UNIVERSITY OF MINNESOTA

Twin Cities Campus

Financial Operations
Office of the Controller

Administrative Services Center
1919 University Avenue
St. Paul, MN 55104
612-624-5745
Fax: 612-624-4149

April 15, 1992

Clifford P. Fearing
University of Minnesota Hospital and Clinic
Box 605 Mayo
Minneapolis Campus

Dear Cliff:

This is to inform you that on April 9, 1992, the Board of Regents cancelled accounts receivable in accordance with your request as follows:

Date of Your Request	Date of Accounts Receivable	Number of Accounts	Balance Cancelled
1/23/92	10/91 - 12/91	1,881	$555,108.29

Sincerely,

Katherine Cram

Katherine Cram
Assistant Vice President
Business Services

MEETING OF THE
BOARD OF GOVERNORS FINANCE COMMITTEE
Wednesday, April 22, 1992
1:30 - 3:00 p.m.
University Hospital Board Room, 8-106

COMMITTEE MEMBERS

Nellie Johnson, Chair
Edward Ciriacy, M.D.
Robert Dickler
Michael Dougherty
Clifford Fearing
Leo Furcht, M.D.
Maria Gomez
Arthur Kydd
Margaret Matalamaki
John Morrison
Roger Paschke
Vic Vikmanis

A G E N D A

I.	**Opening of Meeting and Approval of Minutes of Finance Committee meeting held 3/25/92 (Approval)** pp. 1 - 3	Nellie Johnson, Chair
II.	**March 31, 1992 Financial Statements (Information)** pp. 4 - 9	Clifford Fearing
III.	**Third Quarter, 1991-92 Bad Debts (Endorsement/Consent)** pp. 10 - 39	Clifford Fearing
IV.	**1992-93 Budget (Information) To be distributed.**	Clifford Fearing
V.	**Bone Marrow Transplant - Stem Cell Project (Information)** pp. 40 - 54	Greg Hart
VI.	**Major Capital Expenditures:**	
	A. **MRI Upgrade Diagnostic Radiology (Information)** pp. 55	Helen Pitt
	B. **Surgical Laser (Information)** pp. 56	R. Carter McComb

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BOARD OF GOVERNORS FINANCE COMMITTEE
March 25, 1992

MINUTES

ATTENDANCE:

Edward Ciriacy, M.D.
Robert Dickler
Clifford Fearing
Leo Furcht, M.D.
Nellie Johnson
Arthur Kydd
John Morrison
Roger Paschke
Vic Vikmanis

Staff: Giles Caver
Greg Hart
Nels Larson
Joanne Disch
Sharon Weiss
Roger Paschke

CALL TO ORDER:

The meeting of the Board of Governors Finance Committee was called to order by Nellie Johnson, Finance Committee Chairperson, on March 25, 1992 at 1:30 P.M.

APPROVAL OF THE MINUTES:

The Board of Governors Finance Committee seconded and passed a motion to approve the Finance Committee minutes of the February 26, 1992 meeting as written.

JULY 1, 1991 THROUGH FEBRUARY 29, 1992 FINANCIALS:

Mr. Cliff Fearing reported to the Finance Committee the month of February inpatient admissions totaled 1,455 which was 56 over budget; average length of stay was 7.5 days or 0.6 days below budget; patient days totaled 11,010 which were 349 days below budget. The February average daily census was 380, which was below the budgeted level of 392. Clinic visits for the month of February were reported to be 7.5% above budget.

The Hospital's year-to-date Statement of Operations showed expenses being greater than revenues by $2,435,000, an unfavorable variance of $5,772,000. Gross patient revenue was 2.3% below budget and operating expenditures through February were reported to be 2.8% below budget.

As of February 29, the balance of accounts receivable totaled $110,267,000 and represented 104.8 days of revenue outstanding.

1992-93 BUDGET:

Mr. Fearing presented to the Committee, for information, preliminary 1992-93 budget forecasts. Four possible 1992-93 budget scenarios were outlined for discussion. A final budget forecast will be presented for information to the Committee and the full Board of Governors in April along with the projected effects of various selected rate increases. UMHC's maximum level rate increase must be submitted to the state's rate review agency by May, 1992.

Mr. Fearing reported the 1992-93 projections include an admissions decline of 3.6% with an outpatient visits increase of 2.0%. It is projected that Medicare payment increases should average 4.0% and non-Medicare and non-Medical Assistance payment increases should average 5.5%.

At this time, there are many unresolved State of Minnesota legislative issues that will have a significant impact on this budget forecast. If the Minnesota Healthcare Access Bill is passed, the 1992-93 impact will be a $1.8M Hospital tax. Also, Medical Assistance payments could decrease by $1.5M depending on surcharge legislation currently being considered by both Houses.

Final approval of the 1992-93 Budget will be sought from the Board of Governors in May and the Board of Regents in June.

UMHC LONG TERM DEBT RESTRUCTURING:

Mr. Fearing presented to the Committee, for information, three options for reducing the long term debt costs. The recent decline in interest rates has created an opportunity for UMHC to restructure a portion of it's Long Term Debt.

As of the end of February, the debt structure includes $102,160,000 in long term fixed rate debt with an average interest rate of 7.611%, while current rates are in the 6.7% to 6.8% range; and, our long term variable rate debt of $62,971,365 has an average interest rate of 4.73%, while current rates are in the 3% range. Depending on how the debt was restructured, UMHC could have a present value savings from approximately $3M to upwards of $18M.

Mr. Fearing stated that since we have already refinanced UMHC's debt twice, which is the limit under existing Federal regulations, we are limited to three options for reducing the debt costs. 1) Perform a cash defeasance, which is essentially depositing cash in a Trustee held escrow account to cover the cost of the bonds until they are callable in 1996 and issuing new debt at lower current interest rates for capital needs; or, 2) tender an offer to purchase the bonds from their existing owners for a price higher than par and reissuing new debt at lower rates; or, 3) Perform a restructuring within the University by either an internal defeasance or unbundling UMHC's variable rate debt to move toward more commercial paper and less 5 year fixed rate debt; or, 4) a combination of the above.

Roger Paschke, Director of University Asset Management, presented some additional information on Hospital internal financing alternatives and the advantages of this type of debt restructuring.

Transaction details will be outlined for the BOG at the April Finance Committee and the Full Board meeting. If the internal restructuring is the chosen option, the Board of Regents approval would not be needed, thus expediting the process.

There being no further discussion, the March 25, 1992 meeting was adjourned at 3:25 P.M.

Respectfully submitted,

Sharon Weiss

Sharon Weiss
Recording Secretary

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

April 22, 1992

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing

SUBJECT: Report of Operations for the Period **July 1, 1991 through March 31, 1992**

The Hospital's operations for the month of March reflect inpatient census and outpatient clinic visits greater than budgeted levels.

INPATIENT CENSUS: For the month of March, inpatient admissions totaled 1,617 which was 93 over budgeted admissions of 1,524. Our overall average length of stay for the month was 8.1 days. Patient days for March totaled 12,680 and were 93 days over budget. The areas in which admissions were most significantly over budget were Medicine, Surgery, Orthopedics, and Family Practice. Gynecology was an area in which admissions were significantly less than budget.

OUTPATIENT CENSUS: Outpatient encounters (including CUHCC and Home Health) for the month of March totaled 30,972 which was 1,900, or 6.5%, more than budgeted visits of 29,072. CUHCC was 1,068 or 24.2% over budget and Home Health was 356 or 40.0% over budget. Other areas in which visits were significantly over budget include Adult Psych, A.C.T.U., Sports Medicine, and Heart Cath Lab (not budgeted for). Areas which were significantly under budget were Child Psych, Emergency Room, Medicine, and Radiation Therapy.

To recap our census:

Monthly Data						YTD Data				
90/91 Actual	91/92 Budget	91/92 Actual	Variance	% Var		90/91 Actual	91/92 Budget	91/92 Actual	Variance	% Var
1,497	1,524	1,617	93	6.1	Admissions	13,697	13,796	13,567	(229)	(1.7)
12,347	12,587	12,680	93	0.7	Patient Days	109,998	111,824	105,913	(5,911)	(5.3)
7.7	8.3	8.1	(0.2)	(2.4)	Avg Length of Stay	8.0	8.1	7.8	(0.3)	(3.7)
398.3	406.0	409.0	3.0	0.7	Avg Daily Census	401.5	406.6	385.1	(21.5)	(5.3)
68.9	70.5	72.9	2.4	3.4	Percent Occupancy	69.7	70.6	67.9	(2.7)	(3.8)
27,778	29,072	30,972	1,900	6.5	Outpt Encounters	250,995	257,769	257,946	177	0.1

FINANCIAL OPERATIONS: The Hospital's Statement of Operations shows expenses being greater than revenues by $1,396,000, an unfavorable variance of $(5,160,000).

Patient care charges through March totaled $277,383,000, which was 1.6% under budget. Ancillary revenue was $178,000 (0.1%) above budget and routine revenue was $4,710,000 (5.7%) below budget and reflects both our unfavorable inpatient and outpatient census variance. Inpatient revenue averaged $16,167 per admission compared to the budgeted average of $16,352. Outpatient revenue per outpatient encounter averaged $225 per visit compared to the budgeted average of $218.

Deductions from charges totaled $74,225,000, which was $4,700,000 (6.8%) over budgeted deductions of $69,525,000. The variance is largely due to the Medicare and Medical Assistance programs where the average charges per case are higher than projected, thus resulting in higher than anticipated adjustments. Other factors contributing to the variance include increased activity with Laboratory Outreach programs, increased write-offs associated with an increase in transplant activity, and increased contract activity from the Veterans Administration Hospital.

Operating expenditures through March totaled $230,537,000 and were $5,977,000 (2.5%) below budgeted levels of $236,514,000. The overall favorable variance was primarily due to lower patient related costs (personnel, drugs and blood) and anticipated expenses that will not be incurred.

ACCOUNTS RECEIVABLE: The balance in patient accounts receivable as of March 31, 1992, totaled $109,873,000 and represented 101.4 days of revenue outstanding. The overall decrease in patient receivables in March of 3.4 days was reflected by a decreased balance in Discharged but not Final Billed totals. This decrease was mainly due to more efficient operations of the Outpatient Encounter Billing System.

