MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
January 16, 1980

Members Present:	David Cost, Chairman John Quistgard, Vice Chairman JoAnne Barr David Brown Dave Domaas Cliff Fearing Debbie Gruye Clint Johnson David Preston John Westerman
Absent:	Al France Seymour Levitt
Staff:	Terry Rosecke
Guests:	John Herman Kevin Moore Irving Sawyers

The meeting of the Finance Committee was called to order by Chairman Cost at 9:35 a.m. in Room 624 of the Campus Club.

I Approval of December 12, 1979 Minutes

A motion to approve the minutes of the December 12 meeting was made by Mr. Quistgard, seconded by Ms. Barr, and approved unanimously by the committee.

II December YTD Financial Statements and
III Year End Projections Based on December Data

Mr. Fearing began by noting that the operations for the second quarter of the 1979-80 fiscal year continue to reflect the same basic types of trends as those noted throughout the first quarter of the fiscal year, i.e., the patient census and average length of stay are different than what was originally anticipated.

Admissions are 3.6% under original projections and the average length of stay is .4% over original projections from 9.0 days to 9.4 days. Mr. Fearing pointed out that the increase in average length of stay has been primarily in the Pediatric and Intensive Care patient areas. The trend in ancillary revenues continue to reflect a lower than budgeted utilization on a per admission basis. The outpatient clinic census continues to fall below original projections; 1,945 below projected visits of 15,391.

Mr. Fearing stated that financial operations indicate that year to date revenue is over expense by $603,054. This is $150,476 less than our projected year to date position. The lower than anticipated ancillary revenues continue to have the greatest impact on our position. Mr. Fearing added that the balance in patient accounts receivable increased $139,358 in December to a total of $22,511,342. This balance represents 86.6 days of outstanding revenue, which is up 5.9 days from June 30, 1979. Mr. Fearing explained that an indepth review of payment time taken by Medicare and Medical Assistance has shown that, since last May, Medicare's processing time has increased by 6 days, Medical Assistance's processing time has increased by 55 days and Blue Cross' has increased by 10 days. It was suggested that UMH&C consider the possibility of contacting the Insurance Commissioner regarding any recourse which could be taken on this issue.

In conclusion, Mr. Fearing stated that although the variance in total budgeted revenue at the end of December is not significant in comparison to the operating budget, it is necessary to do an indepth analysis of the trends both in the revenue and expense areas to reproject the patient census data and make recommendations for appropriate action to this committee at the February meeting.

Mr. Fearing also noted that the Statement of Operations for the first six months of the year shows that routine revenues are .7% over budget which is primarily due to the fact that even though admissions are down, the average length of stay has offset the impact. Ancillary revenues are 4.2% under budget and overall gross charges are 2.5% under budget. In the expenditure area, there is a favorable trend in salaries, but possible future adjustments relating to the MNA contract parity could amount to $500,000. Mr. Fearing informed the committee that as of Wednesday, January 9, 1980, the Rate Review program's policy committee approved a pass through rate increase for hospitals equivalent to 2/3 of the 6% increase awarded by the arbitrator. Overall total expenditures are 1.3% under budget. Mr. Fearing mentioned that the cash flow shows no significant changes. The increase in accounts receivable is higher than anticipated and the net operating margin is lower than anticipated. The YTD net operating cash available is currently $1,488,098 as compared to a projection of $2,452,000.

IV Current Rate Review Status

Mr. Fearing provided the committee members with a summary comparison of key Rate Review indicators as of 12/31/79. In reviewing the indicators he noted that the total average revenue per adjusted admission is less than what we could be charging per admission based on original approvals due to reduced ancillary utilization. Total expenses prorated for the first six months of the fiscal year are .6% over the approved amount. Mr. Fearing went on to note that the total financial requirements as adjusted by Rate Review are 2.06% over the approved level primarily due to the accounts receivable and certain salary increases.

Full time equivalents, if calculated on an hours worked basis including overtime and all positions "on the books", total 3,300 FTE. The approved level was 3,268 FTE's and, according to an adjustment made by Rate Review, UMH&C will have to reduce its financial requirements by the equivalent of 76 FTE's. The accounts receivable are currently at 86.6 days compared to an approved level of 79.4 days. Mr. Fearing also reviewed the primary reasons for the current status in these categories. Due to the fact that one of the primary reasons is that ancillary revenue in the Operating Room is lower per admission than anticipated, it was suggested that the Operating Room Committee be contacted to discuss this issue and any results be reported back at the February meeting.

Mr. Fearing pointed out that the consequences of these variations are that Rate Review may criticize or reduce 1980-81 levels of allowable financial requirements under new carryforward gain/loss provisions and the 1979-80 cash flows from operations will be less than originally projected which will impact the cash available for capital financing. He also stated that detail year end projections, analyses of operations to date and expected operating levels until June 30, 1980 are being prepared. Based on the results of these projections, appropriate courses of action will be suggested at the February meeting of the Finance Committee.

V <u>Statement of Financial Policies and Requirements</u>

Mr. Fearing noted that basically the proposed changes to the Statement of Financial Policies and Requirements relate to areas of the document which do or will present problems to UMH&C in a regulatory restricted environment and will provide greater flexibility. It was decided that, before the Finance Committee acts on approval of these changes, Mr. Fearing will determine how the changes affect or impact the mission statement of the hospital.

VI Other

Mr. Fearing reviewed and explained the footnotes to the June 30, 1979 audited financial statements prepared by Touche Ross & Company.

He began by saying that the first part of the notes state that the hospitals financial statements are prepared in conformity with the "Hospital Audit Guide" issued by the American Institute of Certified Public Accountants which is a different method than that used by the University.

The notes also explain what types of years we use in our depreciation expense and how we allocate the cost of buildings which are jointly occupied. Costs are assigned on a square footage basis. Board designated assets are unrestricted funds which have been set aside for specific purposes by the Hospitals Board of Governors or the Board of Regents.

Mr. Fearing went on to state that all investments are managed by the University and are invested in the University investment pools, and the Hospitals receives investment income from the University based on its share of units in the investment pools. Several other footnotes mentioned by Mr. Fearing included the following:

Inventories of drugs and supplies are valued at cost on a first-in, first-out basis;

We are required to go through Rate Review and have applied and received our increases as of the date of issuance of this statement;

We record general and administrative expenses in our operating statements but do not pay the University directly;

The American Institute of Certified Public Accountants issued a new statement of standards on how to handle marketable securities at either the lower of cost or current value;

Touche Ross has estimated our revenues and the discounts we would be expected to pay for the 1978 and 1979 fiscal years in regard to Medicare and Medical Assistance discounts;

Pension expense outlined basically shows that Civil Service retirement system plan was 68.6% funded and the academic plan was totally funded.

Mr. Fearing then noted that next month the management letter will be reviewed as well as any questions on the audited financial statements.

In regard to the open item list which was prepared for the committee's information, Mr. Cost suggested that the list be reviewed for priorities and be discussed at the next meeting.

There being no further business, the meeting of the Finance Committee was adjourned at 11:30 a.m.

Respectfully submitted,

Terry Rosecke

Terry Rosecke
Secretary

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1979 TO DECEMBER 31, 1979

	Budget	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$50,350,074	$49,104,801	$(1,245,273)	(2.5)
Deductions from Charges	3,015,593	2,636,328	(379,265)	(12.6)
Other Operating Revenue	1,031,906	1,031,022	(884)	(.1)
Total Revenue from Operations	$48,366,387	$47,499,495	(866,892)	(1.8)
Expenditures				
Salaries	$24,296,548	$24,381,080	$ 84,532	.3
Fringe Benefits	4,480,719	4,398,516	(82,203)	(1.8)
Contract Compensation	4,203,911	4,267,770	63,859	1.5
Med. Supplies, Drugs, Blood	7,888,410	7,509,558	(378,852)	(4.8)
Campus Admin. Expense	1,957,136	1,957,136	-0-	-
Depreciation	1,677,984	1,850,069	172,085	10.3
General Supplies & Expense	8,355,917	7,798,580	(557,337)	(6.7)
Total Expenditures	$52,860,625	$52,162,709	$ (697,916)	(1.3)
Net Revenue from Operations	$(4,494,238)	$(4,663,214)	$ (168,976)	(3.8)
Non-Operating Revenue				
Appropriations/Univ. Support	$ 4,866,774	$ 4,885,274	$ 18,500	.4
Accrued Interest Income	380,994	380,994	-0-	-
Total Non-Oper. Rev.	$ 5,247,768	$ 5,266,268	$ 18,500	.4
Revenue Over/(Under) Expenses	$ 753,530	$ 603,054	$ (150,476)(1)	

(1) Variance equals (.3%) of Total Budgeted Revenue.

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1979 TO NOVEMBER 30, 1979

	Budget	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$42,703,575	$41,627,170	$(1,076,405)	(2.5)
Deductions from Charges	2,559,711	2,409,883	(149,828)	(5.9)
Other Operating Revenue	858,053	907,032	48,979	5.7
Total Revenue from Operations	$41,001,917	$40,124,319	$ (877,598)	(2.1)
Expenditures				
Salaries	$20,201,677	$20,198,697	$ (2,980)	-
Fringe Benefits	3,725,552	3,637,202	(88,350)	(2.4)
Contract Compensation	3,495,654	3,595,891	100,237	2.9
Med. Supplies, Drugs, Blood	6,554,111	6,340,811	(213,300)	(3.3)
Campus Admin. Expense	1,627,401	1,627,401	-0-	
Depreciation	1,395,280	1,521,528	126,248	9.0
General Supplies & Expense	6,948,421	6,240,949	(707,472)	(10.2)
Total Expenditures	$43,948,096	$43,162,479	$ (785,617)	(1.8)
Net Revenue from Operations	$(2,946,179)	$(3,038,160)	$ (91,981)	(3.1)
Non-Operating Revenue				
Appropriations/Univ. Support	$4,046,829	$ 4,065,329	$ 18,500	0.5
Accrued Interest Income	316,805	316,805	-0-	
Total Non-Oper. Rev.	$4,363,634	$ 4,382,134	$ 18,500	0.4
Revenue Over/(Under) Expenses	$1,417,455	$ 1,343,974	$ (73,481) (1)	

(1) Variance equals (0.2)% of Total Budgeted Revenue.

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
February 20, 1980

Members Present:	David Cost, Chairman JoAnne Barr David Brown Dave Domaas Cliff Fearing Al France Debbie Gruye Clint Johnson Fannie Kakela Seymour Levitt John Westerman
Absent:	John Quistgard David Preston
Staff:	Nels Larson Terry Rosecke
Guests:	Johnelle Foley John Herman Kevin Moore Tom Jones

The meeting of the Finance Committee was called to order by Chairman Cost at 9:05 a.m. in Room 626 of the Campus Club.

Chairman Cost introduced and welcomed a new member to the Finance Committee, Ms. Fannie Kakela.

I <u>Approval of January 16, 1979 Minutes</u>

A motion to approve the minutes of the January 16 meeting was made by Mr. Johnson, seconded by Ms. Gruye, and approved unanimously by the committee.

