSAC/ Mesaba

Current Year: 30-June-96

Budget Year: 30-June-97

Version: 21-May-96

	1995/96 Projected	1996/97 Budget	Change	% Change
Patient Service Charges	\$8,188,994	\$9,513,642	\$1,324,648	16.18%
A/R Finance Charges	55,224	59,034	3,810	6.90%
Other (Outreach & Others)	65,069	67,086	2,017	3.10%
Total Revenue	8,309,287	9,639,762	1,330,475	16.01%
Deductions From Charges	(1,952,928)	(2,327,227)	(374,299)	19.17%
Net Revenue	6,356,359	7,312,535	956,176	15.04%
Physician Compensation	0	0	0	0.00%
Physician Taxes & Benefits	0	0	0	0.00%
Total Physician Comp & FB	0	0	0	0.00%
Non-Physician Compensation	0	0	0	0.00%
Non-Physician Taxes & Benefits	0	0	0	0.00%
Total Non-Physician Comp & FB	0	0	0	0.00%
Medical Supplies	0	0	0	0.00%
Medical Consulting Fees	0	0	0	0.00%
Drugs	0	0	0	0.00%
Lab Fees	0	0	0	0.00%
X-Ray Supplies	0	0	0	0.00%
Travel	0	0	0	0.00%
Range Physician Payments	3,044,294	3,272,416	228,122	7.49%
Mesaba Clinic Payments	3,485,937	3,806,092	320,155	9.18%
Billing Fees	0	0	0	0.00%
Office Related Expense	0	0	0	0.00%
Occupancy Expense	0	0	0	0.00%
Depreciation and Amortization	0	9,375	9,375	0.00%
Insurance	0	0	0	0.00%
Interest Expense	0	9,576	9,576	0.00%
Dues and Subscriptions	0	0	0	0.00%
Management Fees	6,292	8,828	2,536	40.31%
MinnCare Tax	55,614	64,693	9,079	16.33%
Bad Debt	29,565	34,249	4,684	15.84%
Other	1,023	1,055	32	3.13%
Total Expenditures	6,622,725	7,206,284	583,559	8.81%
Net Surplus (Deficit)	(\$266,366)	\$106,251	\$372,617	-139.89%

University of Minnesota Health System
 Affiliated Clinics, Inc.

Statement of Cash Flows

UMHSAC/Mesaba

Version: 21-May-96

	7/1/95 to 6/30/96	7/1/96 to 6/30/97
Operating Activities and Non-Operating Revenues:		
Net Surplus(Deficit)	(\$266,366)	\$106,251
Adjustments		
Depreciation and Amortization	0	9,375
Change In Accounts Receivable	(5,003)	(159,625)
Change in Allowance For Discounts	0	0
Change in Allowance For Bad Debt	0	0
Change In Other Receivables	0	0
(Increase)Decrease in Prepaid Expense	152,720	0
Increase(Decrease) in Accounts Payable	146,517	(6,099)
Increase(Decrease) in Accounts Payable - Other	0	0
Increase(Decrease) in Accrued Liabilities	0	0
Total Adjustments	294,234	(156,349)
Net Cash Provided by Operating Activities	27,868	(50,098)
Investing Activities		
Acquisition of Property, Plant & Equipment	0	(150,000)
Change in Promissory Notes	0	0
Net Cash From(Used) in Investing Activities	0	(150,000)
Financing Activities		
Repayment of Working Capital Loan	0	0
Repayment of Equipment Loan	0	(13,128)
Repayment of Building Loan	0	0
Equipment Loan Proceeds	0	150,000
Repayment of Accounts Receivable Loan	0	0
Contributed Capital - UMHS	0	0
Net Cash From (Used) in Financing Activities	0	136,872
Change in Cash - Operations	27,868	(63,226)
Cash at Beginning of Year	\$459,928	\$487,796
Cash at End of Year	\$487,796	\$424,570

UNIVERSITY OF MINNESOTA HEALTH SYSTEM

Board of Governors Executive Committee

July 24, 1996

2:30 - 4:00 p.m.