CONCLUSION: The Hospital's overall operating position for the month of March was very positive. Both increased patient volumes and reduced expenditure levels contributed to our favorable month outcome. We will continue to take appropriate actions with regard to our expenditure base to ensure at least a break-even financial position for the fourth quarter of the 1991/92 fiscal year.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
SUMMARY STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 1, 1991 TO MARCH 31, 1992

	1991–92 Budgeted	1991–92 Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Revenue	$281,915,000	$277,383,000	($4,532,000)	–1.6%
Deductions From Revenue	69,525,000	74,225,000	4,700,000	6.8%
Net Patient Service Revenue	212,390,000	203,158,000	(9,232,000)	–4.3%
Other Operating Revenue				
Appropriation & Support	10,035,000	9,869,000	(166,000)	–1.7%
Other Revenue	8,963,000	8,751,000	(212,000)	–2.4%
Total Other Revenue	18,998,000	18,620,000	(378,000)	–2.0%
Total Revenue From Operations	231,388,000	221,778,000	(9,610,000)	–4.2%
Operating Expenses:				
Salaries	95,565,000	93,263,000	(2,302,000)	–2.4%
Fringe Benefits	23,109,000	22,424,000	(685,000)	–3.0%
Contract Compensation	15,010,000	15,085,000	75,000	0.5%
Supplies And Services	53,008,000	51,605,000	(1,403,000)	–2.6%
Utilities And Maintenance	8,796,000	9,231,000	435,000	4.9%
General Supplies & Expense	14,254,000	12,622,000	(1,632,000)	–11.4%
Insurance	1,401,000	1,400,000	(1,000)	–0.1%
Depreciation & Amortization	14,496,000	13,644,000	(852,000)	–5.9%
Interest	8,637,000	8,877,000	240,000	2.8%
Provision For Uncollectibles	2,238,000	2,386,000	148,000	6.6%
Total Operating Expenses	236,514,000	230,537,000	(5,977,000)	–2.5%
Net Revenue From Operations	(5,126,000)	(8,759,000)	(3,633,000)	
Nonoperating Gains: Investment Income	8,890,000	7,363,000	(1,527,000)	–17.2%
Revenue And Gains In Excess Of Expense	$3,764,000	($1,396,000)	($5,160,000)	

	1991–92 Budgeted	1991–92 Actual	Variance Over/(Under) Budget	Variance %
Admissions	13,796	13,567	(229)	–1.7%
Patient Days	111,824	105,913	(5,911)	–5.3%
Average Length Of Stay	8.1	7.8	(0.3)	–3.7%
Average Daily Census	406.6	385.1	(21.5)	–5.3%
Percentage Occupancy	70.6	67.9	(2.7)	–3.8%
Outpatient Encounters	257,769	257,946	177	0.1%

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
BALANCE SHEETS

MARCH 31, 1992 AND JUNE 30, 1991

ASSETS	03/31/92	6/30/91
CURRENT ASSETS		
Operating Cash	$12,128,000	$13,611,000
Reserve Cash- Third Party Payable	24,350,000	21,246,000
Reserve Cash- Current Indebtedness	2,322,000	5,721,000
Accounts Receivable		
Patient Receivables	109,873,000	95,679,000
Other Receivables	1,910,000	1,795,000
Third Party Receivable	1,427,000	2,145,000
Appropriation Receivable	2,338,000	1,325,000
Promissory Notes Receivable	211,000	0
	115,759,000	100,944,000
Less Allowances for Losses in Collection	(8,367,000)	(7,805,000)
Less Allowances for Discounts to Third Party Payors	(30,501,000)	(24,620,000)
	76,891,000	68,519,000
Inventories of Drugs & Supplies	4,639,000	4,723,000
Prepaid Expenses	584,000	1,061,000
TOTAL CURRENT ASSETS	$120,914,000	$114,881,000
ASSETS WHOSE USE IS LIMITED		
Board Designated Assets Available for Assignment		
Cash & Investments	$44,956,000	$44,819,000
Accrued Interest	2,684,000	148,000
	47,640,000	44,967,000
Cash & Invest for Debt Service	13,000,000	13,000,000
Cash & Invest for Working Capital	16,000,000	16,000,000
TOTAL	$76,640,000	$73,967,000
PROPERTY, PLANT, & EQUIPMENT		
Land, Buildings & Improvements	$192,129,000	$191,909,000
Equipment	106,713,000	98,495,000
	298,842,000	290,404,000
Less Accumulated Depreciation	(146,980,000)	(133,650,000)
	151,862,000	156,754,000
Construction in Progress	8,576,000	5,581,000
TOTAL PROPERTY, PLANT, & EQUIPMENT	160,438,000	162,335,000
Assigned Cash & Investments for Construction/Equipment	41,364,000	45,136,000
TOTAL	$201,802,000	$207,471,000
INVESTMENTS HELD BY BOND TRUSTEE	$17,255,000	$19,108,000
PROMISSORY NOTES RECEIVABLE	$4,057,000	$0
OTHER ASSETS		
Deferred Third Party Reimbursement	$5,905,000	$6,404,000
Deferred Debt Expense	946,000	1,009,000
Deposits and Other	1,197,000	374,000
TOTAL	$8,048,000	$7,787,000
TOTAL ASSETS	$428,716,000	$423,214,000
RESTRICTED ASSETS		
Cash and Investments	$8,020,000	$7,416,000

LIABILITIES AND FUND BALANCES	03/31/92	6/30/91
CURRENT LIABILITIES		
Accounts Payable	$12,959,000	$11,539,000
Payable to Third Party Contr. Payors	21,535,000	18,431,000
Salaries, Wages and Payroll Taxes	13,566,000	9,833,000
Accrued Vacation	9,190,000	9,233,000
Accrued Professional Fees and Physician Compensation	2,217,000	2,171,000
Contracts Payable	5,020,000	522,000
Construction Retainages	139,000	307,000
Interest Payable	1,880,000	4,684,000
Current Portion of Long-Term Debt	3,110,000	3,157,000
TOTAL CURRENT LIABILITIES	$69,616,000	$59,877,000
LONG-TERM DEBT, LESS CURRENT PORTION	$162,261,000	$165,282,000
UNRESTRICTED FUND BALANCE	$196,839,000	$198,055,000
TOTAL LIABILITIES & FUND BALANCE	$428,716,000	$423,214,000
RESTRICTED FUND BALANCES		
Endowment Funds	$2,751,000	$2,553,000
Gift Funds	5,269,000	4,863,000
	$8,020,000	$7,416,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

CASH FLOW

FOR THE PERIOD JULY 1, 1991 TO MARCH 31, 1992

OPERATING ACTIVITIES AND NONOPERATING REVENUES:	
Excess of operating revenues over operating expenses:	($8,759,000)
Noncash revenues and expenses included in operating activity:	
Depreciation and amortization	$14,244,000
Unreimbursed University G & A services	167,000
Provision for uncollectible accounts	2,386,000
Change in patient receivable and other receivables	(11,265,000)
Change in due from third party reimbursement program	717,000
Change in due to third party reimbursement programs	3,105,000
Change in accounts payable	1,420,000
Change in accrued expenses	5,261,000
Other, net	(263,000)
Net cash provided by operating activities	$7,013,000
Nonoperating revenues	$7,363,000
Net cash provided by operating activities and nonoperating revenues	$14,376,000
INVESTING ACTIVITIES:	
Acquisition of property, plant and equipment	($11,683,000)
Funds transferred from other sources	13,000
Cash outflows for property & plant	(11,670,000)
Increase in promissory notes receivable	(4,268,000)
Decrease in assets whose use is limited	2,953,000
Net cash used in investing activities	($12,985,000)
FINANCING ACTIVITIES:	
Repayment of long-term debt	($2,490,000)
Repayment of notes payable	(678,000)
	($3,168,000)
Decrease in cash and equivalents	($1,777,000)
Cash and cash equivalents at June 30, 1991	$40,577,000
Cash and equivalents at March 31, 1992	$38,800,000

University of Minnesota Hospital & Clinic

Statement of Changes in Fund Balance

For the Period July 1, 1991 through March 31, 1992

	OPERATING FUND	CURRENT DEBT SERVICE FUND	BOARD DESIGNATED FUND	PLANT FUND	TRUSTEE FUND	TOTAL UNRESTRICTED FUNDS
UNRESTRICTED FUNDS						
Beginning Balance	$53,120,000	$5,721,000	$73,967,000	$46,139,000	$19,108,000	$198,055,000
Net Income						
Excess of Revenue over Expense	4,077,000					
Interest Income on Reserves			6,153,000			
Depreciation Expense				(13,582,000)		
Gain on Disposal of Assets				1,000		
Interest Income on Trustee Held Fund					1,039,000	
Amortization of Deferred Bond Expense				(163,000)		
Amort of Deferred 3rd Party Reimb.				(500,000)		
Interest Income on Bond Proceeds			1,459,000		120,000	
Total Income						(1,396,000)
Less Expense						
University Support: G & A	167,000					167,000
Transfers Between Funds						
Major Building Projects- Hosp.	(2,134,000)			2,134,000		
Capital Expenditures	(5,931,000)			5,931,000		
Major Equipment Requisition	(678,000)			678,000		
Bond Interest Payment	11,409,000	(10,887,000)			(522,000)	
Bond Principal Payment				2,490,000	(2,490,000)	
Bond Interest Expense Funding	(8,084,000)	8,084,000				
Bond Principal Funding	596,000	(596,000)				
Practice Acquisition	4,946,000		(4,946,000)			
Dermatology Loan Payment	(7,000)		7,000			
Transfer from Gift Fund to Plant				13,000		13,000
Ending Balance	$57,481,000	$2,322,000	$76,640,000	$43,141,000	$17,255,000	$196,839,000

	GIFT	ENDOWMENT	TOTAL
RESTRICTED FUNDS			
Beginning Balance	$4,863,000	$2,553,000	$7,416,000
Income	582,000	198,000	780,000
Disbursements	(163,000)		(163,000)
Transfer to Plant Fund for Capital Exp.	(13,000)		(13,000)
Ending Balance	$5,269,000	$2,751,000	$8,020,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
ADMISSIONS & AVERAGE LENGTH OF STAY (ALOS) BY SERVICE
1990/91 AND 1991/92 COMPARISON