II <u>January YTD Financial Statements</u>

Mr. Larson began by noting that the January statements reflect very little change from our December position. The patient day census through January, YTD was 1.5% ahead of budget and the census during the month of January was slightly ahead of budget. Admissions, however, continue to be down, approximately 3.2% below budget YTD. In January the average length of stay was up to 9.9 days which is .9 day above projected levels. Occupancy in January was very high at 77.4%. Mr. Larson added that the outpatient census continues to run below budget by approximately 5.7% or about 7,000 visits below projections through the end of January. Clinic census totals 115,235 visits which is over one year ago by approximately 2.0%. It was noted that the Ambulatory Care Management Council will submit a report at the end of the fiscal year in regard to the outpatient operations and the decline in clinic visits as compared to the budgeted position.

The year to date financial position shows revenue over expense of $535,157, which is under our budgeted position. Mr. Larson pointed out that the variance in ancillary revenues contributes the most to that variance. Ancillary revenues are 4.6% below budget primarily in the Blood Bank, Operating Rooms, outpatient clinics, and Immunology Lab. These differences are due primarily to the loss of two cardiovascular surgeons and to the change in the mix of our patients, i.e., a 12-15% increase in the general Medicine admissions and a similar decrease in the general Surgery admissions. Dr. Levitt suggested that a breakdown on the number of patients in the various service categories of Medicine and Surgery be prepared for the committee's information and that it might also be useful to know the number of procedures being done in Ambulatory Surgery and its impact on Surgery admissions.

Year to date expenditures are below budget by approximately $750,000 due primarily to reduced supply expenses which vary directly with the decline in patient services in the ancillary departments. Another factor contributing to this position is a reduction in the fringe benefit costs. Salaries, however, are over budget in January due primarily to lump sum pay-for-performance payments totaling approximately $130,000. Mr. Larson went on to note that the accounts receivable balance at the end of January is $22,232,116, down from one month ago by approximately $300,000. This balance represents 85.6 days of outstanding revenue. He added that our position through the end of the year has been projected based on December YTD data which indicates that we will be approximately $2,350,000 below our planned budget level. Several options with regard to these projections have been developed for the committee's consideration.

Mr. Larson also stated that the census summary shows a rather significant increase in the length of stay within the medical/surgical area. Dr. Brown commented that the results of an Intensity Utilization Study being done show that, in a period of seven years, the intensity of care of patients being admitted to the hospital has increased significantly and that UMH&C, in terms of intensity of care, is quite different from the community hospitals and other university hospitals.

III <u>Financial Analysis</u>

Mr. Larson pointed out that the projected Statement of Operations and Cash Flow for June 30, 1980 were based on the December YTD position as well as any changes foreseen by the Department Heads. Also taken into consideration was the increase in patient days, decline in ancillary services, changes in salaries and fringe benefits, utilization of supplies, increased depreciation cost with Unit B/C, and certain costs not incurred in the general supplies and expense category. He noted that the current census position is projected to remain stable with admissions down approximately 3.5% from budget and an average length of stay of 9.5 days.

Mr. Larson stated that gross patient charges are projected to be approximately 2.5% below budget and operating expenses will be over budget by approximately $800,000 due primarily to the MNA contract adjustment, nursing parity increases, and med. tech adjustments. He added that we are also projecting increases in non-operating revenue due to interest earning at a higher rate than budgeted and not spending the reserve account as anticipated.

The result of these projections is year end revenue over expense of approximately $2,053,000 or about $2,349,000 below our budgeted level. The projected revenue position will cash flow approximately $8,500,000, down $2,000,000 from the planned budget. It was noted that without the nursing and med tech salary adjustments, our year end position would have been under budget by approximately $450,000 to $500,000. Dr. Brown noted that it should be pointed out to Rate Review that we are operating in a reasonable fashion but that salary negotiations beyond our control were a significant factor in our projected position.

Mr. Fearing explained that the planned budget showed revenue over expense of $4,402,000. Through a Rate Review adjustment, a decrease in revenue due to volume reductions, an increase in non-operating revenue, and increased expenditures, our projected 6/30/80 position is $2,053,000. This is $2,349,000 below our originally intended budget. He then added that the options for maintaining our planned budget position as of June 30, 1980 include rate increases, cost reductions, or a combination of both. Under the Minnesota Rate Review Program, the allowable increase limitation for 1979-80 is 11.2%. The rate increase which was implemented on July 1, 1979 was 8.6%, which would allow a 2.6% maximum change on an annualized basis. After discussion by the committee members, Mr. France made a motion that a recommendation be made to the Board of Governors to implement Option C as outlined below with a management effort at cost reduction approximating $600,000. Dr. Levitt seconded the motion and it was unanimously approved.

Option C - Implement an annualized interim rate increase sufficient to provide for the increased salary expenses and fringe benefit costs resulting from the (1) MNA nursing contract changes, (2) the nursing parity increases, and (3) the medical technologist salary changes. This option would require a 5.4% price increase over the four (4) month period March 1 through June 30, 1980. This represents an annualized rate of 1.8% and would generate a projected revenue increase of $1,740,000 during the 1979-80 fiscal year.

Mr. Cost suggested that at the next committee meeting, management present the framework being considered for reducing costs by $600,000.

IV <u>Bad Debt Approval</u>

Mr. Fearing noted that the amount recommended for bad debt during the months of November and December of fiscal year 1979-80 is $49,999.29. Bad debt recoveries during this period amounted to $4,984.81, leaving a net charge off of $45,014.48. He added that the percentage of bad debts has been historically decreasing and should continue to decrease this year, and should be considered in the budget process for next year. A motion to recommend a bad debt write off of $49,999.29 for November and December of fiscal year 1979-80 was made by Dr. Brown, seconded by Dr. Levitt and approved unanimously by the committee.

V A. <u>Five Year Summary of Bad Debts</u>
B. <u>1968-1979 Accounts Receivable Revenue Day History</u>

In response to a request made by the committee several months ago, data showing trends in revenue days in accounts receivable over the last ten years was prepared for review. Also submitted to the committee at its request was data on trends in bad debt write offs. Mr. Fearing pointed out that revenue days in accounts receivable for the year ended 6/30/69 was at 138 days as compared to 86 days at 12/31/79. He also noted that the bad debt write offs are historically highest during the second and fourth quarters of the fiscal year.

VI <u>January 1980 Debt Capacity Evaluation Update</u>

Mr. Fearing informed the committee that in January, 1980 the Ernst & Whinney debt capacity evaluation was redone to take into consideration the results of the master zoning phase of the construction project. The timing of the project and the cost of the project have both changed significantly from those in the November study. The cost of the project in November was estimated at $205,353,574 and in January was estimated to be $221,595,000. The project dates have also changed as follows:

	Nov 79	Jan 80
Start Date		
Bed Replacement	7/1/82	7/1/81
Mayo Remodeling	7/1/86	7/1/84
Completion Date		
Bed Replacement	6/30/86	12/31/84
Mayo Remodeling	6/30/90	6/30/87

Mr. Fearing explained that the January debt capacity evaluation considered University Bond financing and three different levels of State Government loan agreement financing. The results of the evaluation indicate that each alternative reviewed can provide the financing necessary to complete the University Hospitals Renewal and Replacement Project. The 30 year state loan agreement, which assumes that all project costs plus capitalized interest and debt service reserve requirements will be borrowed, is the least expensive alternative and would require $205,970,000 in loans from the state as the financing vehicle. He added that the legislative bill has gone through the revisor and UMH&C is now in the process of obtaining an author for the bill. Mr. France suggested that the possiblity of a committee bill be considered and that Representative Delbert Anderson be contacted in that regard. Mr. Fearing also commented that the rate increases needed through 1988 to fund this project are: University Bonding - 23.94%, 25 Year Loan Agreement - 23.68%, and 30 Year Loan Agreement - 23.81%.

VII Touche Ross Management Letter

It was decided that the UMH&C response to the Touche Ross management letter will be reviewed by committee members for discussion at next month's meeting.

VIII Other

A. Budget Process Status

Mr. Larson informed the committee that the new program requests have been submitted to the General Directors Group for consideration. Four of the new program requests have yet to be reviewed by the Program Review Committee and one program is to be reviewed by the Ambulatory Care Management Council this month. Management's recommendations with regard to the new programs will be presented to the Finance Committee next month.

He added that all the departmental budgets will be reviewed in March and will be presented to the Finance Committee along with the projected budget position for 1980-81 at a special meeting in April.

B. Suggestion List

Mr. Cost noted that many of the items on the suggestion list have already been dealt with and he will discuss the remaining items with Mr. Fearing for further action.

C. Statement of Financial Policies and Requirements

In last month's meeting it was noted that some of the changes in the Missions Requirements section could have been construed to change the Hospital mission. Since the broad, general nature of the mission statement allows the Mission Requirement section to remain consistent therewith even under a restrictive reimbursement environment, no changes in the Mission Requirement section are recommended.

Mr. Fearing suggested that the committee members familiarize themselves with this document and take action on the recommendations at next month's meeting.

D. Operating Room Utilization Report Status

Mr. Kevin Moore, Administrative Fellow, was asked to present the results of a study he has conducted to determine the effects, on routine services within Orange Surgery, of Dr. Nicoloff and Dr. Lindsay leaving UMH&C in August, 1979. He pointed out that the statistics cover a quarter which would witness the transition of patients leaving the hospital and referrals possibly being drawn away and would thus show no clear picture of what will happen in the future.

Mr. Moore noted that when Dr. Nicoloff and Dr. Lindsay were still here, Orange Surgery used their own Operating Room time as well as time other services did not fulfill. Orange Surgery was at 120% time from July 1 through September 30, 1979. October 1 through December 31, 1979 showed them at 89.6%. The top ten procedures performed showed very little change when comparing the first quarter and the second quarter of the fiscal year. Mr. Moore also noted that in comparison to last year's statistics, the volume has decreased slightly, mostly in Pediatrics, and the revenue has decreased by approximately 50%.

In summary, Mr. Moore stated that these statistics relfect the loss of patients of those particular doctors, but that the service is not offering any less nor is it misusing Operating Room time. He suggested that the statistics for the quarter January 1, 1980 through March 31, 1980 be reviewed to determine whether or not the number of procedures performed and the number of patients discharged have been altered.

IX A. Demographic Data Presentation

In response to a request by the Finance Committee for information with regard to demographic data of UMH&C inpatients, Mr. Tom Jones, Associate Director, provided handouts of historic patient origin data. In reviewing this data, he noted that in 1978 the number of admissions of out-of-state admissions began to drop, but that 1979 data shows that the number of metro admissions has also begun to decrease. In comparing UMH&C with other area hospitals, Metropolitan Health Board statistics from 1978 indicate that there has been no significant change since 1974. These statistics indicate that 50.7% of patients at UMH&C are out-state and out-of-state compared to Abbott Northwestern with 20.3%, Methodist with 11.4%, Metropolitan Medical Center with 9.7% and United with 6.9%.

Patient origin data from St. Mary's Hospital in Rochester shows that it has a larger market share outside of the state than UMH&C, 57.1% of discharges compared to 20.90% respectively. Within the State of Minnesota, St. Mary's patients are primarily from the southeastern portion of the state. Mr. Jones added that in comparing UMH&C's pediatric patients with those of St. Paul Childrens Hospital and Minneapolis Childrens Hospital, there is very little impact in out-state and out-of-state patient origin.