Board Room

AGENDA

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1. May 22, 1996 Executive Committee Minutes	1
2. Bad Debts - 4th Quarter FY - 1995-96 - Cliff Fearing	3
3. HR Compensation Update - Helen Pitt	16
4. HR Incentive Pay Update - Peter Rapp	
5. Other	

**University of Minnesota Health System
Board of Governors
Executive Committee
May 22, 1996
2:30 - 4:00 P.M.
Board Room**

MINUTES

Present: Stephen Hansen
Nellie Johnson
Art Kydd
Tom Madison
Peter Rapp
Roby Thompson, M.D.

Staff: Cliff Fearing
Gail Eckel

Ms. Nellie Johnson called the meeting to order at 2:35 p.m. on May 22, 1996.

- 1. The May 1, 1996 Minutes of the University of Minnesota Health System Executive Committee were seconded and approved as written.**
- 2. Ms. Johnson called on Mr. Peter Rapp to present the recommendations of the Credentials Committee/Medical Staff-Hospital Council to the members of the Executive Committee. The recommendations were unanimously approved as presented.**
- 3. Mr. Dougherty called on Mr. Cliff Fearing to present the April 30, 1996 Financial Report. Mr. Fearing reported the Hospital's Statement of Operations for the period of July 1, 1995 thru April 30, 1996 shows year to date operating revenues being less than expenses by \$2,349,000.**

The net operating margin for the month of April was \$1,471,000 or

\$1,021,000 larger than budget. This is an unfavorable variance of \$2,421,000.

Mr. Fearing reported that admissions for the month of April totaled 1,326 and were 75 less than the budgeted admissions of 1,401. Outpatient clinic visits for the month of April totaled 37,016, which was 907, or 2.5%, above budgeted volumes of 36,109.

4. Mr. Fearing presented the University Medical Center Mesabi 1996-97 Budget. Inpatient admissions are budgeted to decrease 2% from FY 1996. Patient days are budgeted to decrease 1.5% from projected 1996 levels. Net patient revenues are budgeted at \$28,041,000. This is a 2% increase over projected 1996 revenues. A 5% rate increase was applied to all hospital departments with the exceptions to Pharmacy (Hospital and Retail) and Central Supply. The 1996-97 UMC-M is projected to produce a net operating margin of \$54,000 and a total margin of \$241,000. The University Medical Center Mesabi 1997 Budget was seconded and approved unanimously.
5. Mr. Fearing presented the UMHSAC Budget for 1996-97. The combination of financial operations of the Mesaba UMHSAC division results in an operating margin of \$106,251 for the period July 1, 1996 to June 30, 1997. This compares to a \$266,366 projected operating loss for 1995-96. The UMHSAC Budget was seconded and approved unanimously.
6. The Executive Committee members seconded and approved a motion for a 3 ½% price increase for UMHC effective 7/1/96.

The meeting adjourned at 3:50 p.m.

Respectfully submitted,



Gail Eckel
Executive Secretary
Board of Governors Office

UNIVERSITY OF MINNESOTA HEALTH SYSTEM

The University of Minnesota Hospital and Clinic

*Harvard Street at East River Parkway
Minneapolis, MN 55455*

Date: July 18, 1996

TO: UMHC Board of Governors Finance Committee

FROM: Clifford P. Fearing
Senior Associate Director, UMHC

SUBJECT: Bad Debts - Fourth Quarter
Fiscal Year 1995-96

The total amount recommended for bad debts for Hospital and Clinic accounts receivable during the fourth quarter of 1995-96 is \$775,055 represented by 1162 accounts. Bad debt recoveries during the period amounted to \$4,620 (34 accounts) leaving a net charge-off of \$770,435.

The net bad debts of \$770,435 for the quarter were .75% of gross charges. This compares to a budgeted level of bad debts of .49% (\$507,532).

For the fiscal year, the net bad debts to-date of \$1,970,410 were .49% of gross charges. This compares to a budgeted level of bad debts of .49% (\$2,017,000).