	ADMISSIONS							AVERAGE LENGTH OF STAY		
	1990/91	1991/92				CHANGE	% CHNAGE	1990/91	1991/92	
	MAR YTD	MAR YTD	MAR YTD		%	FROM	FROM	MAR YTD	MAR YTD	
CLINICAL SERVICE	ACTUAL	BUDGET	ACTUAL	VARIANCE	VARIANCE	PRIOR YR	PRIOR YR	ALOS	ALOS	CHANGE
ANESTHESIOLOGY	0	0	1	1		1		0.0	1.5	1.5
CLINICAL RESEARCH	290	302	218	(84)	-27.8%	(72)	-24.8%	3.5	3.1	(0.4)
DENTISTRY	5	5	3	(2)	-40.0%	(2)	-40.0%	0.6	2.3	1.7
ORAL SURGERY	42	37	58	21	56.8%	16	38.1%	1.5	1.5	0.0
DERMATOLOGY	10	11	12	1	9.1%	2	20.0%	4.6	6.4	1.8
FAMILY PRACTICE	23	18	88	70	388.9%	65	282.6%	4.0	3.6	(0.4)
GYNECOLOGY	1,014	1,080	838	(242)	-22.4%	(176)	-17.4%	4.8	4.9	0.1
MEDICINE	3,374	3,377	3,567	190	5.6%	193	5.7%	6.4	6.4	0.0
NEWBORN	254	272	245	(27)	-9.9%	(9)	-3.5%	2.5	1.9	(0.6)
NEUROLOGY	246	245	263	18	7.3%	17	6.9%	6.3	6.7	0.4
NEUROSURGERY	742	736	876	140	19.0%	134	18.1%	5.9	5.9	0.0
OBSTETRICS	412	422	383	(39)	-9.2%	(29)	-7.0%	3.1	3.1	0.0
OPHTHALMOLOGY	368	353	295	(58)	-16.4%	(73)	-19.8%	2.9	2.6	(0.3)
ORTHOPEDICS	837	829	885	56	6.8%	48	5.7%	5.5	5.5	0.0
OTOLARYNGOLOGY	300	308	277	(31)	-10.1%	(23)	-7.7%	4.3	4.1	(0.2)
PEDIATRICS	2,377	2,432	2,183	(249)	-10.2%	(194)	-8.2%	10.0	8.9	(1.1)
PHYSICAL MEDICINE & REHAB	156	160	140	(20)	-12.5%	(16)	-10.3%	17.9	19.4	1.5
PSYCHIATRY ADULT	614	591	568	(23)	-3.9%	(46)	-7.5%	14.0	15.1	1.1
PSYCHIATRY CHILD	55	46	60	14	30.4%	5	9.1%	23.1	28.9	5.8
RADIATION THERAPY	0	0	1	1		1		0.0	1.0	1.0
RADIOLOGY	24	18	16	(2)	-11.1%	(8)	-33.3%	1.3	1.4	0.1
SURGERY	2,145	2,175	2,160	(15)	-0.7%	15	0.7%	9.4	9.5	0.1
UROLOGY	409	379	430	51	13.5%	21	5.1%	4.6	4.8	0.2
TOTAL	13,697	13,796	13,567	(229)	-1.7%	(130)	-0.9%	8.0	7.8	(0.2)

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

April 21, 1992

TO: UMHC Board of Governors

FROM: Clifford P. Fearing
Senior Associate Director, UMHC

SUBJECT: Bad Debts - Third Quarter
Fiscal Year 1991-92

The total amount recommended for bad debt for Hospital and Clinic accounts receivable during the third quarter of 1991-92 is $530,135.27 represented by 1,749 accounts. Bad debt recoveries during the period amounted to $1,782.14 (30 accounts) leaving a net charge-off of $528,353.13.

The net bad debts of $528,353.13 for the quarter were 0.56% of gross charges. This compares to a budgeted level of bad debts of 0.79% ($733,637).

A statistical summary is attached along with a detailed description of losses over $2,000.00 and recoveries over $200 for each month of the third quarter.

Total fiscal year bad debts have amounted to $1,706,036.78 represented by 5,790 accounts. Recoveries during the fiscal year amounted to $14,596.62 (112 accounts), leaving a net charge-off of $1,691,440.16.

The net bad debts of $1,691,440.16 for the fiscal year were 0.61% of gross charges. This compares to a budgeted level of bad debts of 0.79% ($2,238,395).

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

CPF:slw

Attachments

UMHC Hospital Billing Department

Bad Debt Statistics: July91 thru March92

In five ranges of account size

	Less Thar $10	# of Accounts	$100 – $999	# of Accounts	$1000 – $1999	# of Accounts	$2000 – $9,999	# of Accounts	$10,000 +	# of Accounts	Total Amount	Total # of Accounts
Inpatient												
Bad Debt (701) Write–Offs	$5,029.97	110	$81,999.25	182	$61,501.17	43	266,200.29	66	$57,629.77	4	$472,360.45	405
Bad Debt (702) Charity Care	$1,121.14	22	$20,863.80	52	$20,359.48	15	$90,197.57	22	$69,212.08	5	$201,754.07	116
Total	$6,151.11	132	$102,863.05	234	$81,860.65	58	$356,397.86	88	$126,841.85	9	$674,114.52	521
Recoveries	($167.77)	4	($1,649.39)	5			($7,062.96)	1			($8,880.12)	10
Net Total	$5,983.34	132 *	$101,213.66	234 *	$81,860.65	58 *	$349,334.90	88 *	$126,841.85	9 *	$665,234.40	521 *
Outpatient												
Bad Debt (701) Write–Offs	$113,440.24	2977	$408,989.81	1607	$90,587.54	64	$142,032.03	36	$93,684.85	3	$848,734.47	4687
Bad Debt (702) Write–Offs	$11,612.68	268	$86,097.57	276	$33,632.75	24	$41,303.11	13	$10,541.68	1	$183,187.79	582
Total	$125,052.92	3245	$495,087.38	1883	$124,220.29	88	$183,335.14	49	$104,226.53	4	$1,031,922.26	5269
Recoveries	($2,171.88)	87	($3,544.62)	15							($5,716.50)	102
Net Total	$122,881.04	3245 *	$491,542.76	1883 *	$124,220.29	88 *	$183,335.14	49 *	$104,226.53	4 *	$1,026,205.76	5269 *
Total IP and OP Bad Debt												
Bad Debt (701) Write–offs	$118,470.21	3087	$490,989.06	1789	$152,088.71	107	$408,232.32	102	$151,314.62	7	$1,321,094.92	5092
Bad Debt (702) Charity Care	$12,733.82	290	$106,961.37	328	$53,992.23	39	$131,500.68	35	$79,753.76	6	$384,941.86	698
Total	$131,204.03	3377	$597,950.43	2117	$206,080.94	146	$539,733.00	137	$231,068.38	13	$1,706,036.78	5790
Recoveries	($2,339.65)	91	($5,194.01)	20	$0.00	0	($7,062.96)	1	$0.00	0	($14,596.62)	112
Total Net Bad Debt	**$128,864.38**	**3377 ***	**$592,756.42**	**2117 ***	**$206,080.94**	**146 ***	**$532,670.04**	**137 ***	**$231,068.38**	**13 ***	**$1,691,440.16**	**5790 ***
Dollars Budgeted											**$2,238,395.00**	

* Net total of accounts does not include recoveries.

UMHC Hospital Billing Department

Bad Debt Statistics: July91 thru March92

In five ranges of account size

	Less Thar $100	# of Accounts	$100 – $999	# of Accounts	$1000 – $1999	# of Accounts	$2000 – $9,999	# of Accounts	$10,000 +	# of Accounts	Total Amount	Total # of Accounts
Inpatient												
Medicare Bad Debt (710)	$422.42	8	$36,759.50	72	$0.00	0	$4,736.00	1	24205.91	1	$66,123.83	82
Recoveries											$0.00	0
Net Total	$422.42	8 *	$36,759.50	72 *	$0.00	0 *	$4,736.00	1 *	$24,205.91	1 *	$66,123.83	82 *
Outpatient												
Medicare Bad Debt (710)	$15,075.89	489	$41,537.13	158	$2,950.34	2					$59,563.36	649
Recoveries	($93.13)	1	($1,038.05)	2							($1,131.18)	3
Net Total	$14,982.76	489 *	$40,499.08	158 *	$2,950.34	2 *	$0.00	0 *	$0.00	0 *	$58,432.18	649 *
Total IP and OP Bad Debt												
Medicare Bad Debt (710)	$15,498.31	497	$78,296.63	230	$2,950.34	2	$4,736.00	1	$24,205.91	1	$125,687.19	731
Recoveries	($93.13)	1	($1,038.05)	2	$0.00	0	$0.00	0	$0.00	0	($1,131.18)	3
Total Net Bad Debt	**$15,405.18**	**497 ***	**$77,258.58**	**230 ***	**$2,950.34**	**2 ***	**$4,736.00**	**1 ***	**$24,205.91**	**1 ***	**$124,556.01**	**731 ***

* Net total of accounts does not include recoveries.

UMHC Hospital Billing Department

Bad Debt Statistics: July91 thru March92

In two ranges of account size

	Under $2000	# of Accounts	Over $2000	# of Accounts	Total Amount	Total # of Accounts
Inpatient						
Bad Debt (701) Write–Offs	$148,530.39	335	$323,830.06	70	$472,360.45	405
Bad Debt (702) Charity Care	$42,344.42	89	$159,409.65	27	$201,754.07	116
Total	$190,874.81	424	$483,239.71	97	$674,114.52	521
Recoveries	($1,817.16)	9	($7,062.96)	1	($8,880.12)	10
Net Total	$189,057.65	424 *	$476,176.75	97 *	$665,234.40	521 *
Outpatient						
Bad Debt (701) Write–Offs	$613,017.59	4648	$235,716.88	39	$848,734.47	4687
Bad Debt (702) Write–Offs	$131,343.00	568	$51,844.79	14	$183,187.79	582
Total	$744,360.59	5216	$287,561.67	53	$1,031,922.26	5269
Recoveries	($5,716.50)	102	$0.00	0	($5,716.50)	102
Net Total	$738,644.09	5216 *	$287,561.67	53 *	$1,026,205.76	5269 *
Total IP and OP Bad Debt						
Bad Debt (701) Write–offs	$761,547.98	4983	$559,546.94	109	$1,321,094.92	5092
Bad Debt (702) Charity Care	$173,687.42	657	$211,254.44	41	$384,941.86	698
Total	$935,235.40	5640	$770,801.38	150	$1,706,036.78	5790
Recoveries	($7,533.66)	111	($7,062.96)	1	($14,596.62)	112
Total Net Bad Debt	**$927,701.74**	**5640 ***	**$763,738.42**	**150 ***	**$1,691,440.16**	**5790 ***
Dollars Budgeted					**$2,238,395.00**	

* Net total of accounts does not include recoveries.