B. Strategic Options Task Force Report

Mr. Jones stated that the strategic options study is three phased with the first phase to tabulate and organize patient trends data by service for analysis by March 1. The second phase will include a review of the trends data with Clinical Chiefs to begin on March 1 and be completed by April 1. Responses will be analyzed by April 15 with conclusions to the Executive Committee in mid-April. The third phase will confirm findings and conclusions. A final report will be ready for the Executive Committee discussion no later than June 30, 1980.

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
March 19, 1980

Members Present:	Debbie Gruye Fannie Kakela Virgil Moline John Tiede Cliff Fearing John Westerman
Absent:	Jo-Anne Barr David Cost Al France John Quistgard David Brown Seymour Levitt Clint Johnson David Preston
Staff:	Nels Larson Terry Rosecke
Guests:	Johnelle Foley Dave Domaas Barb Tebbitt Don Van Hulzen

The meeting of the Finance Committee was called to order by Ms. Gruye at 9:20 a.m. in Room 626 of the Campus Club.

I <u>Approval February 20, 1980 Minutes</u>

A motion to approve the minutes of the February 20 meeting was made and approved unanimously by the committee.

II <u>February YTD Financial Statements</u>

Mr. Larson reported that the operating position for the month of February continues to be stable. He stated that the single factor which has had the largest impact on operations has been lower than anticipated ancillary utilization levels. Mr. Larson pointed out that during the month of February, the census figures were very close to budget. Admissions totaled 1,638 compared to a projected level of 1,632. Length of stay was up to 9.8 days or 0.8 day above the projected 9.0 days. Patient days totaled 16,441 or 1,186 days over a projection of 15,255. The February occupancy rate was 77.3%. The outpatient census was below budget on a year to date basis by 6,793 visits. For the month of February, clinic visits were 213 visits over the projected level.

Mr. Larson continued his report with the financial operations for February which yielded revenue in excess of expense of $93,046. The year to date position of revenue over expense totaled $628,203. As previously mentioned, the single most influential factor in our position has been the decline in the use of ancillary services. Ancillary revenues are 4.2% below the projected level or $1,752,313. The most significant variances continue to be in the Blood Bank, Operating Rooms, Immunology Labs and also in the outpatient clinics. The expenditure variance is favorable year to date, presently $1,023,218 below budget.

Accounts receivable for the month increased $759,946 to a balance of $22,992,062. This balance represents 87.2 days of outstanding revenue, an increase of 6.5 days from June 30, 1979. A major factor in the increase continues to be the increased payment time taken by Medicare, Medical Assistance, and Blue Cross.

III Management Cost Evaluation Framework

Mr. Fearing stated that last month the Finance Committee and the full Board of Governors approved a change in the rate structure effective March 1, 1980 with a request from the Finance Committee to evaluate consequences of a possible $600,000 cost reduction.

He added that, where possible, cost reductions are being accomplished through an ongoing process involving UMH&C's ability to react to changes in utilization levels which was explained further by Mr. Van Hulzen and Ms. Tebbitt.

A schedule outlining the three major areas of the hospital (nursing services, ancillary services, and administrative & general services) in regard to total number of approved FTE's as compared to the actual number of FTE's and the variance in dollars was provided to the committee.

Mr. Van Hulzen pointed out that the schedule basically indicates that the areas except for nursing services are considerably under budget.

Ms. Tebbitt explained that several factors are contributing to this budget variance with the most significant being the increase in acuity occurring on each patient care area or station in the hospital over the last 3-5 years and the increased demands on nursing services in order to respond to those acuity needs. Ms. Tebbitt pointed out that the areas of Med/Surg, Pediatrics ICU, and Neonatal ICU are particularly high in patient care hours required. She added that these increasing demands have created a considerable increase in overtime hours and a high turnover rate.

Ms. Tebbitt mentioned that the changing utilization levels and increased demands on nursing services will be recognized as important factors in the budgeting process in the future.

IV <u>Budget 1980-81 New Program Requests</u>

Mr. Van Hulzen explained that the new program requests are the result of phase one of the two-phased budgeting process. The requests for 1980-81 amount to 5.4 positions and a total expense of $138,955. Anticipated patient charges and other receipts total $79,800. Mr. Van Hulzen then summarized each new program request which included (1) Health Education Learning Resources Center, (2) Joint Appointments with School of Nursing, (3) Vehicle Escort Service, (4) Urodynamics Laboratory, (5) Peripheral Circulatory Assessment Lab and (6) Adult Outpatient Substance Abuse Program.

The programs will be reviewed by the Finance Committee for approval on April 16 and final approval by the full Board of Governors in May, 1980.

V Touche Ross Management Letter

Mr. Fearing noted that the UMH&C response to the Touche Ross and Co. management letter should be reviewed by members of the Finance Committee for any questions or comments before it is forwarded to Touche Ross & Co. Mr. Fearing stated that basically UMH&C concurs with the recommendations made by Touche Ross & Co. and is working with the Internal Audit Department of the University in facilitating the recommendations as outlined.

VI Statement of Financial Policies and Requirements

Due to the lack of a committee quorum, this item was tabled until next month.

There being no further business, the meeting of the Finance Committee was adjourned at 11:45 a.m.

Respectfully submitted,

Terry Rosecke

Terry Rosecke
Secretary

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1979 TO FEBRUARY 29, 1980

	Budget	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$66,748,399	$65,382,685	$(1,365,714)	(2.0)
Deductions from Charges	3,991,487	3,645,554	(345,933)	(8.7)
Other Operating Revenue	1,368,398	1,354,670	(13,728)	(1.0)
Total Revenue from Operations	$64,125,310	$63,091,801	$(1,033,509)	(1.6)
Expenditures				
Salaries	$32,513,277	$32,626,253	$ 112,976	0.3
Fringe Benefits	5,995,744	5,806,928	(188,816)	(3.1)
Contract Compensation	5,574,763	5,670,482	95,719	1.7
Med. Supplies, Drugs, Blood	10,471,763	10,013,318	(458,445)	(4.4)
Campus Admin. Expense	2,595,333	2,595,333	-0-	-
Depreciation	2,224,881	2,466,814	241,933	10.9
General Supplies & Expense	11,088,552	10,261,967	(826,585)	(7.5)
Total Expenditures	$70,464,313	$69,441,095	$(1,023,218)	(1.5)
Net Revenue from Operations	$(6,339,003)	$(6,349,294)	$ (10,291)	(0.2)
Non-Operating Revenue				
Appropriations/Univ. Support	$ 6,453,766	$ 6,472,266	$ 18,500	0.3
Accrued Interest Income	505,231	505,231	-0-	-
Total Non-Oper. Rev.	$ 6,958,997	$ 6,977,497	$ 18,500	0.3
Revenue Over/(Under) Expenses	$ 619,994	$ 628,203	$ 8,209 (1)	

(1) Variance equals 0.0% of Total Operating Budget Revenue.

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
BOARD OF GOVERNORS FINANCE COMMITTEE
REVIEW OF THE 1976 BOARD OF GOVERNORS
STATEMENT OF FINANCIAL POLICIES AND REQUIREMENTS

What areas of the Statement of Financial Policies and Requirements do or will present problems to UMH&C in a regulatory restricted environment?

Mission Requirements

This portion of the document should be rewritten to correspond to the July, 1978 Hospital mission.

The broad, general nature of the mission statement allows the Mission Requirement section of the Statement of Financial Policies and Requirements to remain consistent therewith even under a restrictive reimbursement environment. As examples:

> The mission statement, "To provide a broad range of quality health delivery programs," allows the flexibility to determine which programs can be financed under restrictive reimbursement regulations; it does not require that an all encompassing program be maintained.
>
> The mission statement, "To provide, through its multiple service programs, opportunities for clinical education in the Health Sciences for Health Science students, staff and practitioners," allows the flexibility to provide opportunities on a reasonable basis within the financial resources available.
>
> The mission statement, "To maintain an environment for advancement of biomedical research, health promotion, disease prevention and research in the delivery of medical care and health services," again allows flexibility in determining the size of the environment.
>
> The mission statement, "To serve as a resource for management in the health delivery system," allows UMH&C to determine the appropriate amount of resources for this purpose.

Since these statements were developed in this manner, no changes in the Mission Requirement section of this document are recommended.

Overall Financial Policies

The basic philosophy of the Statement of Financial Policies and Requirements document as it currently exists suggests that each source of funds can be used to support any area of costs, i.e., service, education, research. Although this type of philosophy allows the most flexibility in financing UMH&C, the following wording changes are suggested to provide more concise direction for use of each source of funds.

Page 2, paragraph 1, e.g., patient service revenues "may be used" to achieve educational objectives, research funds "may be used" to support patient care and educational funds "to the extent not designated for educational activities may be used" to provide basic support to all activities of the Hospital.

This change would then make the overall statement consistent with items 2, a, b, c, page 2.

Financial Requirements

Most of the provisions of this section appear to be consistent with the other provisions of the document and appear to be workable in times of reimbursement restrictions. However, item 4, page 5 seems too restrictive. The current provision requires that unbudgeted gains should go to offset future operating costs by reducing current or future rates. An alternative which would provide more flexibility in financing UMH&C would be to add the provision of funding gains for capital purposes as another alternative to reducing current or future rates.

Costs of Educational Programs

The section pertaining to costs of educational programs appears consistent with both the mission and a restrictive reimbursement environment.

Cost and Provision for Capital Assets

The provisions of this section appear consistent with the general provisions of this document except that item 2 on page 7 is a restrictive provision which could limit the investment opportunities and reduce the revenues UMH&C could earn. Therefore, this provision should be eliminated.

In addition, item 4, page 8 requires name changes from Facilities Committee to Planning and Development Committee.

Costs of Health Services Delivery, Research, Development and Community Service

These provisions appear consistent with the other provisions of the document except that item 2, page 8 should be strengthened by changing the words, "may be the primary funding sources for these programs" to "must be the primary funding sources for these programs."

These changes will make the document more consistent both unto itself and to both restrictive and non-restrictive reimbursement environments.

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
BOARD OF GOVERNORS FINANCE COMMITTEE
REVIEW OF THE 1976 BOARD OF GOVERNORS
STATEMENT OF FINANCIAL POLICIES AND REQUIREMENTS

What areas of the Statement of Financial Policies and Requirements do or will present problems to UMH&C in a regulatory restricted environment?

<u>Mission Requirements</u>

This portion of the document should be rewritten to correspond to the July, 1978 Hospital mission.

The broad, general nature of the mission statement allows the Mission Requirement section of the Statement of Financial Policies and Requirements to remain consistent therewith even under a restrictive reimbursement environment. As examples:

> The mission statement, "To provide a broad range of quality health delivery programs," allows the flexibility to determine which programs can be financed under restrictive reimbursement regulations; it does not require that an all encompassing program be maintained.
>
> The mission statement, "To provide, through its multiple service programs, opportunities for clinical education in the Health Sciences for Health Science students, staff and practitioners," allows the flexibility to provide opportunities on a reasonable basis within the financial resources available.
>
> The mission statement, "To maintain an environment for advancement of biomedical research, health promotion, disease prevention and research in the delivery of medical care and health services," again allows flexibility in determining the size of the environment.
>
> The mission statement, "To serve as a resource for management in the health delivery system," allows UMH&C to determine the appropriate amount of resources for this purpose.