A statistical summary is attached along with a detailed description of losses \$10,000 and higher and recoveries \$10,000 and higher for each month of the fourth quarter.

Along with the quarter attachments, we have also included a fiscal year statistical summary and a breakdown of bad debts by residence and admitting clinical services.

CPF:lmj
Attachments

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UMHC Hospital Billing Department

Bad Debt Statistics:

Fourth Quarter and Year-to-Date, Fiscal Year 1996

By Service

Admitting Service	Fourth Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
		0		
Anesthesiology	0.00	0	0.00	0
Clinical Research	0.00	0	47.80	2
Community Neo	113.31	1	138.01	2
Dentistry	0.00	0	0.00	0
Dermatology	1,121.25	1	1,121.25	1
Family Practice	6,107.45	2	7,404.75	3
OB	0.00	0	0.00	0
NB	0.00	0	0.00	0
GYN	500.00	2	1,821.51	3
GYN-Oncology	3,592.06	9	101,306.56	25
Hematology	31,927.23	6	221,948.13	12
Medicine-General	61.15	1	11,512.28	8
Medicine-Blue	6,625.49	3	25,561.82	21
Green	34,271.63	4	47,800.91	6
Masonic (Onc)	2,692.48	2	4,999.70	10
Purple	817.84	2	2,817.36	6
Red A	0.00	0	0.00	0
Red B	0.00	0	0.00	0
Rose A	716.00	1	716.00	1
Rose B	0.00	0	0.00	0
White A	36,789.83	14	179,753.45	36
White B	0.00	0	0.00	0
White C	0.00	0	0.00	0
Yellow A	200.50	3	1,347.74	5
Yellow B	373.54	1	17,826.71	8
Neurology	19,339.97	5	21,697.05	12
Neuro-epilepsy	0.00	0	0.00	0
Neurosurgery	59,956.43	4	83,073.41	26
New Born-General	487.14	1	1,039.67	2
Obstetrics-General	898.91	3	1,341.27	4
-Midwife	0.00	0	0.00	0
Ophthalmology	4,971.61	3	5,928.55	5
Oral Surgery	644.96	2	1,026.04	3
Orthopaedic Surgery	973.10	2	34,567.38	23
Otolaryngology	313.51	1	15,351.64	9
Pediatrics-General	600.53	2	25,431.73	8
BMT	281.80	1	5,190.64	3
Cardiac - OP	0.00	0	0.00	0
Cardiology	698.19	1	20,341.82	2
Dentistry	0.00	0	0.00	0
Dermatology	0.00	0	0.00	0
Gastro-Intestinal	0.00	0	6,037.07	2
Hematology Oncology	4,942.98	1	5,111.20	5
Neonatology	0.00	0	1,013.11	3
Neurology	0.00	0	0.00	0
Neurosurgery	0.00	0	3,879.31	1
Ophthalmology	4,171.79	1	4,171.79	1
Orthopaedics	0.00	0	500.00	1
Otolaryngology	0.00	0	9,340.23	1
Pulmonary	9,762.35	3	10,132.58	5
Renal	102.85	1	1,701.33	3
Surgery Green	0.00	0	7,506.41	1

UMHC Hospital Billing Department

Bad Debt Statistics:

Fourth Quarter and Year-to-Date, Fiscal Year 1996
By Service

Admitting Service	Fourth Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
		0		
Surgery Orange	0.00	0	28.60	1
Surg. Transplant	0.00	0	0.00	0
Urology	65.63	1	749.85	2
Physical Med. & Rehab.	99.50	1	3,225.56	8
Psychiatry-Child	0.00	0	17,490.43	6
-Adult	137,228.81	13	201,475.89	38
Radiology	0.00	0	0.00	0
Surgery-Blue	7,575.91	9	9,103.36	15
Orange	69,865.78	2	77,005.59	7
Purple	1,894.58	4	8,804.04	12
Red	8,440.81	7	12,026.77	12
White	92,477.52	8	105,399.99	19
Therapeutic Radiology	0.00	0	66.37	1
Urology	11,736.79	3	14,870.40	10
Unknown OP	222,217.41	1,103	769,829.89	3,816
Unknown IP	0.00	0	712.19	1
Total	785,658.62	1234	2,111,295.14	4217
Medicare Bad Debt*	(20,393.66)	(78)	(123,644.36)	(319)
Legal Settlements	7,075.96	3	42,682.63	12
Bad Debt Agcy Und \$50	0.00	0	0.00	0
Bad Debt - Med NC Chgs	2,713.62	3	12,555.85	10
Grand Total	775,054.54	1,162	2,042,889.26	3,920
701/702 Recoveries	(4,619.45)	34	(72,479.15)	172
Net Total	770,435.09	1,196	1,970,410.11	4,092