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UMHC Hospital Billing Department

Bad Debt Statistics: July91 thru March92

In two ranges of account size

	Under $2000	# of Accounts	Over $2000	# of Accounts	Total Amount	Total # of Accounts
Inpatient						
Medicare Bad Debt (710)	$37,181.92	80	$28,941.91	2	$66,123.83	82
Recoveries	$0.00	0	$0.00	0	$0.00	0
Net Total	$37,181.92	80 *	$28,941.91	2 *	$66,123.83	82 *
Outpatient						
Medicare Bad Debt (710)	$59,563.36	649	$0.00	0	$59,563.36	649
Recoveries	($1,131.18)	3	$0.00	0	($1,131.18)	3
Net Total	$58,432.18	649 *	$0.00	0 *	$58,432.18	649 *
Total IP and OP Bad Debt						
Medicare Bad Debt (710)	$96,745.28	729	$28,941.91	2	$125,687.19	731
Recoveries	($1,131.18)	3	$0.00	0	($1,131.18)	3
Total Net Bad Debt	**$95,614.10**	**729 ***	**$28,941.91**	**2 ***	**$124,556.01**	**731 ***

* Net total of accounts does not include recoveries.

UMHC Hospital Billing Department

Bad Debt Statistics: JANUARY 92 thru MARCH 92

In five ranges of account size

	Less Than $100	# of Accounts	$100 – $999	# of Accounts	$1000 – $1999	# of Accounts	$2000 – $9,999	# of Accounts	$10,000 +	# of Accounts	Total Amount	Total # of Accounts
Inpatient												
Bad Debt (701) Write–Offs	$1,827.32	42	$23,581.18	52	$18,007.94	13	69,813.91	17	$34,759.56	2	$147,989.91	126
Bad Debt (702) Charity Care	$556.37	11	$8,574.65	20	$7,021.26	5	$2,739.56	1	$11,023.00	1	$29,914.84	38
Total	$2,383.69	53	$32,155.83	72	$25,029.20	18	$72,553.47	18	$45,782.56	3	$177,904.75	164
Recoveries	($49.49)	1	($466.04)	3							($515.53)	4
Net Total	$2,334.20	53 *	$31,689.79	72 *	$25,029.20	18 *	$72,553.47	18 *	$45,782.56	3 *	$177,389.22	164 *
Outpatient												
Bad Debt (701) Write–Offs	$32,157.54	890	$120,829.24	467	$20,989.48	14	$37,489.50	12	$82,417.06	2	$293,882.82	1385
Bad Debt (702) Write–Offs	$4,694.51	104	$27,736.75	88	$7,354.16	5	$8,020.60	2	$10,541.68	1	$58,347.70	200
Total	$36,852.05	994	$148,565.99	555	$28,343.64	19	$45,510.10	14	$92,958.74	3	$352,230.52	1585
Recoveries	($480.54)	22	($786.07)	4							($1,266.61)	26
Net Total	$36,371.51	994 *	$147,779.92	555 *	$28,343.64	19 *	$45,510.10	14 *	$92,958.74	3 *	$350,963.91	1585 *
Total IP and OP Bad Debt												
Bad Debt (701) Write–offs	$33,984.86	932	$144,410.42	519	$38,997.42	27	$107,303.41	29	$117,176.62	4	$441,872.73	1511
Bad Debt (702) Charity Care	$5,250.88	115	$36,311.40	108	$14,375.42	10	$10,760.16	3	$21,564.68	2	$88,262.54	238
Total	$39,235.74	1047	$180,721.82	627	$53,372.84	37	$118,063.57	32	$138,741.30	6	$530,135.27	1749
Recoveries	($530.03)	23	($1,252.11)	7	$0.00	0	$0.00	0	$0.00	0	($1,782.14)	30
Total Net Bad Debt	**$38,705.71**	**1047 ***	**$179,469.71**	**627 ***	**$53,372.84**	**37 ***	**$118,063.57**	**32 ***	**$138,741.30**	**6 ***	**$528,353.13**	**1749 ***
Dollars Budgeted											**$738,537.00**	

* Net total of accounts does not include recoveries.

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UMHC Hospital Billing Department

Bad Debt Statistics: JANUARY 92 thru MARCH 92

In two ranges of account size

	Under $2000	# of Accounts	Over $2000	# of Accounts	Total Amount	Total # of Accounts
Inpatient						
Bad Debt (701) Write-Offs	$43,416.44	107	$104,573.47	19	$147,989.91	126
Bad Debt (702) Charity Care	$16,152.28	36	$13,762.56	2	$29,914.84	38
Total	$59,568.72	143	$118,336.03	21	$177,904.75	164
Recoveries	($515.53)	4	$0.00	0	($515.53)	4
Net Total	$59,053.19	143 *	$118,336.03	21 *	$177,389.22	164 *
Outpatient						
Bad Debt (701) Write-Offs	$173,976.26	1371	$119,906.56	14	$293,882.82	1385
Bad Debt (702) Write-Offs	$39,785.42	197	$18,562.28	3	$58,347.70	200
Total	$213,761.68	1568	$138,468.84	17	$352,230.52	1585
Recoveries	($1,266.61)	26	$0.00	0	($1,266.61)	26
Net Total	$212,495.07	1568 *	$138,468.84	17 *	$350,963.91	1585 *
Total IP and OP Bad Debt						
Bad Debt (701) Write-offs	$217,392.70	1478	$224,480.03	33	$441,872.73	1511
Bad Debt (702) Charity Care	$55,937.70	233	$32,324.84	5	$88,262.54	238
Total	$273,330.40	1711	$256,804.87	38	$530,135.27	1749
Recoveries	($1,782.14)	30	$0.00	0	($1,782.14)	30
Total Net Bad Debt	**$271,548.26**	**1711 ***	**$256,804.87**	**38 ***	**$528,353.13**	**1749 ***
Dollars Budgeted					**$735,687.00**	

* Net total of accounts does not include recoveries.

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UMHC Hospital Billing Department

Bad Debt Statistics: JANUARY 92 thru MARCH 92

In five ranges of account size

	Less Thar $100	# of Accounts	$100 – $999	# of Accounts	$1000 – $1999	# of Accounts	$2000 – $9,999	# of Accounts	$10,000 +	# of Accounts	Total Amount	Total # of Accounts
Inpatient												
Medicare Bad Debt (710)	$217.14	4	$19,381.84	39	$0.00	0	$0.00	0	24205.91	1	$43,804.89	44
Recoveries											$0.00	0
Net Total	$217.14	4 *	$19,381.84	39 *	$0.00	0 *	$0.00	0 *	$24,205.91	1 *	$43,804.89	44 *
Outpatient												
Medicare Bad Debt (710)	$8,518.56	281	$12,041.14	67							$20,559.70	348
Recoveries	($93.13)	1									($93.13)	1
Net Total	$8,425.43	281 *	$12,041.14	67 *	$0.00	0 *	$0.00	0 *	$0.00	0 *	$20,466.57	348 *
Total IP and OP Bad Debt												
Medicare Bad Debt (710)	$8,735.70	285	$31,422.98	106	$0.00	0	$0.00	0	$24,205.91	1	$64,364.59	392
Recoveries	($93.13)	1	$0.00	0	$0.00	0	$0.00	0	$0.00	0	($93.13)	1
Total Net Bad Debt	**$8,642.57**	**285 ***	**$31,422.98**	**106 ***	**$0.00**	**0 ***	**$0.00**	**0 ***	**$24,205.91**	**1 ***	**$64,271.46**	**392 ***

* Net total of accounts does not include recoveries.

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UMHC Hospital Billing Department

Bad Debt Statistics: JANUARY 92 thru MARCH 92

In two ranges of account size

	Under $2000	# of Accounts	Over $2000	# of Accounts	Total Amount	Total # of Accounts
Inpatient						
Medicare Bad Debt (710)	$19,598.98	43	$24,205.91	1	$43,804.89	44
Recoveries	$0.00	0	$0.00	0	$0.00	0
Net Total	$19,598.98	43 *	$24,205.91	1 *	$43,804.89	44 *
Outpatient						
Medicare Bad Debt (710)	$20,559.70	348	$0.00	0	$20,559.70	348
Recoveries	($93.13)	1	$0.00	0	($93.13)	1
Net Total	$20,466.57	348 *	$0.00	0 *	$20,466.57	348 *
Total IP and OP Bad Debt						
Medicare Bad Debt (710)	$40,158.68	391	$24,205.91	1	$64,364.59	392
Recoveries	($93.13)	1	$0.00	0	($93.13)	1
Total Net Bad Debt	**$40,065.55**	**391 ***	**$24,205.91**	**1 ***	**$64,271.46**	**392 ***

* Net total of accounts does not include recoveries.