Since these statements were developed in this manner, no changes in the Mission Requirement section of this document are recommended.

<u>Overall Financial Policies</u>

The basic philosophy of the Statement of Financial Policies and Requirements document as it currently exists suggests that each source of funds can be used to support any area of costs, i.e., service, education, research. Although this type of philosophy allows the most flexibility in financing UMH&C, the following wording changes are suggested to provide more concise direction for use of each source of funds.

Page 2, paragraph 1, e.g., patient service revenues "may be used" to achieve educational objectives, research funds "may be used" to support patient care and educational funds "to the extent not designated for educational activities may be used" to provide basic support to all activities of the Hospital.

This change would then make the overall statement consistent with items 2, a, b, c, page 2.

Financial Requirements

Most of the provisions of this section appear to be consistent with the other provisions of the document and appear to be workable in times of reimbursement restrictions. However, item 4, page 5 seems too restrictive. The current provision requires that unbudgeted gains should go to offset future operating costs by reducing current or future rates. An alternative which would provide more flexibility in financing UMH&C would be to add the provision of funding gains for capital purposes as another alternative to reducing current or future rates.

Costs of Educational Programs

The section pertaining to costs of educational programs appears consistent with both the mission and a restrictive reimbursement environment.

Cost and Provision for Capital Assets

The provisions of this section appear consistent with the general provisions of this document except that item 2 on page 7 is a restrictive provision which could limit the investment opportunities and reduce the revenues UMH&C could earn. Therefore, this provision should be eliminated.

In addition, item 4, page 8 requires name changes from Facilities Committee to Planning and Development Committee.

Costs of Health Services Delivery, Research, Development and Community Service

These provisions appear consistent with the other provisions of the document except that item 2, page 8 should be strengthened by changing the words, "may be the primary funding sources for these programs" to "must be the primary funding sources for these programs."

These changes will make the document more consistent both unto itself and to both restrictive and non-restrictive reimbursement environments.

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
April 15, 1980

Members Present:	David Cost, Chairman Debbie Gruye Al France Clint Johnson Fannie Kakela John Tiede Virgil Moline David Brown Cliff Fearing John Westerman
Absent:	JoAnne Barr John Quistgard Seymour Levitt David Preston
Staff:	Nels Larson Terry Rosecke
Guests:	Al Hanser Kathy Peper Steve Grygar Barb Tebbitt Don Van Hulzen

The special budget meeting of the Finance Committee was called to order by Chairman Cost at 2:00 p.m. in Room 626 of the Campus Club.

Mr. Fearing began by pointing out that each committee member was provided with a 1980-81 budget packet containing the new program requests, activity level requests, and other detail schedules regarding next year's operating budget.

Mr. Larson stated that the projected expenses for 1980-81 amount to $118,098,235. This 13.8% increase in expenses over last year is due primarily to inflation factors. Other areas relating to this increase are salary and fringe benefit additions, new program requests, and other departmental increases. Projected revenue for 1980-81 amounts to $124,860,475, which includes a rate increase of 18.9% determined at 98% of cost/charge parity pricing. Mr. Larson pointed out that the impact of the Section 223 Routine Cost Limitation regulations will amount to approximately $10,000,000, unless UMH&C charges the non-federal payors for costs not paid by federal programs or an exception is granted. When asked what effect this would have on the Rate Review process, Mr. Fearing replied that, under the new Rate Review organizational structure, the issue of a pass-on to other payors has not been addressed. When this issue would come before the panel in regard to UMH&C, it would be returned to the Policy Committee Board for a decision. Dr. Tiede suggested that the committee make a recommendation to the Board to give authorization to Mr. Diehl to pursue a legal remedy to Section 223 limitation impacts and/or publicize our concern to make the legislature aware of the cost limitation problem. Mr. Fearing commented that, due to the nature of the Medicare appeal process, the judicial system will not accept any lawsuits which have not gone through the complete administrative procedural process.

Mr. Larson noted that the projected cash flow statement shows total cash available of $7,107,409 for 1980-81. He also noted that a minimal change in inpatient census data is being projected for budget year 1980-81. A projected increase in patient days of approximately 1,000 days and an increase in admissions by 33 relates to the addition of two beds in the Bone Marrow Transplant area. Length of stay is projected at 9.5 days.

Mr. Larson added that the projected position base for 1980-81 is 3,417 FTE's, an increase over the current FTE level by 111. The major portion of the increase in FTE's is in the Nursing area. Ms. Tebbitt informed the committee that the nursing changes requested for 1980-81 have been due to high census and high acuity programs such as the Bone Marrow Transplant and NeoNatal Intensive Care units. She pointed out that the 20 positions requested for the Pediatric area will not be needed until the unit is opened in approximately January, 1981.

In continuing the budget presentation, Mr. Van Hulzen reminded the committee members that the new program requests, discussed last month. totaled 6.4 positions. He then went on to note that the activity level requests, which is Phase II of the budgeting process, basically involved changes which are related to workload and significant changes due to regulations or policies/ procedures requirements. He explained that, with the exception of Nursing, there are no dramatic changes in the 1980-81 activity level requests.
Mr. Fearing explained that the 1980-81 base budget would require a 25.9% increase in total revenue. He added that, in order to implement proposed nursing career laddering adjustments, an 8% across the board nursing increase, and the June 1, 1980 MNA adjustment requires a rate increase for 1980-81 of 32.7%. He then noted that the 32.7% could be reduced by 4.3% for an anticipated decrease in G/A expense and an additional .8% due to the bank nursing positions which may not be used throughout the year, for a total increase of 27.6%. He stated that another alternative to be considered would be to defer the MNA contract decision until it could be passed through Rate Review when the contract is settled.
Mr. Cost requested that members of the committee review the 1980-81 preliminary budget for approval at tomorrow's meeting and also that management present a schedule of rate alternatives to be considered at tomorrow's meeting.

There being no further business, the meeting of the Finance Committee was adjourned at 5:15 p.m.

Respectfully submitted,

Terry Rosecke

Terry Rosecke

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
April 16, 1980

Members Present:	David Cost, Chairman Debbie Gruye Al France Fannie Kakela John Tiede Virgil Moline David Brown Seymour Levitt Cliff Fearing John Westerman David Preston
Absent:	JoAnne Barr Clint Johnson John Quistgard
Staff:	Nels Larson Terry Rosecke
Guests:	Steve Grygar Dave Domaas Kevin Moore Johnelle Foley John Herman Barb Tebbitt Don Van Hulzen

The meeting of the Finance Committee was called to order by Chairman Cost at 9:35 a.m. in Room 626 of the Campus Club.

I <u>Minutes - March 19, 1980 Meeting</u>

A motion to approve the minutes of the March 19 meeting was made by Dr. Brown, seconded by Dr. Levitt, and approved unanimously by the committee.

II <u>March YTD Financial Statements</u>

Mr. Larson commented that the Hospitals operating position for the month of March continues to reflect the trends in evidence in February. March activity experienced a further decline in the average utilization of ancillary services, which has had the single largest impact on operations. He noted that during the month of March, admissions totaled 1,796, or 76 below the projected admissions of 1,872. The March length of stay was 9.7 days or 0.7 days over the projected 9.0 days. March patient days totaled 17,709, 450 days over projected days of 17,259. He also noted that the total clinic visits for the month of March were 16,600 or 2,247 visits below projected visits of 18,847.

The operating position through the end of March shows year to date revenue over expense of $1,003,390. Mr. Larson stated that ancillary revenues are 5.2% or $2,472,080 below budget levels. He explained that the most significant variances continue to be in the Blood Bank, Out-patient Clinics and Immunology Laboratory with a further decline in the utilization of the Operating Rooms due to a shortage of O.R. nurses which has reduced available operating room time. The year to date expenditure variance continues to be favorable. This favorable variance is due primarily to expenses that vary directly with patient service utilization and to periodic expenses which have been deferred or have not yet been incurred. Mr. Larson noted that the balance in patient accounts receivable increased $41,767 in March to $22,950,295. This balance represents 84.5 days of outstanding revenue, an increase of 3.8 days from June 30, 1979.

III <u>1980-81 Budget Review</u>

Mr. Fearing began with a brief overview of the budget for 1980-81 noting that it has been determined that a 25.9% base increase in charges is necessary to finance the 1980-81 proposed budget if UMH&C were to continue to pass on to non-federal payors the costs not paid by federal programs and if UMH&C is to advance toward a charge/cost parity level of pricing to attain a 98% parity level in the 80-81 fiscal year. In addition, several costs associated with nursing career laddering, across the board increases and MNA contract parity have to be considered. The adjustments raise the level of increase required to finance next year's budget to 32.7%.

Mr. Fearing noted that several options were discussed at yesterday's meeting on methods of reducing the 32.7% such as the bank nursing positions which may not be used next year and the G/A offset factor. He added that, in making these decisions, several Board of Governors policy options will have to be considered such as operating with federal cost guidelines, attaining cost/charge parity levels, charging non-federal payors for costs not paid by federal programs, and self financing of the renewal project. Since these critical issues will have to be discussed further, but a request must be submitted to Rate Review on May 1, 1980, Mr. Fearing suggested the following initial increase for 1980-81:

13.8%	increase for base expenditures increases.
(.8%)	decrease related to nursing positions which may not be filled in 1980-81.
3.2%	increase for working capital increases associated with the expense increases.
2.0%	to continue the charge/price parity concept established to allow for self financing of the renewal project.
1.5%	increase for pending compensation adjustments.
19.7%	increase in revenue

After further discussion by the Finance Committee, a motion to approve this increase of 19.7% by the committee and make a recommendation for approval by the full Board of Governors was made, seconded, and approved unanimously by the committee.

The Finance Committee will continue to review the other elements of the proposed 1980-81 budget in future meetings. When recommendations regarding these issues have been made, they will be brought to the Board of Governors for approval.

IV Statement of Financial Policies and Requirements

V Finance Committee Approval to Abandon KEH Project Expenditures

These two agenda items were deferred until next month's meeting.

VI Other

Bad Debts - January through March, 1980

Mr. Larson stated that the total amount recommended for bad debt during the months of January, February, and March of fiscal year 1979-80 is $404,894.84 and $3,184.10 of Home Health Care activity. Bad debt recoveries during this period amounted to $3,211.26 leaving a net charge off of $404,867.68. A motion to approve the bad debt write off of $404,894.84 plus $3,184.10 in Home Health Care activity for the third quarter of 1979-80 was made by Dr. Levitt, seconded by Mr. Moline, and approved unanimously by the committee.

Mr. Cost requested that an analysis of historical trends in bad debts compared to current levels of bad debts be prepared for the committee's information.

There being no further business, the meeting of the Finance Committee was adjourned at 11:50 a.m.