* NOTE: Medicare Bad Debts are included in the State Breakdown but are no longer included as a Bad Debt.

UMHC Hospital Billing Department

Bad Debt Statistics:

Fourth Quarter and Year-to-Date, Fiscal Year 1996
By State

State	Fourth Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Alabama	0.00	0	90.00	2
Alaska	0.00	0	0.00	0
Arizona	26,831.50	10	26,852.31	11
Arkansas	239.20	1	364.11	3
California	0.00	0	6,178.31	14
Colorado	288.46	4	8,077.92	9
Connecticut	0.00	0	3,242.49	4
Delaware	0.00	0	0.00	0
Dist. of Columbia	0.00	1	25.00	2
Florida	103,750.33	11	106,150.04	20
Georgia	0.00	0	25.00	1
Hawaii	0.00	0	0.00	0
Idaho	0.00	0	0.00	0
Illinois	4,274.22	16	5,936.46	28
Indiana	0.00	0	3,085.95	5
Iowa	532.57	4	8,479.94	17
Kansas	1,791.55	16	1,873.46	18
Kentucky	135.83	1	135.83	1
Louisiana	0.00	0	0.00	0
Maine	0.00	0	0.00	0
Maryland	0.00	0	0.00	0
Massachusetts	458.10	1	2,166.30	18
Michigan	764.09	5	12,658.35	24
Minnesota	538,100.00	1,036	1,291,251.15	3,589
Mississippi	0.00	0	80.00	1
Missouri	1,434.03	4	1,583.39	5
Montana	463.72	1	8,088.00	12
Nebraska	0.00	0	5,178.08	14
Nevada	0.00	0	0.00	0
New Hampshire	0.00	0	0.00	0
New Jersey	39.78	1	106.31	3
New Mexico	414.36	2	914.36	3
New York	0.00	0	3,871.23	9
North Carolina	28.60	1	28.60	1
North Dakota	14,612.55	21	359,316.96	91
Ohio	0.00	0	1,392.13	3
Oklahoma	0.00	0	1,809.72	6
Oregon	281.55	4	606.90	8
Pennsylvania	0.00	0	0.00	0
Puerto Rico	0.00	0	446.10	3
Rhode Island	1,132.48	1	3,334.37	5
South Carolina	0.00	0	1,150.31	2
South Dakota	41,452.09	25	123,692.21	74
Tennessee	361.04	3	1,136.66	6
Texas	740.05	13	11,477.25	26
Utah	0.00	0	0.00	0
Vermont	0.00	0	0.00	0
Virginia	23.75	1	388.23	4
Washington	0.00	0	1,203.55	6

West Virginia	200.00	5	4,108.84	6
Wisconsin	24,100.20	43	66,223.99	133
Wyoming	23,116.87	1	23,167.17	2
Out-of-Country	91.70	2	15,398.16	28
Total	785,658.62	1,234	2,111,295.14	4,217
Medicare Bad Debt*	(20,393.66)	(78)	(123,644.36)	(319)
Legal Settlements	7,075.96	3	42,682.63	12
Bad Debt Agcy Und \$50	0.00	0	0.00	0
Bad Debt - Med NC Chgs	2,713.62	3	12,555.85	10
Grand Total	775,054.54	1,162	2,042,889.26	3,920
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Net Total	770,435.09	1,196	1,970,410.11	4,092

* NOTE: Medicare Bad Debts are included in the State Breakdown but are no longer included as a Bad Debt.