UMHC Hospital Billing Department

Bad Debt Statistics: Third Quarter and Year-to-Date, Fiscal Year 1992
By State

State	Third Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Alabama			144.95	3
Alaska			11.27	1
Arizona	89.47	2	5,269.36	16
Arkansas	2,701.70	2	3,236.84	6
California	1,635.31	9	16,977.48	33
Colorado	254.10	2	1,012.83	19
Connecticut	279.60	1	2,983.59	8
Delaware			0.00	0
Dist. of Colombia			3,843.02	3
Florida	1,870.68	14	7,528.36	37
Georgia	544.70	1	608.60	2
Hawaii			0.00	0
Idaho			0.00	0
Illinois	3,041.08	6	12,546.06	53
Indiana	209.45	4	209.45	4
Iowa	1,719.61	8	4,276.82	34
Kansas	886.33	3	1,226.63	4
Kentucky			946.10	5
Louisiana			1,396.59	4
Maine			0.00	0
Maryland	248.65	3	355.43	5
Massachusetts	34.00	1	144.39	2
Michigan	13,904.10	14	20,441.28	68
Minnesota	358,403.10	1,817	1,218,105.05	5380
Mississippi	46.64	1	1,045.57	5
Missouri	96.18	3	483.68	6
Montana	132.60	1	3,905.14	11
Nebraska	376.95	1	1,255.81	8
Nevada			951.38	7
New Hampshire			0.00	0
New Jersey	27,826.47	6	30,466.74	8
New Mexico	157.00	2	203.42	4
New York	994.16	3	5,721.21	28
North Carolina			392.89	4
North Dakota	5,080.66	31	38,368.67	73
Ohio	2,003.73	15	2,046.73	16
Oklahoma	1,893.07	4	3,886.92	20
Oregon			150.00	1
Pennsylvania	8.98	1	2,891.81	6
Puerto Rico			0.00	0
Rhode Island	58.06	1	58.06	1

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UMHC Hospital Billing Department

Bad Debt Statistics: Third Quarter and Year-to-Date, Fiscal Year 1992
By State

State	Third Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
South Carolina			2,012.36	4
South Dakota	21,794.61	61	104,726.03	194
Tennessee	7,258.46	7	7,661.18	12
Texas	1,636.28	3	3,973.38	18
Utah			3,323.12	1
Vermont			0.00	0
Virginia			2,076.40	8
Washington	11.40	1	13,961.97	29
West Virginia			137.19	1
Wisconsin	18,145.45	99	115,081.43	315
Wyoming			327.56	5
Out-of-Country	23,466.27	7	31,028.47	30
Total	496,808.85	2,134	1,677,401.22	6,502
Medicare Bad Debt*	(64,271.46)	392	(124,556.01)	731
Legal Settlements	12,158.26	3	39,742.20	9
Bad Debt Agcy Und $50	6.50	1	53.38	2
Bad Debt - Med NC Chgs	85,526.25	3	114,527.17	8
Grand Total	530,228.40	2,533	1,707,167.96	7,252
Recoveries	(1,875.27)	31	(15,727.80)	115
Net Total	528,353.13	2,533	1,691,440.16	7,252

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

UMHC Hospital Billing Department

Bad Debt Statistics: Third Quarter and Year-to-Date, Fiscal Year 1992
By Service

Admitting Service	Third Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Anesthesiology			0.00	0
Clinical Research	1,247.55	4	3,323.61	6
Dentistry			28.93	1
Dermatology			8,659.08	2
Family Practice	540.00	1	540.00	1
OB			0.00	0
NB			0.00	0
General Med	1105.77	4	1,143.72	5
GYN	1,435.83	2	3,283.16	5
GYN-Oncology	1,238.64	2	23,031.34	18
Lab Medicine & Pathology			0.00	0
Medicine-Blue	2,542.67	9	19,350.04	19
Green	2,442.39	8	7,273.38	12
Masonic (Onc)	4,902.32	10	21,447.67	32
Purple	2,129.29	2	2,129.29	2
Red A	3,278.55	15	4,422.59	20
Red B			0.00	0
Rose A	1,752.17	3	28,155.16	12
Rose B	39.12	1	719.12	2
White A	13,851.89	5	32,424.45	15
White B	5,372.63	13	20,628.18	32
White C	5,401.72	5	8,951.25	9
Yellow A	1,819.46	3	30,399.14	19
Yellow B			8,241.09	7
Neurology	6,881.97	4	25,352.45	13
Neuro-epilepsy			11,803.48	2
Neurosurgery	2,645.35	4	24,168.35	15
New Born-General	3,957.95	6	7,005.61	13
Obstetrics-General	14,040.44	9	31,350.24	26
-Midwife			0.00	0
Ophthalmology	5,638.78	8	26,598.94	23
Orthopaedic Surgery	6,934.06	11	34,436.68	42
Otolaryngology			7,431.88	11
Pediatrics-General	8,304.50	5	59,646.57	36
Dentistry			0.00	0
Dermatology			0.00	0
Cardiology	440.64	1	1,310.56	2
Gastro-Intestinal			356.64	1
Hematology Oncology			2,495.49	3
Neonatology			25,181.30	5
Neurology			8,721.50	6
Neurosurgery			6,266.35	2

UMHC Hospital Billing Department

Bad Debt Statistics: Third Quarter and Year-to-Date, Fiscal Year 1992
By Service

Admitting Service	Third Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Opthalmology	2,924.51	2	17,767.91	7
Orthopaedics			8,190.56	2
Otolaryngology			364.50	2
Pulmonary			1,049.43	1
Renal	1474	1	1,474.00	1
Surgery Green	1,270.84	1	1,270.84	1
Surgery Orange			3,007.56	1
Surg. Transplant			116.10	2
Urology	325.15	2	5,424.12	4
Physical Med. & Rehab.	867.60	2	937.50	4
Psychiatry-Child	761.80	2	761.80	2
-Adult	28,146.72	13	60,559.49	38
Radiology			30.00	1
Surgery-Blue	44,158.11	16	56,053.62	46
Oral			6,106.94	3
Orange	22,985.83	1	29,066.49	8
Purple	6,592.12	9	15,571.26	17
Red	1,352.07	4	16,411.74	11
White	6,764.40	12	9,625.30	17
Therapeutic Radiology			0.00	0
Urology	6,142.80	8	10,171.95	16
Unknown	275,099.21	1,926	275,099.21	1,926
Outpatient			662,063.66	3,973
Total	496,808.85	2134	1,677,401.22	6502
Medicare Bad Debt*	(64,271.46)	392	(124,556.01)	731
Legal Settlements	12,158.26	3	39,742.20	9
Bad Debt Agcy Und $50	6.50	1	53.38	2
Bad Debt - Med NC Chgs	85,526.25	3	114,527.17	8
Grand Total	530,228.40	2,533	1,707,167.96	7,252
Recoveries	(1,875.27)	31	(15,727.80)	115
Net Total	528,353.13	2,533	1,691,440.16	7,252

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

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UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

April 21, 1992

TO: Members, Board of Governors

FROM: Robert Dickler
General Director

SUBJECT: 1992-93 Operating Budget for The University of Minnesota Hospital and Clinic

Enclosed for your review are the operating budget schedules for the 1992-93 fiscal year. These budget projections are the results of a budget process which has involved all levels of management preparing a projection of activity , costs, revenue deductions, and reserve and capital needs required to operate The University of Minnesota Hospital and Clinic in fiscal year 1992-93 and in later years.

In our shaping of the 1992-93 budget, I wish to highlight several significant factors which we have incorporated. The first item, of course, is the HealthRight legislation. This will impose a 2.0% provider tax beginning January 1, 1993. While there are provisions for passing this tax through to payors, it is still unclear to us how much of the tax can and will be actually reimbursed. Therefore, this legislation has the potential of reducing our reimbursement approximately $1,800,000 within the 1992-93 fiscal year (six months of tax). We do not believe we will see much, if any, increase in patient referrals or reimbursement as a result of this legislation. Because of this legislation's potential impact on UMHC we have included an additional 1.0% rate increase in our budget.

A second legislative item is a 3.5 percent reduction in University appropriations made by the state as part of it's budget balancing actions. We anticipate that this reduction will be approximately $540,000 for UMHC. The reduction in hospital appropriations, which are basically for education support, will necessitate an equal reduction in the amount of cost the Hospital can support for graduate medical education, other allied health programs, and academic support.

We have been working with University administration regarding payments the Hospital makes to the University for such things as fringe benefits, utilities, maintenance and construction, and other goods and services. It is our position, after having analyzed the various billing rates and charging mechanisms currently in place, that the Hospital is paying in aggregate a disproportionate share of these centralized costs. Because of the magnitude of these costs, we have

budgeted a $2,000,000 reduction in the payments we will make to the University. We are also seeking changes in the rates charged the Hospital so that we are more fairly charged based on our actual experience or utilization. The actual viability of this change still needs to be explored with central administration.

As we look at the current market and the census projections for next fiscal year we are again faced with the need to reduce our staffing levels. During the current fiscal year our staffing has declined by 196 FTE's from an average of 3,836 last summer to our current average of approximately 3,640. We are targeting to be at 3,600 FTE's by June 30, 1992. The 1992-93 budget will require further reductions. We are targeting to be at a staffing level of approximately 3,500 FTE by October 1, 1992. It is our desire to achieve as much of this reduction as possible through attrition. In addition to the projected staffing reductions, we have budgeted non-volume related reductions to various supply and expense categories totaling $750,000.

In developing the 1992-93 budget we have not specifically incorporated any of the preliminary findings and recommendations being developed by our strategic planning consultants. We have compared our volume projections for 1992-93 with the consultants and they are within approximately 1% of each other. While we anticipate that the outcome of the planning effort may have significant impact on the budget and financial performance later in the year, we believe it would be inappropriate to forecast or pre-empt this process. Depending on the magnitude of these changes it may be appropriate to restructure the budget later in the year.

We are budgeting for a 2% net gain for the Hospital. This is consistent with our long range capital plan. More important, we feel this level of planned performance is necessary to deal with the volatility in the hospital and health system and provide appropriate margins for change.

Over the last few years the Hospital, Medical School, and other academic units have experienced reductions in funding from a number of sources. Because so much of the Hospital's financial outcome is the result of our relationship with the medical staff and other faculty; and their role in patient care, education, and research; we believe it is appropriate and timely to consider an arrangement whereby the academic programs could share in the Hospital's success. We would therefore propose an arrangement where the Hospital would distribute twenty percent of any excess above it's budgeted net gain. The distribution would be made to those academic units that helped in meeting the Hospital's financial goals. We believe such a methodology is consistent with the partnership between the Hospital and academic units which has always existed and is incorporated into the strategic planning effort. The exact methodology for this potential distribution, and whether it should be an ongoing arrangement, are still under study.

We are also preparing, in relationship to reserves, that $2,000,000 be set aside and designated for one time investments to increase productivity, provide transition funds for cost reduction strategies, and to provide some flexible resources to initiate activities emanating from the strategic plans. If approved by the Board, these changes will be reflected in the reserve schedule.

The projected financial statements have been compiled using a rate increase of eight (8.0) percent. The capital budget which we have incorporated in these financial projections is consistent with our long range capital plan. These financial projections include $8,200,000 in annual equipment replacement and minor renovation costs, and $3,336,000 in principal payments. In addition, we are dedicating $6,431,000 of interest income on reserves for the capital plan.