Respectfully submitted

Terry Rosecke

Terry Rosecke

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1979 TO MARCH 31, 1980

	Budget	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$75,881,091	$73,841,902	$(2,039,189)	(2.7)
Deductions from Charges	4,514,435	4,248,186	(266,249)	(5.9)
Other Operating Revenue	1,542,251	1,503,696	(38,555)	(2.5)
Total Revenue from Operations	$72,908,907	$71,097,412	$(1,811,495)	(2.5)
Expenditures				
Salaries	$36,861,102	$36,862,477	$ 1,375	-
Fringe Benefits	6,795,420	6,536,252	(259,168)	(3.8)
Contract Compensation	6,283,033	6,378,233	95,200	1.5
Med. Supplies, Drugs, Blood	11,806,202	10,997,186	(809,016)	(6.9)
Campus Admin. Expense	2,925,068	2,925,068	-0-	-
Depreciation	2,507,787	2,588,568	80,781	3.2
General Supplies & Expense	12,501,409	11,667,867	(833,542)	(6.7)
Total Expenditures	$79,680,021	$77,955,651	$(1,724,370)	(2.2)
Net Revenue from Operations	$(6,771,114)	$(6,858,239)	$ (87,125)	(1.3)
Non-Operating Revenue				
Appropriations/Univ. Support	$ 7,273,709	$ 7,292,209	$ 18,500	0.3
Accrued Interest Income	569,420	569,420	-0-	-
Total Non-Oper. Rev.	$ 7,843,129	$ 7,861,629	$ 18,500	0.2
Revenue Over/(Under) Expenses	$ 1,072,015	$ 1,003,390	$ (68,625)	(1)

(1) Variance equals 0.1% of Total Operating Budget Revenue.

With a Total YTD Planned Budget Revenue of $72,570,740, Total YTD Revenue over Expense, Budget v. Actual, yields a variance of $(1.828.284). This variance equals 2.5% of Total Planned Budget Revenue.

UNIVERSITY OF MINNESOTA
TWIN CITIES

University Hospitals and Clinics
420 Delaware Street S.E.
Minneapolis, Minnesota 55455

May 21, 1980

TO: Board of Governors Finance Committee

FROM: Cliff Fearing

SUBJECT: Board of Governors Financial Policy Questions

At the April 16, 1980 Board of Governors Finance Committee meeting several policy questions were presented as background for determining the 1980-81 budget revenue increase. The following is a list of the policy options discussed with you on 4/16/80.

A. Should UMH&C continue to pursue self-financing of the renewal project?

B. Should UMH&C delay cost/charge parity pricing as long as possible?

C. Should UMH&C continue to participate cooperatively with the Minnesota Rate Review program?

D. Should UMH&C pursue a policy of employee compensation which exceeds the community level to enhance recruitment and retention of employees?

E. Should UMH&C pursue a policy of operating with federal cost guidelines? Should non-federal payors pay costs which are not paid by federal programs?

It was decided by the Finance Committee to discuss these policy questions at the May 21, 1980 Finance Committee meeting. In accord with the committee's request, management's recommendations and associated rationales are listed below.

Recommendations/Rationale

Self Financing of Renewal Project

It is management's belief that the primary issue facing the Board of Governors is whether UMH&C's intention to pursue self financing of the renewal project is still appropriate. The answer to this question will determine the practical perspective from which most, if not all, the other issues must be addressed.

<u>Recommendation</u>
It is management's recommendation that UMH&C continue to pursue self financing of the renewal project until it becomes evident,based on a third party evaluation,that it would not be financially feasible to carry the debt structure either wholly or in part based on State G/O Bond financing. At the same time, we should inform various Regents/Legislators what the educational and research components of the project cost are in an attempt to secure these funds through appropriations in the next legislative session.

<u>Rationale</u>
- Since August of 1978 we have completed four (4) official debt capacity evaluations which have indicated that UMH&C can handle the debt structure required to complete the renewal project as presently defined.

- Since August of 1978 we have professed to the Board of Regents, legislative staff personnel and members and various legislative committees that it is our intention to self finance this project.

- Existing regulations allow pass through of all capital associated costs which have Certificate of Need approval.

- That to attempt to secure total or partial funding of the debt through appropriations before proceeding would delay the project and would increase the project costs by $2,000,000 per month of delay. If we assume an approval of total or partial legislative appropriations in March of 1981, the project cost would escalate approximately $22,000,000.

Based on the above, it appears that to attempt to secure appropriations either in total or in part to delay the project would:

1. Delay the completion date of the project.
2. Increase the cost of the project.
3. Destroy or at least do harm to UMH&C's credibility with Regents and Legislators, when in fact third parties continue to say the project is financially feasible.
4. Erroneously suggest that our financial concerns are related to the renewal project rather than focusing on the real problem and addressing that issue head on through federal exception requests, additional legislative requests, increased operating efficiencies, and programmatic changes.

The problems we face today are not caused by the lack of marketplace revenue as it relates to the renewal project. They are caused by the fact that the operating costs which we are incurring either exceed cost reimbursement limits (without receipt of exceptions to limits) or are becoming so high that we cannot compete for patients. We must pursue a full or partial exception to federal cost limits, additional appropriations for operating costs in excess of these limits if they can be justified, and/or a reduction in operating costs. However, we should not delay the renewal project until these other pursuits are accomplished.

Should UMH&C delay cost/charge parity pricing as long as possible?

One method of keeping next year's revenue/price increase lower than originally proposed would be to defer the achievement of cost/charge parity pricing for one year or longer. The 1980-81 revenue increase of 19.7% includes a 2% increment (from 96% of parity to 98% of parity) in rates toward achievement of the charge/cost parity pricing goal by June 30, 1982.

Recommendation

It is management's recommendation that UMH&C continue with the 1980-81 incremental increase toward charge/cost parity pricing.

Rationale

- To delay the 1980-81 increment would make it necessary to achieve the remaining 4% of charge/cost parity increase in the 1981-82 fiscal year. This would be twice the increment as proposed for 1980-81.

- Charge/cost parity pricing is a must if we are to self finance the renewal project.

- Federal limits on price increases, if imposed during 1980-81, could negate achievement of charge/cost parity pricing and jeopardize self-financing of the renewal project.

Should UMH&C continue to participate cooperatively with the Minnesota Rate Review Program?

Since volunatry participation in the Rate Review program began for UMH&C in 1973-74, UMH&C has, when requested by Rate Review (once for 1979-80 - 1.6%) reduced rates to comply with their decision. In assembling the budget for 1980-81, several proposals were addressed which may receive negative reaction or non-approval from Rate Review. One alternative which was discussed was non-compliance with the Rate Review program decision.

Recommendation

It is management's recommendation that UMH&C continue its voluntary cooperative participation with Rate Review unless and until it becomes apparent that the program is being arbitrary in its decisions toward University Hospitals to a point where it jeopardizes the Hospitals mission.

Rationale

- University Hospitals & Clinics is the largest single hospital provider in Minnesota (approximately 9% of total hospital expenditures for Minnesota occurred within UMH&C for 1978-79). If UMH&C decides to disregard the program decisions, it could jeopardize the entire voluntary program effort and lead to mandatory rate setting within the state.

- Could jeopardize UMH&C's position with the legislature for bonding authority for the renewal project.

- Could harm the reputation of UMH&C within the state.

- Blue Cross/Blue Shield of Minnesota would not pay the hospital at billed rates, but would pay at approved Rate Review rates.

- Could lead to commercial insurance limits on reimbursement.

- Would be overreaction in current year since UMH&C has significant Rate Review loss to offset most significant adjustments.

Should UMH&C pursue a policy of employee compensation which exceeds the community level to enhance recruitment and retention of employees?

The past fiscal year has seen several instances when the concept of compensation comparability has been at issue. Hospital management will not attempt to address this issue from a University policy perspective although it is imperative that these policies be considered in making this decision. Hospital management will only address the issue from a Hospital financial perspective.

Recommendation

It is management's recommendation that University Hospitals pursue a compensation program that is in accord with comparable wages within the metropolitan area, inclusive of fringe benefits, except where special training, experience, or expertise relating to definable differences in scope and/or type of program or patient require compensation levels in excess of community norms.

Rationale

Current federal cost limits set wage standards based on community averages. It is unlikely that any costs in excess of community averages, unless directly related to acuity/intensity of patients, i.e., training and experience of nurses or other special circumstances, will be allowed as an exception. Furthermore, it is unlikely that Rate Review would approve wage levels in excess of wages paid within the community or related to special services or patient acuity or intensity related. Therefore, to pay higher wages would increase our cost limit differential with little hope of Rate Review approval.

Should UMH&C pursue a policy of operating within federal cost guidelines or should UMH&C pass the costs in excess of the federal limits on to non-federal payors?

This is not necessarily a simple straight forward question. Several different views of what this means have been expressed, i.e.,

- does this mean operate at the standard allowance level.
- does this mean operating at the level where an exception is granted.
- does this mean operate at a level of approved exception plus appropriations received from the state.
- what impact does Rate Review regulation have on the decision, pro or con.

Current Rate Review regulations allow all contract adjustments for federal programs to be passed on to the other non-federal payors. The rationale for this position is that federal programs do not pay their fair share of financial requirements as defined by the Rate Review program. Therefore, if the hospital does not receive its financial requirements from the federal payors, it must receive them from the other payors. However, the concept of passing on costs in excess of federal limits has not been addressed by the Rate Review Policy Committee. Therefore, it is not known at this time if these adjustments will be allowed by Rate Review.

Recommendation

It is management's recommendation that UMH&C pursue an exception to the cost limits and to the extent that a total exception is not received, UMH&C should pass on to non-federal payors any costs which are determined to be reasonable by the Rate Review program. The excess of these cost limits, if any, should be pursued from appropriations if the expense budget cannot be reduced through appropriate policy and management reviews.

Rationale

The mission of the Hospital does not allow UMH&C to operate at 112% of the average of routine costs for all hospitals (the level which federal cost limits are set) nor would partial exception to the cost limits guarantee mission achievement. Unless the mission of the Hospital were changed, the only alternatives are to operate within permissible federal cost limits as adjusted for exception plus an amount from appropriations and/or to pass on the excess costs to other non-federal payors.

Consistent with management's earlier recommendation to remain with the Rate Review program, any costs in excess of the limit or exception limit which Rate Review allows should be passed on to other non-federal payors.

In addition, if Rate Review and the federal government do not allow the costs at the level we are incurring them, this should either be an excellent rationale for use of existing or increased appropriations or for cost reductions if appropriations are not justified.

CPF/tr

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
May 21, 1980

Members Present:	David Cost, Chairman John Quistgard, Vice Chairman JoAnne Barr David Brown Clint Johnson Fannie Kakela John Tiede David Preston Cliff Fearing John Westerman
Absent:	Debbie Gruye Al France Virgil Moline Seymour Levitt
Staff:	Nels Larson Terry Rosecke
Guests:	Don Van Hulzen Johnelle Foley Kevin Moore

The meeting of the Finance Committee was called to order by Chairman Cost at 9:35 a.m. in Room 626 of the Campus Club.

I <u>Minutes - April 15th and April 16th Meetings</u>

A motion to approve the minutes of the April 15th and 16th meetings was made by Ms. Kakela, seconded by Ms. Barr, and approved unanimously by the committee.