**Report to the Board of Regents of the University of Minnesota
Regarding the Sale of the University of Minnesota Hospital and
Clinic to and Subsequent Academic Affiliation with
Fairview Hospital and Healthcare Services**

Report on Status of Human Resource Items

July 17, 1996

**AFSCME
STATUS OF DISCUSSIONS ON HUMAN RESOURCE ITEMS**

Policy Area	Discussions Initiated *	Provided Data/ Information, etc.	Status of Discussions/ Negotiations
Health Insurance Premiums	February 1996	X	Have discussed using transition \$ for difference in health insurance premiums
Wages	February 1996	X	Have discussed using transition \$ for difference in wages for a period of time
Seniority	February 1996	X	Have discussed "blending" seniority
Pensions	February 1996	X	Mostly agreed to
Severance Plans	February 1996	X	Thorough discussion completed; no agreement on certain specifics
Regents Scholarships	February 1996	X	Thorough discussion completed
Vacation/ PTO	February 1996	none requested	Some discussion has taken place
Sick Leave	February 1996	none requested	Some discussion has taken place

* AFSCME suspended discussions from April 26 through July 9.
 Note: AFSCME units represent 965 UMHC employees; 23% of the total as of June 31, 1996

**AFSCME
STATUS OF DISCUSSIONS ON HUMAN RESOURCE ITEMS**

Policy Area	Discussions Initiated	Provided Data/ Information, etc.	Status of Discussions/ Negotiations
Leaves of Absence	February 1996	none requested	Our objective is to honor all leaves approved under appropriate policies; discussion with AFSCME is ongoing
Employees on Workers Comp	July 9, 1996	X	Our objective is to honor all leaves approved under appropriate policies; discussion with AFSCME is ongoing
Probation	Never raised by AFSCME	not applicable	Item has been settled.
U of M Hiring Preference	February 1996	not applicable	A lot of discussion has taken place. Agreement on concept; disagreement on selection criteria, probation & same salary outside AHC

Section B

TEAMSTERS
STATUS OF DISCUSSIONS ON HUMAN RESOURCE ITEMS

Policy Area	Discussions Initiated	Provided Data/ Information, etc.	Status of discussions/ negotiations
Health Insurance Premiums	February 1996	X	Discussions have centered on broad principles for employee transition. Both parties are satisfied with progress made to date on all items.
Wages	February 1996	X	•
Seniority	February 1996	X	•
Pensions	February 1996	X	•
Severance Plans	February 1996	X	•
Regents Scholarships	February 1996	X	•
Vacation/ PTO	February 1996	X	•
Sick Leave	February 1996	X	•
Leaves of Absence	February 1996		•
Employees on Workers Comp	Not raised		•
Probation	Not raised	not applicable	•
U of M Hiring Preference	February 1996	not applicable	•

Note: The Teamsters represent 286 UMHC employees; 7% of the total as of June 30, 1996

**NON-UNION EMPLOYEES
STATUS OF DISCUSSIONS ON HUMAN RESOURCE ITEMS**

Policy Area	Discussions Initiated	Provided Data/ Information, etc.	Status of Discussions/ Negotiations
Health Insurance Premiums	February 1996	X	Will discuss as part of transition plan for employees
Wages	February 1996	X	Will discuss as part of transition plan for employees
Seniority	February 1996	X	Will discuss in more depth as details of clinical model and seniority blending become clearer over next week
Pensions	February 1996	X	Discussions completed
Severance Plans	February 1996	X	Discussions completed
Regents Scholarships	February 1996	X	Discussions completed
Vacation/ PTO	February 1996	X	Discussions completed