At our April, 1992 meeting, we intend to present the remaining assumptions we have used in developing the budget and provide you with the impact this budget will have on Hospital and Clinic operations in 1992-93. We will seek your preliminary approval of an eight (8.0) percent rate increase at the April Board Meeting, and will seek your approval of rate increases and the operating budgets at the May, 1992 meeting. The capital budget will be presented to the Planning and Development Committee at their June, 1992 meeting.

The enclosed narrative and schedules outline our 1992-93 budget based on current assumptions. We look forward to our discussion with you on the budget.

RD/sw

Enclosure

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BUDGET LETTER
1992-93 BUDGET

The 1992-93 Budget has been developed with the following set of assumptions:

1991-92 Budget Base

In projecting the 1992-93 fiscal year budget elements, the current experience in each category was used as the starting point to determine expected 1992-93 results. As described below and shown in the attached schedules, forecast admissions, patient days, clinic visits, expenses, revenues, and revenue deductions have been based on current year experience. Current year experience has then been adjusted for changes in projected volume, mix, and intensity of services, and new and pending reimbursement regulations. The following are general descriptions of how the major elements in the 1992-93 budget were projected:

* **Demand Analysis:**

  For the 1991-92 fiscal year we had developed a budget of 18,335 admissions and 147,862 patient days. Using our actual experience through March, 1992, we are projecting 17,894 admissions and 140,638 patient days. The decrease in admission levels occurred in more than half of the clinical service areas, with the most significant decreases occurring in Pediatrics, Gynecology, Clinical Research and Ophthalmology. Areas that experienced increases in admissions included Neurosurgery and Family Practice. The 4.9% decrease in patient days also reflects our decrease in the overall average length of stay from 8.1 days to 7.9.

  The 1992-93 census projections reflect a slight overall decline in demand but with significant decreases in specific services, such as Medicine, Surgery, and Ophthalmology. These decreases reflect changes in clinical staff or programs, and changes in reimbursement from third party payors that continue to force a shift of inpatient activity to an outpatient venue. They are slightly offset by anticipated growth in Neurosurgery, Neurology, Orthopedics, and Otolaryngology. Inpatient census for 1992-93 has been budgeted at 17,079 admissions and 136,510 patient days.

  For the 1991-92 fiscal year we had developed a budget of 348,437 outpatient encounters. Based on actual March, 1992, volumes, we are projecting 349,277 encounters for 1991-92 and 352,325 encounters for 1992-93. These increases reflect the anticipated growth in Neurology, Neurosurgery, and Orthopedics, as well as projected growth in CUHCC activity.

  Schedules I, II, and III summarize the demand forecasts for 1991-92 and 1992-93.

* **Ancillary Service Utilization**

  The 1992-93 budget for ancillary service revenue reflects the projected decline in inpatient admissions with slight changes anticipated for both program expansions and reductions. While we anticipate continued expansion of programs such as Bone Marrow Transplants, we have also budgeted for a decrease in revenue due to anticipated declines in one or more programs. In addition, expected growth in the Orthopedic and Oncology programs in the outpatient clinics is partially offset by these same anticipated declines.

* **Deductions from Charges**

  Schedule IV is a summary of the expected deductions from revenue for fiscal years 1991-92 and 1992-93. The fiscal 1992-93 projection is based on current experience as well as pending legislative and regulatory changes relating to the Medicare and Medicaid Programs.

o **Medicare Prospective Payment System (PPS)**

Assumptions affecting UMHC payments include the following:

1) A 3.0% payment rate increase (comparable to ProPAC recommendation of 3.05% for all urban hospitals) on the DRG rate, effective October 1, 1992.

2) A reduction in the indirect medical education factor from 7.7% to 6.9%, effective October 1, 1992.

3) Capital cost reimbursement is incorporated into the DRG payment effective July 1, 1992. For fiscal year 1992-93, we anticipate no material change in the effective reimbursement for capital costs.

These assumptions are, of course, subject to change and will be monitored closely.

o **Medical Assistance (Medicaid) and General Assistance Medical Care (GAMC)**

Payments will continue to be based on the 39 diagnostic categories set up by the State Department of Human Services (DHS). We are assuming a continued distinction in payment rates between AFDC and non-AFDC patients, with a 5.0% increase in those rates effective July 1, 1992. We are assuming no increase in payment rates for GAMC patients. In addition, new state legislation would result in a provider surcharge of 1.4% of net patient revenues, excluding Medicare, which is offset by the foregoing rate changes.

We have also recognized the possibility of a $1,800,000 reduction in reimbursement levels in relation to the 2.0 percent provider tax contained in the Minnesota HealthRight legislation.

o **HMO/PPO Discounts**

The major contracts with HMO's and PPO's include the Blue Cross and Blue Shield AWARE and Blue Plus contracts, Group Health, Med Centers, and MEDICA. For the budget year we are assuming that our payment to charge ratios will worsen slightly as the expected increases in our payment levels (4.0% January 1, 1993) fall behind our required overall rate increase of 8.0%.

* **Other Operating Revenue**

Schedule V is a summary of projected appropriations and other operating revenues from sources other than patient care. The decrease in other operating revenue projected for the 1991-92 fiscal year is expected in almost all categories of revenue. Lower than anticipated census levels account for some of the decrease. In addition, the income from bond proceeds is lower than budgeted due to a lower than expected interest rate being earned on the principal. Our appropriations were greater than budgeted due to a lower than anticipated reduction in the state specials for 1991-92. We expect to see an increase in other operating revenues in the budget year, primarily due to the restoration of the $2,000,000 one-time assessment imposed on UMHC by the University in 1991-92. Offsetting this increase is an expected 3.5% reduction in appropriation levels in 1992-93.

* **Expenditure Summary**

Schedule VI is a comparative summary of expenditures projected for 1991-92 and budgeted for 1992-93. The expenditure levels have been determined using February, 1992, year-to-date actual experience as a basis for projection.

Salaries:

Although no pay plans for employees have been finalized, we have incorporated salary and wage increases that appear consistent with those in the community and the University pay plans. We are in the second year of existing union contract settlements, which have a base increase of 5%. Other employee classes are budgeted

with a 5% base increase. Also included in the salary projection are adjustments for step increases and marketplace range moves. Specific pay plans have not yet been determined; these will be presented to the Board in May or June.

Other Expenses:

Inflationary increases for supplies and expenses are expected to average almost 5.7% in the budget year. In addition to the anticipated inflationary increases, we are including increases for expansion and development of new and existing programs.

* **Non-Operating Revenue**

Schedule VIII is a summary of expected non-patient revenues for fiscal years 1991-92 and 1992-93. The decrease in non-operating revenue projected for the 1991-92 fiscal year is expected in all three categories of revenue. Although our principal balance in reserves is slightly higher than anticipated, we are earning a lower than expected rate of interest on that principal. The decrease in earnings on the investments held by the trustee is also due to a lower than anticipated yield on those investments. The decrease in other investment income is due largely to the delay in the Interstate Medical Center acquisition. In the budget year 1992-93 we are expecting an overall decrease of $1,378,000. Although we're assuming an increase in investment income from our equity in Interstate Medical Center, we're budgeting reductions in the interest earned on our reserves and investments held by the trustee. In both cases, we anticipate a continued decline in the interest rate. In addition, we expect the average cash balance of our reserves to decline significantly in relation to our planned capital expenditures.

Fiscal Year 1992-93 Price and Revenue Increases

The price increase proposed for 1992-93 is 8.0% and results in an increase in patient charges of approximately $20,663,000. It brings total patient charges to $389,547,000. The Comparative Statement of Operations and Operating Cash Flow on Schedule IX summarizes our projected position for the 1992-93 fiscal year.

Capital Expenditures

Capital expenditures that will be provided from operating cash flows in 1992-93 for recurring equipment replacement and minor remodeling will be $8,200,000. In addition, $3,336,000 will be spent for debt service on equipment and the bonds, capital lease payments, and parking ramp amortization.

In addition to those capital expenditures provided from operating cash flow, we are projecting that we will spend $34,916,700 from Hospital reserves. Within this total is $8,568,400 related to the Renewal Project Phase II, $3,722,900 for the completion of other projects that have received Board of Governors approval (MRI I replacement, Heart Cath expansion, linear accelerator replacement, the Cancer Center, Interstate Medical Center), $12,089,500 for equipment/renovation projects that have yet to be brought to the Board for approval (computer upgrade, Heart Cath expansion, CT scanner replacement, Neuroradiology upgrade, parking ramp addition), $3,036,000 for support of new technology/program development, and $7,500,000 for the potential acquisition of outstate clinics.

Schedule X summarizes the Board-Designated Fund Activity for the current year 1991-92 and the budget year 1992-93 (Schedules XI, XII, and XIII show details). The specified activity includes the capital expenditures mentioned above, and transfers of income and other funds. As the schedules indicate, the balance at July 1, 1992, is projected to be $81,470,000; we are projecting a balance of $54,966,000 at June 30, 1993.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC **SCHEDULE I**
FOR FISCAL YEARS 1991/92 AND 1992/93
COMPARATIVE DEMAND ANALYSIS
INPATIENT ADMISSIONS

	1991/92 PLANNED ADMITS	1991/92 PROJECTED ADMITS	1992/93 BUDGET ADMITS
Anesthesiology	0	2	4
Clinical Research	401	280	266
Dentistry	55	96	117
Dermatology	14	14	16
Family Practice	24	143	121
Gynecology	1,436	1,123	1,115
Medicine	4,487	4,587	4,172
Newborn	362	343	336
Neurology	326	347	360
Neurosurgery	978	1,181	1,240
Obstetrics	561	515	494
Ophthalmology	468	375	352
Orthopedics	1,103	1,166	1,196
Otolaryngology	408	358	408
Pediatrics	3,231	2,887	2,877
PM&R	212	183	182
Psychiatry – Adult	787	749	717
Psychiatry – Child	62	76	70
Radiation Therapy	0	1	2
Radiology	25	22	15
Surgery	2,891	2,877	2,482
Urology	504	569	537
Total Hospital	18,335	17,894	17,079

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
FOR FISCAL YEARS 1991/92 AND 1992/93
COMPARATIVE DEMAND ANALYSIS
PATIENT DAYS