The meeting began with a report by Mr. Westerman on the actions proposed by management to comply with the Board of Governors' mandate to increase the net revenues by $3,500,000 in the 1980-81 budget to $3,670,000.

Mr. Westerman explained that management's response will first be presented to this committee and, after further review, the Finance Committee will make its recommendation to the full Board. He added that this proposal has been endorsed by the Program Review Budget Monitoring Committee and the Clinical Chiefs.

Management's proposal consists of a multi-faceted approach with short-term, intermediate-term and long-term plans. Mr. Westerman noted that, even though the $3,500,000 decrease to expenses and revenue deductions or increase in patient revenues may be achieved in the short/intermediate term, attention must be focused on the long range resolutions to UMH&C's financial concerns. He added that the real problem faced by UMH&C is that net expenses incurred are higher than what marketplace revenues can be expected to support.

Mr. Westerman then reviewed the suggested methods to be considered, both short and long term, in resolving UMH&C's financial problems. These include: Support services and nursing cost reductions, increasing the number of intensive care patients treated on units for which special care unit costs can be recovered, hold even or reduce the amount of revenue being deducted (initially hold 80-81 write offs to specific programs at their 79-80 levels and revise the entire write off program), increase patient care charges to recover routine care costs.

On a longer term basis, it was suggested to pursue an early exception to the routine cost limit and pursue increased legislative appropriations. The one-two year goals include establishment of a clinical program review and hospital department expense base review process.

Dr. Tiede expressed a concern as to the impact on maintaining a high quality of patient care if cost reductions in support services and nursing are made.

Mr. Van Hulzen responded by stating that the Operations Group feels that UMH&C

can make cost reductions by changing performance standards and still maintain a high level of quality.

It was decided that, at the June meeting of the Finance Committee, the items relating to short term goals will be presented on a more specific basis with target dates for implementation/accomplishment and dollar amounts. Also a more specific plan will be developed by management for the six months-one year term which will be presented in August. The longer range items will be discussed further at the summer retreat.

II April YTD Financial Statements

Due to time constraints, the April YTD statements were not reviewed in detail by the Finance Committee, but were delayed until the full Board meeting. Mr. Fearing commented that there were no significant changes in the operating statements for April.

III 1980-81 Budget

Several schedules showing changes to the 1980-81 budget were distributed to the committee members. Mr. Larson noted that these changes were reflecting the change in the aggregate revenue increase from 25.9% to 19.7% as tentatively approved by the Board as well as nursing salary and fringe benefit changes approved by the Regents. Also incorporated into the salary figures are the career ladder adjustments.

Mr. Larson reported that the effect of these changes is an additional 1% increase in operating expenses between 1979-80 and 1980-81. This brings the percentage of change to 14.8%.

The result of these changes is Revenue in Excess of Expense projected for the budget year 1980-81 of $800,000, which does not include budget adjustments necessary to attain the $3,670,000 net revenue position.

IV Financial Policy Concerns

At the April Finance Committee meeting several financial policy questions, relating to the 1980-81 budget revenue increase, were taken into consideration and the committee requested that management evaluate these questions and submit its recommendations at the May meeting.

In reviewing the recommendations and the rationale of management, Mr. Fearing stated that, at this point, management feels it is appropriate to pursue self-financing of the renewal project. Management's recommendations also state that UMH&C should continue with the 1980-81 incremental increase toward charge/cost parity pricing and the revenue increase in the 80-81 budget of 19.7% includes a 2% increment toward achievement of charge/cost parity.

Other recommendations made by management include the following:

- UMH&C should continue its voluntary cooperative participation with Rate Review unless it becomes apparent the program is being arbitrary in its decisions and jeopardizes the hospitals mission.
- UMH&C should pursue a compensation program that is in accord with comparable wages within the metropolitan area except where special training, experience, or expertise in patient care requires compensation levels in excess of community norms. Mr. Cost suggested that a more specific term than "in accord" be used in this statement.
- UMH&C pursue an exception to the routine cost limits and, to the extent that a total exception is not received, should pass on to non-federal payors any costs determined to be reasonable by the Rate Review program. It was suggested that UMH&C take the initiative in contacting other teaching hospitals to determine how they are addressing the routine cost limitation problem and, in conjunction with these other hospitals, develop alternative

strategies (other than the exemption process) in dealing with this problem (such as addressing the legislature and/or HCFA directly). It was also noted that a report on the progress as to the identification of which hospitals will be contacted and how many have been contacted will be made to the Finance Committee at the June meeting.

All of these key financial policy questions will be considered by the committee members so a determination on its policy resolution can be made at the June meeting.

V Finance Committee Approval to Abandon KEH Project Expenditures

Mr. Fearing stated that UMH&C incurred certain expenses on the KEH project which has now been abandoned because of the one phase Hospital Renewal Project. He requested that the Finance Committee approve the write off of these expenditures amounting to $309,704.20, broken down as follows:

Ellerbe Associates, Inc. design fees per February 20, 1980 letter from Ronald T. Cannamore.	$306,211.69
Engineering services provided by Physical Plant Operations	1,477.36
Miscellaneous expenditures	2,015.15

A motion was made, seconded, and unanimously approved to write off the above amount on the KEH project.

VI Statement of Financial Policies and Requirements

This item was tabled until next month due to time constraints.

UNIVERSITY OF MINNESOTA HOSPITALS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1979 TO APRIL 30, 1980

	Budget	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$84,763,795	$82,676,135	$(2,087,660)	(2.5)
Deductions from Charges	5,027,267	4,891,273	(135,994)	(2.7)
Other Operating Revenue	1,710,478	1,655,443	(55,035)	(3.2)
Total Revenue from Operations	$81,447,006	$79,440,305	$(2,006,701)	(2.5)
Expenditures				
Salaries	$41,077,180	$40,894,251	$ (182,929)	(0.4)
Fringe Benefits	7,570,270	7,241,132	(329,138)	(4.3)
Contract Compensation	7,243,421	7,387,070	143,649	2.0
Med. Supplies, Drugs, Blood	13,097,539	12,511,037	(586,502)	(4.5)
Campus Admin. Expense	3,244,166	3,244,166	-0-	-
Depreciation	2,781,342	2,876,171	94,829	3.4
General Supplies & Expense	13,593,597	12,882,406	(711,191)	(5.2)
Total Expenditures	$88,607,515	$87,036,233	$(1,571,282)	(1.8)
Net Revenue from Operations	$(7,160,509)	$(7,595,928)	$ (435,419)	(6.1)
Non-Operating Revenue				
Appropriations/Univ. Support	$ 8,067,106	$ 8,103,972	$ 36,866	0.5
Accrued Interest Income	631,543	631,543	-0-	-
Total Non-Oper. Rev.	$ 8,698,649	$ 8,735,515	$ 36,866	0.4
Revenue Over/(Under) Expenses	$ 1,538,140	$ 1,139,587	$ (398,553)	(1)

(1) Variance equals (0.5)% of Total Budgeted Revenue.

With a Total YTD Planned Budget Revenue of $80,847,200, Total YTD Revenue over Expense, Budget v. Actual, yields a variance of $(2,511,421). This variance equals 3.1% of Total Planned Budget Revenue.

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
June 18, 1980

Members Present: David Cost, Chairman
John Quistgard, Vice Chairman
David Brown
Debbie Gruye
Fannie Kakela
Clint Johnson
David Preston
John Tiede
Virgil Moline
Cliff Fearing
John Westerman

Absent: JoAnne Barr
Al France
Seymour Levitt

Staff: Nels Larson
Terry Rosecke

Guests: John Mason
Dick Pierson
Johnelle Foley
Kevin Moore

The meeting of the Finance Committee was called to order by Chairman Cost at 9:35 a.m. in Room 626 of the Campus Club. Chairman Cost noted that Mr. Mason was in attendance and welcomed him to the Finance Committee meeting.

I Minutes 5/21/80 Meeting

A motion to approve the minutes of the May 21 meeting was made by Ms. Gruye, seconded by Ms. Kakela, and unanimously approved by the committee.

II May YTD Financial Statements (Including Explanation of Blood Product Cost Variance)

Mr. Larson began by noting that, during the month of May, admissions totaled 1,719, patient days totaled 17,085, and the average length of stay was 9.3 days. He added that the total clinic visits for the month of May were 17,589 or 1,152 visits below projected visits of 18,741. In response to a concern by

Dr. Tiede regarding the decline in the outpatient census, Mr. Fearing noted that the number of "new to clinic" patients is increasing but the number of return visits is decreasing. Mr. Cost suggested that a request be made to the ACMC for an update on their census situation and Mr. Quistgard suggested that ACMC also report on the "no-show" problem. Mr. Quistgard added that the Emergency Room financial report be presented as well.

Mr. Larson continued his report by noting that the hospitals operating position for May shows revenues over expense of $374,010. This brings the May year to date revenue over expense position to $1,513,597. Patient care charges continue to remain below budget due to the decline in ancillary service utilization, particularly in the areas of Blood Bank and Operating Rooms.

In conclusion, Mr. Larson stated that, based on our May 31, 1980 actual position, it appears we will fall short of our projected operating position by approximately $2,000,000. This variance is due primarily to the continued decline in ancillary service utilization. In regard to accrued expenses, operating cash for the current year will decline by approximately $1,900,000 associated with salaries and wages payable. The increase in accounts receivable by four days has the effect of reducing available cash by $1,800,000. Mr. Larson added that the impact of this projection will be a cash flow of $4,100,000 as compared to the projected amount of $9,700,000. Mr. Larson noted that an analysis of our June year end financial position will be done which will allow us to determine if changes need to be made to the 1980-81 projected budget.

Also provided was a supplementary schedule in regard to Medical Supplies, Drugs and Blood expense projections. Mr. Larson explained that there is a change in the variance from $1,000,000 based on December data to $700,000 based on April data. Two factors which affect the variance are a reduced program level in the Bone Marrow Transplant program and changes in the cost and mix of certain supply items, primarily x-ray films and plastic products.

III 1980-81 Budget

A. Explanation of Contract Adjustment Calculation

At last month's Board meeting an explanation of the change between the original contract adjustment of $10,033,999 and the revised contract adjustment of $5,328,618 was requested.

Mr. Fearing explained that the largest portion of the difference was a reduction in the $124 million revenue base to $117 million based on the 19.7% rate increase; 40% of that amount or $2,430,780 applied to federal patients. Secondly, between the April and May Board meetings, a revision in federal regulations in regard to the routine cost limits was made which accounts for a $501,000 differential. Thirdly, as discussed at the April meeting of the Finance Committee, an increase allowable cost for Campus G&A of $2,500,000 in the contract adjustment calculation was made to continue to pursue total reimbursement of which 40% applied to the federal contract adjustment. In addition, there were a number of other changes that affected this entire contract adjustment such as shared services income was better defined and changes the cost base by $179,500; we had a professional fee billing income adjustment of $126,400, a clinical research center adjustment of $200,000, a malpractice premium adjustment of $138,600, and other changes to the Section 223 limits based on changes in routine service costs areas vs intensive care unit areas. These changes were the primary components of the reduction in the contract adjustment from $10,033,999 to $5,328,618.