Note: 2934 of UMHC employees are non-union; 70% of the total as of June 30, 1996

**NON-UNION EMPLOYEES
STATUS OF DISCUSSIONS ON HUMAN RESOURCE ITEMS**

Policy Area	Discussions Initiated	Provided Data/ Information, etc.	Status of Discussions/ Negotiations
Sick Leave	February 1996	X	Discussions completed
Leaves of Absence	February 1996		Our objective is to honor all leaves approved under appropriate policies; discussion with non-union employees will take place after Fairview discussions are complete
Employees on Workers Comp			Our objective is to honor all leaves approved under appropriate policies; discussion with non-union employees will take place after Fairview discussions are complete
Probation	Not raised	X	Item has been settled
U of M Hiring Preference	February 1996	X	Completed; hiring priority has started in AHC

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Health Insurance Premiums	<p>University contributes full cost of employee only & 90% of dependent coverage for lowest cost plan in work county; if other plan is selected, employee is responsible for difference. University pays benefits for 75% or greater employees, employees pay for optional long-term/short-term disability coverage.</p>	<p>Fairview is self-insured; establishes premiums based on prior year's utilization data; total premium rates are higher than the State. Fairview makes similar employer contribution. Fairview provides benefits for 50% or greater employees and also provides employer-paid long-term and short-term disability insurance. Fairview offers 100% coverage at Fairview facilities.</p>	<p>That employee health insurance premiums for employee only and dependent coverage be as low as possible.</p>	<p>Transitioned employees will no longer be eligible for state health plans; therefore, the only option is coverage under Fairview's plans. Fairview will expand it's benefits programs to cover UMHC employees. Fairview's 100% coverage at Fairview facilities will include UMHC after the effective date.</p>	<p>University will consider providing some financial support as part of State funded transition plan., capped at \$3.6 million.</p>

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Wages	Some University salaries based on gender equity concerns. Market-based pay is also fundamental to all job classes, but has not been fully implemented. University uses entire pay range in setting comp levels. Salary actions have most recently been across the board.	All pay scales based on market; salary actions based on performance; the top half of the pay range is generally used to reward top performers.	Objectives have been to adversely affect as few U employees as possible while assuring that new organization can compete effectively in health care marketplace and employees doing similar work on both campuses are paid on reasonably equitable basis.	Comp program for new division is to bring all employees to within the established FV market range for the position- new ranges will be 80-115% of the established market rate; less than 10% of University employees would suffer pay reduction. 5% would receive pay increase. Comp program will be based on performance using employee choice as much as possible.	University will consider providing some financial support as part of State funded transition plan, capped at \$3.6 million.

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Seniority	Currently, seniority is accrued based on date entered the bargaining unit (AFSCME and Teamsters) or date entered employment in the Department (non-union).	Currently, seniority is accrued based on date entered the bargaining unit (Union employees) or date employed at Fairview (non-union).	That seniority of employees in like positions on both campuses be "blended" whether or not the employees are represented by a union.	To carry seniority into the new organization; non-union UMHC employees would carry over seniority from most recent date of employment. Fairview makes commitment to blending seniority. Where current labor contracts present barriers to full blending, FV will negotiate with bargaining representatives to achieve that goal.	none

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Pensions	<p>University provides MSRS plan to most UMHC employees- a defined benefit plan (approx. 15 employees are covered by Faculty Retirement Plan.</p>	<p>Fairview provides fully employer paid plan to all eligible non-union employees- a defined contribution plan. Contribution levels are 5% up to \$17,700 pa; 9% thereafter.</p>	<p>To assure as much as possible that pension benefits upon retirement will match the benefits UMHC employees would have received from MSRS. Assumption is that employees will continue to contribute to voluntary plan after transfer to Fairview to same extent as contributed to MSRS.</p>	<p>MSRS legislation replaces nearly all lost benefits for UMHC employees who transfer to Fairview. Benefit includes: immediate vesting in MSRS plan; credit for FV service toward Rule of 90; increased annuity augmentation. Employees will also be eligible for FV plan.</p>	<p>none</p>