SCHEDULE II

	1991/92 PLANNED DAYS	1991/92 PROJECTED DAYS	1992/93 BUDGET DAYS
Anesthesiology	0	3	11
Clinical Research	1,447	897	862
Dentistry	101	136	153
Dermatology	55	90	81
Family Practice	96	484	349
Gynecology	6,893	5,451	5,626
Medicine	32,502	32,960	32,231
Newborn	921	676	653
Neurology	2,410	2,639	2,989
Neurosurgery	6,064	7,134	7,709
Obstetrics	1,712	1,627	1,566
Ophthalmology	1,289	977	969
Orthopedics	6,548	6,556	6,878
Otolaryngology	1,883	1,602	1,583
Pediatrics	35,724	28,024	28,492
PM&R	3,909	3,628	3,510
Psychiatry – Adult	10,911	11,397	11,125
Psychiatry – Child	1,418	2,629	2,777
Radiation Therapy	0	1	1
Radiology	35	30	14
Surgery	31,513	30,910	26,403
Urology	2,431	2,787	2,528
Total Hospital	147,862	140,638	136,510

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
FOR FISCAL YEARS 1991/92 AND 1992/93
COMPARATIVE DEMAND ANALYSIS
OUTPATIENT ENCOUNTERS

SCHEDULE III

	1991/92 PLANNED ENCOUNTERS	1991/92 PROJECTED ENCOUNTERS	1992/93 BUDGET ENCOUNTERS
Clinic Visits	244,638	242,758	241,789
Emergency Room Visits	20,559	20,922	21,800
Radiation Therapy Visits	19,010	14,703	15,240
Ambulatory Surgery Visits	3,008	3,799	3,746
Subtotal	287,215	282,182	282,575
Community University Health Care Center & Health ETC	50,719	54,395	54,800
Home Health	10,503	12,700	12,700
Star Clinic	0	0	2,250
Total Encounters	348,437	349,277	352,325

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
FOR FISCAL YEARS 1991/92 AND 1992/93
DEDUCTIONS FROM CHARGES

SCHEDULE IV

		1991/92 PLANNED BUDGET	1991/92 PROJECTED	1992/93 BUDGET @ 8%
Billing Adjustments	1	$5,715,000	$6,705,000	$6,918,000
Contracts	2	$6,817,000	$8,501,000	$9,136,000
HMO/PPO Discounts	3	29,547,000	29,124,000	30,537,000
Governmental Contractual Adjust	4	49,943,000	51,680,000	57,960,000
Charitable Care		600,000	805,000	876,000
Total		$92,622,000	$96,815,000	$105,427,000

1 Includes Prompt Payment Discounts, Quality Control Procedures, and other Miscellaneous Billing Adjustments.

2 Includes Outreach Lab billings, Clinic Contracts, and VA Contracts.

3 Includes HMO's and BCBSM.

4 Includes Medicare, Medical Assistance, GAMC, and other government program write-offs.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
FOR FISCAL YEARS 1991/92 AND 1992/93
OTHER OPERATING REVENUE SUMMARY

SCHEDULE V

	1991/92 PLANNED BUDGET	1991/92 PROJECTED	1992/93 BUDGET @ 8%
Appropriations & Support	$13,380,000	$13,611,000	$14,973,000
Food Services	1,739,000	1,648,000	1,672,000
Parking Services	926,000	939,000	1,008,000
Department Non-Patient	285,000	392,000	362,000
Grant Income	1,920,000	1,842,000	1,838,000
Reference Lab Income	2,787,000	2,884,000	3,052,000
Pro Fees -- Net Revenue	2,029,000	1,891,000	2,012,000
Interest Income on Remaining Construction Fund Bond Proceeds	2,220,000	2,058,000	2,008,000
Other	35,000	13,000	14,000
Total	$25,321,000	$25,278,000	$26,939,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
FOR FISCAL YEARS 1991/92 AND 1992/93
EXPENDITURE SUMMARY: 1991/92 PROJECTION VS 1992/93 BUDGET

SCHEDULE VI

	1991/92 PLANNED BUDGET	1991/92 PROJECTED	VARIANCE	PERCENT VARIANCE	1992/93 BUDGET	INCREASE/ DECREASE	PERCENT CHANGE
Salaries	$126,698,000	$123,907,000	($2,791,000)	−2.2%	$123,154,000	($753,000)	−0.6%
Fringe Benefits	30,675,000	29,871,000	(804,000)	−2.6%	29,486,000	(385,000)	−1.3%
Academic Contracts	1,208,000	1,181,000	(27,000)	−2.2%	1,240,000	59,000	5.0%
Resident Contracts	9,688,000	9,539,000	(149,000)	−1.5%	9,449,000	(90,000)	−0.9%
Physician/Contract Compensation	9,134,000	9,530,000	396,000	4.3%	9,115,000	(415,000)	−4.4%
Total Salary, F.B., & Fees	177,403,000	174,028,000	(3,375,000)	−1.9%	172,444,000	(1,584,000)	−0.9%
Laundry & Linen	2,215,000	2,136,000	(79,000)	−3.6%	2,200,000	64,000	3.0%
Raw Food	1,897,000	1,760,000	(137,000)	−7.2%	1,855,000	95,000	5.4%
Drugs	25,561,000	24,554,000	(1,007,000)	−3.9%	27,987,000	3,433,000	14.0%
Blood & Blood Derivatives	12,544,000	11,549,000	(995,000)	−7.9%	12,392,000	843,000	7.3%
Medical Supplies & Services	28,478,000	28,586,000	108,000	0.4%	29,190,000	604,000	2.1%
Utilities	6,395,000	6,572,000	177,000	2.8%	6,843,000	271,000	4.1%
Insurance	1,874,000	1,870,000	(4,000)	−0.2%	2,104,000	234,000	12.5%
Rental	2,682,000	2,522,000	(160,000)	−6.0%	2,655,000	133,000	5.3%
Maintenance & Repair	5,205,000	5,207,000	2,000	0.0%	5,567,000	360,000	6.9%
Net Loss On Disposal Of Assets	64,000	18,000	(46,000)	−71.9%	18,000	0	0.0%
Campus Administration Expense	311,000	311,000	0	0.0%	327,000	16,000	5.1%
Depreciation	19,548,000	18,569,000	(979,000)	−5.0%	18,942,000	373,000	2.0%
Interest	11,476,000	11,814,000	338,000	2.9%	11,681,000	(133,000)	−1.1%
Provision For Uncollectables	2,982,000	3,179,000	197,000	6.6%	3,364,000	185,000	5.8%
General Supplies & Expense	15,971,000	14,660,000	(1,311,000)	−8.2%	15,259,000	599,000	4.1%
Total Expenditures	$314,606,000	$307,335,000	($7,271,000)	−2.3%	$312,828,000	$5,493,000	1.8%

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
EXPLANATION OF VARIANCES AND BUDGET INCREASES
FOR FISCAL YEARS 1991-92 AND 1992-93

SCHEDULE VII

1. RESIDENT CONTRACTS

The variance in the current year is due to: (a) a slight reduction in FTE's supported (-$73,000), and a lower than anticipated increase in health insurance rates (-$65,000). The decrease in the budget year is due to a reduction in contract expenses that corresponds to the 3.5% reduction in our appropriation levels, (-$527,000). This is offset by inflationary increases in the various contract components ($425,000).

2. PHYSICIAN/CONTRACT COMPENSATION

Variance in the current year is due to: (a) the contract agreement with Lab Medicine and Pathology being less than anticipated (-$339,000) and (b) Hospital financial support of two clinical trials ($769,000). The budget year decrease is due to: (a) the completion of clinical trials from the previous year (-$560,000), (b) an increase in the base contract with Lab Medicine and Pathology ($136,000), and (c) inflationary increases of ($298,000).

3. DRUGS

Variance in the current year is due to: (a) expenses not being incurred for investigational drugs which have not been approved by the FDA (-$705,000), (b) lower than anticipated volume (-$886,000), and (c) higher than expected utilization of newer, more expensive drugs ($594,000). The budget year increase is due to: (a) inflation increase of $1,165,000, (b) $1,599,000 for new drugs, and (c) an expected increase of $700,000 due to anticipated growth in outpatient prescription volume, mainly due to the assumption of adding an Outpatient Discharge Pharmacy.

4. BLOOD & BLOOD DERIVATIVES

The favorable variance in the current year is due a project specifically aimed at holding down utilization of blood products. The budget year increase is due to: (a) inflation ($1,136,000), and (b) offset by an anticipated decline in census (-$387,000).

5. MEDICAL SUPPLIES & SERVICES

The unfavorable variance in the current year is due to: (a) greater than anticipated rate increases on transplant acquisition fees ($683,000). This variance is offset by lower utilization of implants (-$289,000) and lower than expected use of medical supplies due to lower census levels (-$520,000). The increase in the budget year is due to: (a) inflation of $1,643,000, and (b) to an anticipated decline in census levels (-$964,000).

6. UTILITIES

The budgeted increase is primarily due to anticipated rate increases.

7. INSURANCE

The increase in the budget year reflects anticipated inflationary increases.

8. RENTAL

The favorable variance in rental in the current year is due: (a) lower utilization of patient related equipment due to lower census, and (b) fewer airplane trips to our Outreach Clinics. The increase in the budget year is due to inflation and also rental expense for the new off-site Sports Medicine Clinic.

9. **MAINTENANCE & REPAIRS**

The increase in the budget year is due to: (a) the change of our practice which increases the minimum for amounts to be capitalized from $500 to $5000, ($160,000) and (b) inflation increases ($268,000).

10. **DEPRECIATION**

Variance in the current year is due to the delayed receipt of the Heart Cath Lab equipment, not acquiring all of the capital equipment that was originally planned, (CT Scanner and a Lithotripter), and reduced spending of recurring capital. The budget year increase is due to depreciation on: (a) new acquisitions ($697,000), (b) one full year of depreciation on equipment received late in the current year ($419,000), and (c) a reduction in depreciation due to a higher level of retiring assets, for depreciation purposes, than new assets being added to our depreciation base ($-800,000).

11. **INTEREST**

The variance in the current year is due to an unfavorable rate on the variable rate bonds. The decrease in the budget year is due to the principal payment made during the year.