B. MNA Contract Settlement Affect

Since the last Board meeting, several changes in nursing salary items have occurred, amounting to $2,440,900 not included in the budget for 1980-81. These changes included an additional actual cost for career laddering above that included in the May budget, an 8% increase for GSN's, increases to maintain MNA parity, LPN career ladder, and shift differential rates.

In regard to these changes in the budget, the committee was presented with two options: (1) pass on any increases in contractual adjustments to non-federal payors which will require a 5.7% price increase from 1979-80 levels or (2) recover only cost and working capital changes with no transfer to non-federal patients of unallowable federal costs. This would require a 4.0% price increase from 1979-80 levels.

At the request of the committee, Mr. Fearing made the recommendation that Option 1 - pass on any increases in contractual adjustments to non-federal payors, be adopted by the Board.

Mr. Mason stated that the committee should not set a precedent as far as a pass through policy option is concerned until the policies are discussed further at the retreat and at next month's meeting.

A resolution was passed by the Finance Committee that UMH&C Board of of Governors adopt and recommend to the Board of Regents the 1980-81 budget consisting of:

	1980-81 Budget	1979-80 Projected	% Change
Expenditures	$120,821,792	$103,776,777	16.4%
Gross Patient Charges	$123,552,731	$ 98,530,179	25.4%

This resolution includes the preliminary budget approval of 19.7% and an additional 5.7% for nursing salary adjustments which were not included in the preliminary budget presented in April and May. In addition, the Finance Committee will continue to pursue Board policy questions regarding passing on federal non-allowable costs to other payors. The 1980-81 potential affect of this could be up to an additional $3,300,000 in rate increases to recapture these costs from third party payors. The implications of the policy options will be discussed at the August meeting.

C. Status Report on 4/16/80 Budget Resolution

At the request of the Finance Committee, a report was provided on specific time frames and target amounts relating to the 30-60 day short term steps toward accomplishing the Board of Governors budget resolution of 4/16/80. Mr. Fearing reviewed each of the short term items noting that management has identified a range of $1,360,000 to $2,850,000 in increased revenues or reduced expenses which will affect the 1980-81 budget. Also an additional $250,000 to $750,000 of programs is being evaluated to determine to what degree these changes can be effected. He added that between now and the August meeting, management will be making internal decisions as to which parts of these particular items can be accomplished and what their overall impact will be from a service perspective. A decision as to what portion of the $3.5 million will be required in additional rate increases will be made after this analysis has been completed.

Mr. Fearing pointed out that the most important item in the short term results is to increase the number of intensive care patients treated on units for which special care units costs can be recovered. This involves transferring patients from one to one nursing care to a special care unit and the establishment of three new intensive care units.

The committee had also requested a report on what other hospitals face the Section 223 limit problem and what action they are taking. Mr. Fearing explained that a status report from a number of hospitals with regard to Section 223 has been obtained and we are pursuing an analysis comparing UMH&C's departmental costs to other hospitals' departmental costs respective to routine cost limits. Several hospitals have instituted legal action against HCFA regarding the Section 223 limits and it is being determined how legal action might benefit UMH&C. In addition, a formal request for the proposed Section 223 exception criteria has been sent to HCFA requesting this information under the Freedom of Information Act.

Mr. Fearing noted that, in comparison to other hospitals surveyed, UMH&C's routine service costs for nursing salaries are significantly higher. This is due to the fact that UMH&C has extensive one to one nursing coverage on routine units instead of developing intensive care units as other hospitals have done. In three major areas of indirect expense allocated to general routine areas (Dietary, Housekeeping, Medical Records), UMH&C percentage costs are below the other hospitals surveyed. Another problem identified by the survey is the wage index which the government is allowing. UMH&C is allowed 87% of the average which is lower than other hospitals surveyed.

Mr. Fearing also noted that in a report from the University of Chicago a comparison of 91 hospitals routine service costs compared to their limits indicates that only 14 hospitals have this type of problem; University of Minnesota Hospitals is number three.

Mr. Mason stated that, since this seems to be a unique problem, the use of an outside consultant may be required to study the situation and recommend a procedure for resolution of the problem. The committee then proposed that management consider further the use of a consultant and report their findings to the committee.

The committee also agreed to continue pursuing an exception and continue pursuing comparisons with other hospitals as well as emphasize to the federal government the wage scale issue.

Mr. Fearing noted that, in addition to the short term plans, a process and the criteria for evaluation of program subsidies and appropriation distribution has begun which will lead to positioning UMH&C to more effectively evaluate its program priorities in the future and also contribute toward achievement of the 4/16/80 budget resolution.

IV <u>Financial Policy Questions</u>
V <u>Statement of Financial Policies and Requirements</u>

Mr. Fearing suggested that these items be delayed until after related issues have been discussed at the retreat.

There being no further business, the meeting of the Finance Committee was adjourned at 12:15 p.m.

Respectfully submitted,

Terry Rosecke

Terry Rosecke

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
August 20, 1980

Members Present:	David Cost, Chairman John Quistgard, Vice Chairman Joanne Barr Al France Fannie Kakela Seymour Levitt David Preston John Tiede Virgil Moline Cliff Fearing John Westerman
Absent:	David Brown Debbie Gruye Clint Johnson
Staff:	Nels Larson Terry Rosecke
Guests:	Harry Atwood Dave Domaas Steve Grygar Johnelle Foley Kevin Moore Barbara Tebbitt Don Van Hulzen

The meeting of the Finance Committee was called to order by Chairman Cost at 9:15 a.m. in Room 626 of the Campus Club.

I Minutes June 18, 1980 Meeting

A motion to approve the minutes of the June 18 meeting was made by Ms. Barr, seconded by Ms. Kakela, and approved unanimously by the committee.

II 1980-81 Budget Review Update
III April 16, 1980 Board of Governors Resolution Report

Mr. Fearing described the results of efforts to achieve the 4/16/80 budget resolution of $3,500,000, the impact of the changes on the 1980-81 budget, and management's recommendation for the future.

Mr. Fearing noted that an expense reduction of $1,553,000, increased non-operating and other operating revenue of $318,000, proposals to increase overall revenue by $800,000 through additional intensive care units utilization, and projected reductions in charity of $75,000 in connection with action taken by the Program Review Committee account for a total of $2,746,000. He added that two changes in federal regulations since the April meeting with regard to the Section 223 limits provide an additional $1,330,000. The first change was to provide an indirect education cost allowance above that originally published earlier this year and, secondly, the wage factor for the State of Minnesota was changed from 87% to 99%. Pass-through costs increased revenue by $831,000. An adjustment in malpractice insurance created a negative offset of $138,600. Taking into account these changes and the original excess of revenue over expenditure of $170,000, the amount of excess revenue over expenditures is projected to be $4,938,730.

Mr. Fearing went on to note that several steps have been taken to review program subsidies and other faculty support on a continuing basis such as the establishment of an Executive Patient Care Management Council and establishment of hospital policies regarding appropriation allocation. Options have also been identified for obtaining an exception to federal cost limits based on educational and developmental costs at UMH&C and the request of a $3,000,000 increase in the biennial legislative requests beginning in 1981.

In conclusion, Mr. Fearing stated that management's recommendation is to continue with Phase III of the budget resolution and strive toward achievement of the $3,500,000 resolution without consideration of the additional funds provided by changed Medicare regulations. In order to do this, UMH&C will maintain efforts toward cost reduction in 1980-81 and continue the program review efforts.

IV Renewal Project Update

In conjunction with preparation of the Certificate of Need for the Renewal Project, Ernst & Whinney has completed another debt capacity evaluation. Dain Bosworth contributed to the development of financial assumptions and methodology for this evaluation. The results of the study were presented to the Finance Committee in a handout and were summarized by Mr. Fearing. He noted that the cost of the project has escalated to $233 million.

Mr. Fearing pointed out for the committee several of the key variables which have a major impact on the financial feasibility of the Renewal Project. These variables include interest expense rates, interest income rates, global volume assumptions, salary and wage assumptions, inflation factor increases, and pricing assumptions. Several approaches to pricing alternatives were considered during the evaluation, and it was determined that, in order to self-finance the project, all routine cost limit offsets for federal patients must be passed on to non-federal payors. Mr. Fearing then stated that the general price increase associated with the project, in addition to inflation, would be 16.6% and 17.4% for State loan and University bonds respectively. The total effective price increase to non-federal payor groups for all costs, operational and debt between 1981 and 1989, is 133%.

Mr. Atwood expressed a concern that, with so many variables and assumptions involved, the financial feasibility of the Renewal Project is quite marginal and suggested that alternatives be developed assuming unfavorable forecasts. Mr. Cost also suggested that UMH&C's prices be compared with other hospitals and the impact of the Renewal Project on our price comparability be presented to the committee.

Mr. France suggested that it may be of value to include other members of the Board of Governors besides the Chairman on the Executive Coordinating Committee for the Renewal Project.

After further discussion, the committee requested Mr. Fearing to develop a resolution for consideration at next month's meeting regarding the policy of a pass-on to non-federal payors which would be temporary depending on the outcome of the exception process.

V <u>April - June Bad Debt Request</u>

A motion was made by Ms. Barr to approve the amount recommended for bad debt during the months of April, May, and June of fiscal year 1979-80. Bad debts for this period amounted to $445,941.66, and $2,385.30 of Home Health Care activity was also recommended for approval. The motion was seconded by Dr. Tiede and approved unanimously by the committee.

VI <u>Other</u>

Mr. Fearing informed the committee that UMH&C had its Rate Review hearing last Thursday at which time total revenue increases of 25.4% and price increases of 18.5% were requested and approved. The Hearing Panel approved a 14.0% to 14.5% price increase for our costs and a 4.5% increase for our federal limitation problem with the proviso that UMH&C seek an exception as well as take the responsibility to be a leader in innovative cost control and cost effectiveness measures.

Barb Tebbitt gave an overview of the presentation to the Hearing panel by the nursing staff on care practices and their impact as they relate to full time equivalents.

There being no further business, the meeting of the Finance Committee was adjourned at 11:50 a.m.

Respectfully submitted,

Terry Rosecke

Terry Rosecke

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
September 17, 1980

Members Present:	David Cost, Chairman John Quistgard, Vice Chairman JoAnn Barr David Brown Al France Debbie Gruye Clint Johnson Fannie Kakela Virgil Moline John Tiede David Preston Cliff Fearing John Westerman
Absent:	Seymour Levitt
Staff:	Nels Larson Terry Rosecke
Guests:	Johnelle Foley Kevin Moore Don Van Hulzen

The meeting of the Finance Committee was called to order by Chairman Cost at 9:10 a.m. in Room 626 of the Campus Club.

I <u>Approval August 20, 1980 Minutes</u>

A motion to approve the minutes of the August 20 meeting was made by Ms. Barr, seconded by Mr. Johnson, and approved unanimously by the committee.

II <u>June 30, 1980 Preliminary Financial Statements Budgeted vs. Actual</u>

Mr. Larson began by outlining the significant factors which have contributed to UMH&C's year end financial position. Admissions for the year declined 1.6% from the 1978-79 admissions level with the majority of the decline in the less acute medical/surgical areas. Patient days increased by 1.7% as a result of an increase in the average length of stay which was 9.5 days for 1979-80 compared to 9.2 days for 1978-79. This change reflects a patient population with higher average acuity levels. Mr. Larson added that the outpatient census for the year was above the 1978-79 total census by 3.2%.