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Severance Plans	University layoff/non-renewal plan, available to employees who work 75% time or greater provides lump sum of one week's salary for each year's service up to max of 52 weeks; pays employer contribution toward health, dental, life insurance for 0-18 months based on length of service; includes Rule of 75.	Severance package for non-union employees provides one week's salary for each year's service up to maximum of 26 weeks; no employer contribution toward health, dental, life insurance.	To enhance Fairview severance benefit so it includes employer contribution toward health, dental, life insurance.	New Fairview severance program provides: one week's salary per year of service; minimum benefit of 4 weeks salary continuation; maximum benefit raised to 36 weeks; employer contribution toward health, dental, life insurance during severance period; 50% or greater employees are eligible.	none

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Regents Scholarships	University pays full cost of any University course for employees who work 75% time or greater.	Fairview reimburses 75% of cost of books and tuition up to maximum of \$2000 per year; courses must aid employees in professional development or help qualify them for future FV positions; employees may take courses at any accredited institution; 50% time or greater employees are eligible.	To provide some transitional benefits to ease UMHC employees into new tuition reimbursement program and to try to provide comparable program benefits to existing Regents Scholarship Program.	FV agreed to provide non-union employees with an additional \$500 for classes taken at the University through CY 97. Regents scholarship eligibility will continue through winter quarter.	none

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Vacation/ PTO	When employees leave University employment, vacation & PTO balances are paid out in full.	When employees leave Fairview employment, vacation & PTO balances are paid out in full.	That employees have some options for payout of balances or transfer to Fairview plan.	Employees will be able to transfer PTO/vacation balances in full up to Fairview's maximum; they will be required to transfer 5 days if they have it banked; employees will be able to choose within those parameters how much to transfer or get paid out.	University will consider providing some financial support as part of State funded transition plan, capped at \$3.6 million.

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Sick Leave & supplemental sick leave (SML).	When employees leave University employment they lose any sick leave or SML.	When employees leave Fairview employment they lose any sick leave.	To assure that UMHC employees are not treated as new employees upon transfer to Fairview.	Fairview has agreed to accept transfer of sick leave and SML balances up to the FV maximum. These balances will be transferred into an extended medical leave bank to be coordinated with the PTO program.	University will consider providing some financial support as part of State funded transition plan, capped at \$3.6 million.
Probation	In general, when employees transfer within the University to new jobs, they serve a new probationary period.	At Fairview, new probationary periods are not required when employees transfer to other jobs.	To assure that UMHC employees are not disadvantaged (treated as new employees) when they become Fairview employees.	UMHC employees will not be required to serve new probationary periods when they transfer to Fairview.	none

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Leaves of Absence	Honor all leaves approved under current UMHC policies and labor contracts; employees transfer to FV on the effective date. Employee leaves are generally approved for varying lengths of time, up to 1 year.	Employee leaves are generally limited to 90 days.	To assure that UMHC employees on approved leaves of absence at the time of employee transfer are not disadvantaged.	No resolution yet. Discussions are continuing with Fairview representatives.	none

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
Employees on Workers Comp	<p>a. Liability for employees while on workers comp stays with the University</p> <p>b. Employees returning to work will transfer to Fairview on the effective date. Employees who are able to return after effective date should receive some type of priority consideration for Fairview positions.</p>	<p>Concern about increased health plan and worker's compensation liabilities as result of transfer. Temporary totally disabled employees are covered by FV's LOA policies.</p>	<p>To assure that UMHC employees receiving workers Compensation for on-the-job injuries at the time of employee transfer are not disadvantaged.</p>	<p>No resolution yet. Discussions are continuing with Fairview representatives.</p>	<p>none</p>

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
U of M Hiring Preference	<p>a. University is willing to provide hiring preference prior to effective date of employee transfer. Within AHC, U will match current salary and waive new probationary period.</p> <p>b. After the effective date, the U will establish rehiring criteria for employees who are laid off or in danger of lay off, to be in effect through June 30, 1998, as provided in the University's MOU with AFSCME.</p>	Not applicable	Facilitate an opportunity for UMHC employees who wish to remain at the University rather than transfer to Fairview to access job openings on a priority basis.	Not Applicable	none