In continuing his report, Mr. Larson noted that total patient revenues increased approximately $11,700,000 from 1978-79 to 1979-80 due to price increases approved by the Board of Governors and increased revenue resulting from changes in the mix and intensity of services. Operating expenses increased $12,838,000 from the 1978-79 year to a total of $105,444,560. This total is approximately $1,969,000 below budget for the year and represents a favorable variance of 1.8%.

Mr. Larson reported that the balance in patient accounts receivable as of June 30, 1980, representing 77.0 days of revenue outstanding, was $22,187,628. In the area of capital expenditures, Mr. Larson mentioned that the Hospital funded approximately $8,351,000 for current capital obligations during the fiscal year 1979-80. In addition, $1,318,000 was required from the Reserve Fund to finance total capital expenditures of $9,669,000.

In conclusion, Mr. Larson stated that the planned financial objectives for 1979-80 were not achieved due to reductions in patient service utilization, unanticipated compensation increases, and write offs. These changes had the effect of reducing revenues over expenses from a planned position of $4,402,000 to a final position of $1,232,000. However, if the fiscal objectives for 1980-81 are achieved, UMH&C will remain on schedule in accummulating the resources for recurring capital needs and cash required for the Renewal Project.

In discussing employee compensation as it relates to the variance in net income, Mr. Quistgard proposed that consideration be given to providing each employee with a yearly summary of actual salary and fringe benefit dollar amounts received. Mr. Cost suggested that he could provide Mr. Johnson with examples used by Northwestern National Bank.

Ms. Gruye suggested that the committee be provided with periodic updates on the financial status of new programs which have been approved by the Board of Governors such as the Bone Marrow Transplant program.

III <u>August Year to Date Financial Statements</u>

Mr. Larson reported to the committee that the operating position of the Hospital for July and August of the 1980-81 fiscal year reflects a small change in the inpatient census mix, an increase in the utilization of some ancillary services, and the settlement of a malpractice suit. He stated that admissions, patient days, and average length of stay were slightly below budget and clinic visits were above budget by 8.2%. Ms. Barr asked if a determination could be made on the number of students who are patients at the outpatient clinics instead of using the Boynton Health Service which is their primary source of outpatient care. Mr. Larson will compile that information for presentation at a future meeting. Mr. France commented that the average length of stay in the Psych and Rehab areas has dropped significantly in comparison to prior year figures. A determination as to the reason for that change will be made by Mr. Larson.

The operating position through August showed year to date revenue over expense of $1,229,852 which includes a $964,000 settlement of a malpractice suit. The committee requested that Mr. Diehl be asked to inform them of future settlements on malpractice cases.

Mr. Larson continued by noting that the balance in patient accounts receivable at the end of August was $27,139,465 which represents 82 days of outstanding revenue.

Mr. Larson added that the Hospitals overall operating position is positive and, at the November meeting, the committee will be presented with a projection of the June 30, 1981 position based on first quarter data.

IV Renewal Project Financial Update

Mr. Fearing explained that the financial alternatives were being developed which assume unfavorable forecasts in volume and interest rates regarding the Renewal Project. These forecasts will be presented at a future meeting of the Finance Committee.

He also noted that Mr. Jack Mason sent a letter to Mr. Cost expressing his concerns on financing the Renewal Project with patient revenues. Mr. Fearing and Mr. Cost will develop a response to Mr. Mason's letter clarifying the Finance Committee's understanding of his concerns. This letter will be shared with the committee prior to the October meeting.

V Federal Cost Limits Pass Through Resolution

At the request of the Finance Committee, Mr. Fearing drafted a resolution supporting the need for price transfers to non-federal payors. After review by the committee, it was decided that the resolution be redrafted for further consideration at next month's meeting. It was also requested that the committee be updated on the progress of the exception request at the October meeting.

VI Other

Mr. Preston noted that the effect on the Hospital of the $14.1 million reduction from state appropriations to the University will be a cut in the Hospitals operations and maintenance fund and special appropriations of $266,000.

Mr. Fearing stated that a letter has been received from the Director of Rate Review regarding the approval by the Rate Review Panel of a 25.4%

MINUTES
Finance Committee
University of Minnesota Hospitals and Clinics
October 15, 1980

Members Present:	David Cost, Chairman John Quistgard, Vice Chairman JoAnn Barr David Brown Debbie Gruye Clint Johnson Fannie Kakela Seymour Levitt Virgil Moline Cliff Fearing John Westerman
Absent:	Al France John Tiede David Preston
Staff:	Nels Larson Terry Rosecke
Guests:	John Diehl Johnelle Foley Kevin Moore Don Van Hulzen

The meeting of the Finance Committee was called to order by Chairman Cost at 10:10 a.m. in the Dale Shepherd Room of the Campus Club.

I <u>Approval September 17, 1980 Minutes</u>

A motion to approve the minutes was made by John Quistgard, seconded, and approved unanimously by the committee.

II <u>September YTD Financial Statements</u>

Mr. Larson stated that, during the month of September, admissions totaled 1,861, the length of stay was 9.8 days, and patient days totaled 17,450 days. These figures are above projections due primarily to increased census on general service routine stations. Mr. Larson went on to note that the clinic visits for September totaled 17,219 or 4.4% above projected visits of 16,499.

The operating position September YTD showed revenues over expense of $2,963,450 which is a favorable variance of $937,150. Mr. Larson added that patient care charges totaled $32,543,000 (1.8% above budgeted levels) through the first quarter. Operating expenses totaled $29,325,000 which is a 1.7% favorable variance.

Mr. Larson mentioned that, on the recommendation of Touche Ross and Company, the malpractice settlement made during this fiscal year will be reflected in the 1979-80 financial statements.

He also noted that the balance in accounts receivable at the end of September was $27,304,538 which represents 77 days of outstanding revenue. Mr. Larson mentioned that several new items were included on the balance sheet, i.e., contractual adjustments payable to third party payors - $1,764,691; notes payable-current - $5,000,000; and the malpractice settlement - $964,000.

Next month the Finance Committee will be presented with year end projections based on changes in volume, mix and intensity through September 30, 1980.

III <u>Analysis of Change in Average Length of Stay for Psych & Rehab</u>

The committee members received a handout explaining the variance in the average length of stay for Psych and Rehab between the current year and the prior year. Mr. Larson reported that the variance is due mainly to the effect of the discharge pattern on a small patient population which skews the statistics and a small number of renal studies done with Rehab patients in which the average length of stay is about four days.

IV <u>Renewal Project Update</u>

Mr. Fearing informed the committee that members of management have participated in two meetings with the Metropolitan Health Board in the process of presenting the Certificate of Need data for the Renewal Project and will be meeting with them again to address any specific questions or concerns the Health Board may have.

Mr. Fearing then noted that Ernst & Whinney has analyzed the impact of a drop in the projected census on the financial feasibility of the Renewal Project. Conclusions were that a census drop in 1990 to 188,810 patient days would result in a $25,000,000 shortfall. The two variables which were analyzed to determine if changes could prevent this shortfall were project costs and state loan amounts. The results of the analysis showed that either a decrease in the project size of $14,500,000 or an increase in the state loan amount of $20,000,000 would result in approximately the same cash position in 1989 as projected in the Certificate of Need application. Ernst & Whinney also determined that an increase in rates by 2.5% in 1986 and 1.0% in 1987 through 1989 in excess of previously used rate increases would maintain the same cash position. Mr. Fearing stated that Mr. Dickler and the Ellerbe architects are exploring the possibility of a $14,500,000 decrease in the project size. Mr. Fearing added that, using the 7/30/80 state general obligation bond financial model, existing calculation techniques for debt coverage, and the financing requirements associated with a 7% interest rate, it was found that a 1.5 to 1 debt coverage ratio could be maintained with a maximum interest rate of 9.046%. The Ernst & Whinney financial feasibility study, which will be used to obtain financing and will take into consideration such significant variables as patient days, cost of construction, and interest rates, will be available for review by the Finance Committee in late February or early March.

It was suggested that a representative from Ernst & Whinney be invited to attend a joint meeting of the Finance and Planning Committees in November or December to discuss the approaches which will be used in the financial feasibility study.

V Federal Cost Limit Pass-Through Resolution

The second draft of the federal cost limit pass-through resolution, which was provided to the committee in a handout and reviewed by Mr. Fearing, was recommended for approval by Mr. Quistgard, seconded by Ms. Kakela, and unanimously approved.

VI Other

A. Mr. Cost noted that he is the co-chairman of the Nominations Committee this year and will be speaking to various committee members with regard to attendance at meetings.

B. Mr. Cost also noted that each committee member was provided with a copy of the response sent to Mr. Mason regarding his concerns on financing of the Renewal Project.
He added that, as a result of a meeting with Mr. Mason, it was determined that compliance with the Board of Governors April 16, 1980 budget resolution would be reported regularly to the Finance Committee by management.

C. Mr. Diehl gave a brief overview of the settlement on the Stein case and noted that there are a very small number of pending malpractice cases at the present time but that the Finance Committee will be advised of any future developments.

There being no further business, the meeting of the Finance Committee was adjourned at 12:15 p.m.

Respectfully submitted,

Terry Rosecke

Terry Rosecke

UNIVERSITY OF MINNESOTA HOSPITALS AND CLINICS
STATEMENT OF OPERATIONS
FOR PERIOD JULY 1, 1980 TO SEPTEMBER 30, 1980

	Budget	Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Charges	$31,971,470	$32,542,544	$571,074	1.8
Deductions from Charges	3,575,603	3,695,992	120,389	3.4
Other Operating Revenue	497,214	472,777	(24,437)	(4.9)
Total Revenue from Operations	$28,893,081	$29,319,329	$426,248	1.5
Expenditures				
Salaries	$14,182,688	$14,463,126	$280,438	2.0
Fringe Benefits	2,532,363	2,507,471	(24,892)	(1.0)
Contract Compensation	2,333,456	2,321,464	(11,992)	(0.5)
Med. Supplies, Drugs, Blood	4,282,604	4,051,490	(231,114)	(5.4)
Campus Admin. Expense	1,049,934	1,049,934	-0-	-
Depreciation	983,164	877,922	(105,242)	(10.7)
General Supplies & Expense	4,479,012	4,053,470	(425,542)	(9.5)
Total Expenditures	$29,843,221	$29,324,877	$(518,344)	(1.7)
Net Revenue from Operations	$ (950,140)	$ (5,548)	$944,592	
Non-Operating Revenue				
Appropriations/Univ. Support	$ 2,640,187	$ 2,640,187	-0-	-
Accrued Interest Income	284,591	284,591	-0-	-
Shared Services	51,662	44,220	(7,442)	(14.4)
Total Non-Oper. Revenue	$ 2,976,440	$ 2,968,998	$ (7,442)	(0.3)
Revenue Over/(Under) Expense	$ 2,026,300	$ 2,963,450	$937,150 (1)	

(1) Variance equals 3.2% of Total Budgeted Revenue.