STATUS OF DISCUSSIONS WITH FAIRVIEW ON HUMAN RESOURCE ITEMS

Policy Area	University Policy/Practice	Fairview Policy/Practice	University Objective	Proposed New System Policy/Practice	State Funded Transition Plan Implications
U of M Hiring Preference	<p>a. University is willing to provide hiring preference prior to effective date of employee transfer. Within AHC, U will match current salary and waive new probationary period.</p> <p>b. After the effective date, the U will establish rehiring criteria for employees who are laid off or in danger of lay off, to be in effect through June 30, 1998, as provided in the University's MOU with AFSCME.</p>	Not applicable	Facilitate an opportunity for UMHC employees who wish to remain at the University rather than transfer to Fairview, or recenter University employment, to access job openings on a priority basis.	Not Applicable	none

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

*General Director
Hospital Administration*

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July 24, 1996

TO: Members, Executive Committee of the Board of Governors

FROM: Peter F. Rapp
General Director, UMHC

SUBJECT: ER Physician Coverage

Objective: Contract for around the clock physician services for UMHC Emergency Room.

Background: The UMHC currently attempts to contract with the Department of Medicine for physician coverage of our Emergency Room. The Hospital bills and collects professional fees associated with this service.

Inconsistent availability of faculty and a large number of providers makes it difficult to assure experienced providers in a critical patient care environment.

UMHC Administration sought alternatives including strengthening internal rotations and programs, or outside vendors. The Department of Medicine expressed support for an outside vendor relationship.

Agreement: FRMC employs an Emergency Room physician force that is prepared to expand its pool of providers in order to cover both FRMC and UMHC. The impending merger makes this a logical choice.

Operational understandings have been reached with medical staff leadership and implementation is possible in August. The absence or further delay will continue to prevent us from providing consistent, high quality, physician availability.

The \$135.00/hour rate is consistent with Fairview and market rates. The net impact on the UMHC budget is expected to be marginal given the elimination of existing support to the Department of Medicine and small additional revenue capture associated with a more stable, dedicated physician force.

The dollar value of the contract is not likely to exceed the \$250,000 threshold before the merger, therefore we are bringing this forward for information.

PFR/sk

UNISYS SOFTWARE LICENSE AGREEMENT

July 24, 1996

The University of Minnesota Hospital and Clinic utilizes two UNISYS mainframe computers to assist in providing application software and communications support. The operating software licenses for these platforms was a five year prepaid license that expired on June 30th, 1996. It is essential that this operating software be re-licensed immediately to ensure uninterrupted operations. Many of our critical enterprise applications and interfaces are supported by these systems. This would include systems such as:

- | | |
|--------------------------------------|---------------------------------------|
| -Admissions | -Master Patient Index |
| -Patient Accounting | -Document Tracking |
| -Medical Records | -CUHCC |
| -Census | -Physical Medicine and Rehabilitation |
| -Doctor Master | -Emergency Room |
| -Radiology | -Employee Health |
| -Personnel/Payroll | -Diagnostic Related Grouping |
| -Position Control | -Nutrition |
| -STAR (order entry/result reporting) | |

Over the last several months alternatives have been reviewed and analyzed. The following steps have been taken.

- * Negotiated alternatives with UNISYS
- * Reviewed alternatives with UMHS and obtained recommendation
 - Information Management (Fred Heil, Bill Herrick, Tom Buss)
 - Finance (Corrine Kroehler, Cindy Vincent)
- * Reviewed alternatives with Fairview and obtained recommendation
 - Information Services (John Simensen, Don Blanding, Mike Elton)
 - Finance (Steve Borgstrom, Rick Belin)
- * Prepared necessary documents to proceed

Three financing alternatives were reviewed. (1) monthly license payments of \$53,595 per month; (2) 36 month prepaid license agreement at \$1,284,920; (3) 60 month prepaid license agreement at \$1,835,599. Either of the two prepaid license agreements would provide a more cost effective method of payment than the monthly license payments

The final recommendation is to establish a three year prepaid license agreement which would provide adequate time for the new University/Fairview entity to develop and begin execution of an integrated information system plan. The capital commitment required for this purchase is \$1,284,920.