12. **GENERAL SUPPLIES & EXPENSES**

The favorable variance in the current year is due to: (a) lower utilization of outside agency personnel services (-$329,000), and (b) new programs budgeted for that didn't materialize (-$1,110,000). Increase in the budget year is due to: (a) inflation ($719,000), (b) decreased utilization of consulting services (-$392,000), and (c) programmatic changes of $240,000, which include Drug Testing for New Employees, and increased activity with the Workforce Diversity Council.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
FOR FISCAL YEARS 1991/92 AND 1992/93
NON–OPERATING REVENUE SUMMARY

SCHEDULE VIII

	1991/92 PLANNED BUDGET	1991/92 PROJECTED	1992/93 BUDGET @ 8%
Interest Income On Reserves	$8,909,000	$7,911,000	$6,431,000
Investment Income Held By Trustee	1,869,000	1,387,000	1,287,000
Other Investment Income	779,000	233,000	435,000
Total	$11,557,000	$9,531,000	$8,153,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
FOR FISCAL YEARS 1991/92 AND 1992/93
SUMMARY STATEMENT OF OPERATIONS AND OPERATING CASH FLOW

SCHEDULE IX

	1991/92 PLANNED BUDGET	1991/92 PROJECTED	1992/93 BUDGET @ 8%
Gross Patient Charges	$375,569,000	$368,884,000	$389,547,000
Deductions from Charges	92,622,000	96,815,000	105,427,000
Other Operating Revenue	25,321,000	25,278,000	26,939,000
Total Operating Revenue	$308,268,000	$297,347,000	$311,059,000
Total Expenditures	314,606,000	$307,335,000	$312,828,000
Net Revenue from Operations	($6,338,000)	($9,988,000)	($1,769,000)
Total Non–Operating Revenue	11,557,000	9,531,000	8,153,000
Revenue Over/–Under Expenses	$5,219,000	($457,000)	$6,384,000
Add Non–Cash Outlays:			
Depreciation	19,548,000	18,569,000	18,942,000
University Support	211,000	211,000	227,000
Net Increase to Working Capital	3,731,000	615,000	419,000
Total Funds Provided	$28,709,000	$18,938,000	$25,972,000
Funds Applied:			
Increase in Accounts Receivable	2,673,000	4,917,000	(444,000)
Capital Expenditures:			
Principal Payments on Debt and Equipment	3,555,000	3,367,000	3,336,000
Recurring Equipment and Renovation	8,511,000	8,511,000	8,200,000
Interest Income Committed to Capital Plan	8,909,000	7,911,000	6,431,000
Total Funds Applied	23,648,000	24,706,000	17,523,000
Total Cash Available from Operations	$5,061,000	($5,768,000)	$8,449,000

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

April 16, 1992

TO: Members, Finance Committee

FROM: Robert Dickler
General Director

SUBJECT: Bone Marrow Transplant Program - Stem Cell Project

Enclosed please find a narrative proposal for enhancement of our Bone Marrow Transplant (BMT) program through development and clinical application of stem cell technology. The BMT program is one of our most highly regarded and largest revenue producing programs. The stem cell project has the promise of moving the BMT project forward to another level of regional and national prominence.

The stem cell project is complex from a number of perspectives. Because of its complexity, we will be dividing the Board presentation into two segments over the next two months. This month we will present the basic outline of the proposal, focusing on what this technology is and why it will be important to the future of the BMT program. Dr. McGlave will make a presentation toward this end at the full Board meeting, with additional introductory information being presented at the Finance and Planning and Development Committee meetings. Next month we will focus more on the business and financial aspects of the proposal, and will request Board approval of the project.

It is probable that we will view this project as both an enhancement of a major patient care program and an investment in development of a proprietary technology. The latter context is relatively new for UMHC and should be an element of the Board discussion. Because we envision a number of technology development opportunities of this nature, we would recommend that the Finance Committee and the Planning and Development Committee appoint a special subcommittee to provide guidance to the potential commercialization of technology in which UMHC is making an early stage investment. We would recommend that this subcommittee include Board representation, Medical School representation, staff from the University Technology Transfer Office, and potentially others both internal and external to UMHC.

We look forward to discussion of this project with you next week.

GH/kj

enclosure

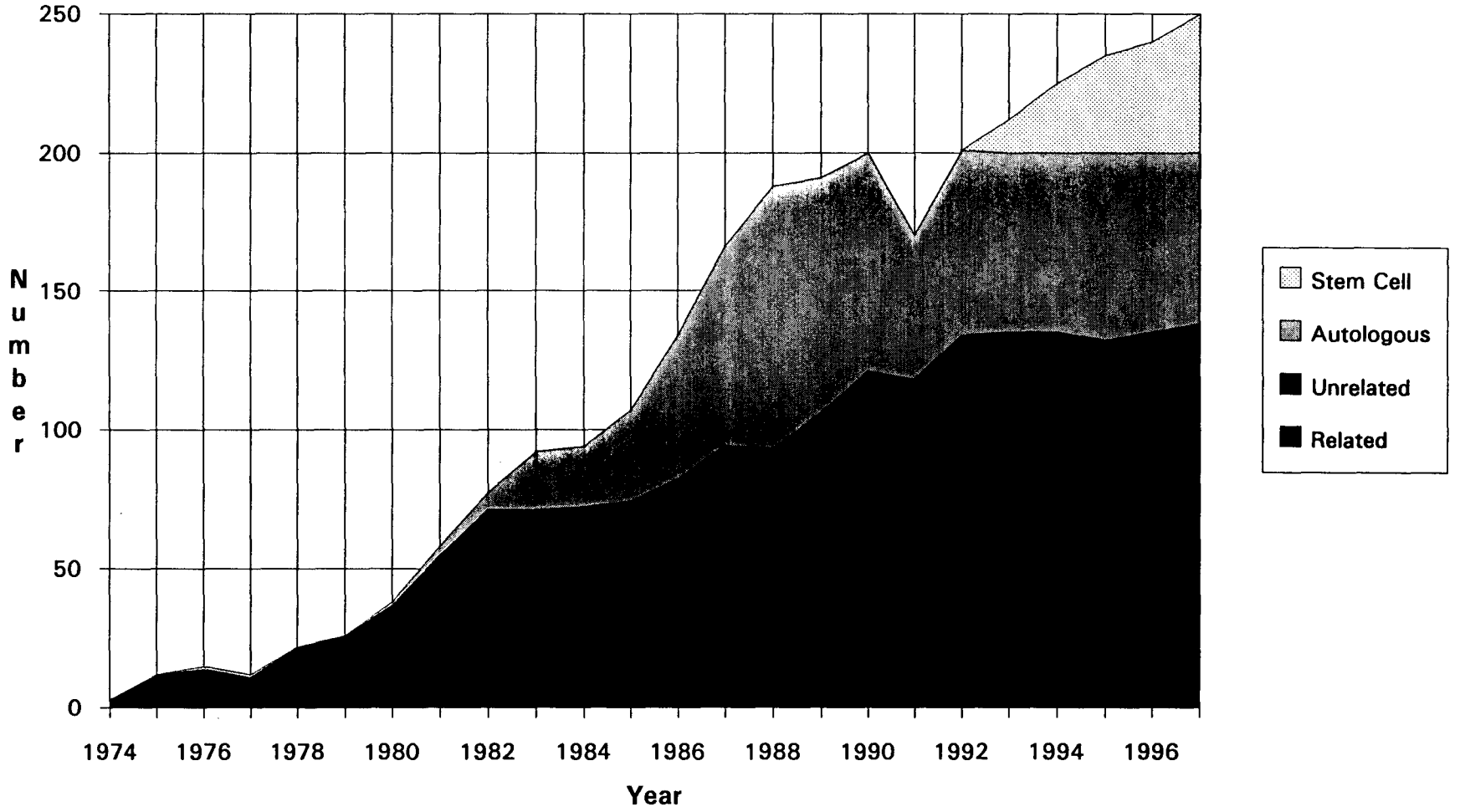
Stem Cell Project
Executive Summary

The stem cell project began as a basic laboratory research effort to identify a technique for isolating stem cells (which constitute approximately one in one million cells) from bone marrow and for cultivating them for marrow transplantation. The project is currently at the stage of transition from basic research, which has been funded by research grants, to clinical research, which requires support beyond the scope of available research grants. With appropriate laboratory space, equipment and staff, it appears likely that the stem cell selection and cultivation techniques can be further refined and adapted for clinical use at University Hospital.

This project has several potential benefits. (1) As the first or one of the first bone marrow transplant programs to apply this therapy to patients, we expect this technology to boost our competitive position regionally and nationally. (2) Stem cell transplantation is expected to result in shorter length of stay and reduced costs, an achievement which is especially important in light of the increasing volume of marrow transplantation referrals which are under fixed cost contracts. (3) The Bone Marrow Transplantation Program's reputation has been built on innovative research and being among the first to offer new therapies, a reputation which has led to reliable referral relationships and designation as a "center of excellence" by several major insurers. This project will allow the Program to enhance its stature as a research and clinical program. (4) The stem cell technology may have important proprietary value, offering a benefit beyond the patient care program at UMHC from the Hospital's investment.

The capital cost of the project includes $350,000 for remodeling (of which 50% will be from non-hospital sources), $527,000 for equipment acquisition, and $400,000-$450,000 per year for laboratory staff and supplies.

Projected Bone Marrow Transplants by Donor Type



HUMAN BONE MARROW STEM CELL PROJECT

Philip McGlave, M.D.

INTRODUCTION

The human bone marrow stem cell has the capability to produce red blood cells which carry oxygen throughout the body, white blood cells which defend the body against infection and platelets which facilitate blood clotting. The stem cell also has the unique capacity to replicate itself, thereby providing a long lasting reservoir of stem cells to sustain blood production throughout the human life span. The stem cell represents only approximately one in one million cells in the human bone marrow. We have recently developed laboratory methods to select human bone marrow stem cells. After further development of this technology, stem cell selection can be applied to the treatment of human diseases under several different circumstances . General application of stem cell selection technology include:

Stem Cell Transplantation. In a variety of lethal human diseases including acute leukemias, chronic leukemias, lymphomas, metastatic breast cancer and other cancers, normal human stem cells co-exist with malignant cells in the bone marrow. Selection and storage of benign stem cells permits treatment of the patient with very high doses of chemotherapy and radiation. Subsequently the patient is "rescued" by reinfusion of the patient's own stem cell population in a procedure termed "stem cell transplantation." Stem cell transplantation has several advantages over currently available donor bone marrow transplant approaches: It is unnecessary to locate a donor, older patients can be transplanted, side effects, inpatient hospital stay and mortality are markedly diminished. These features of stem cell transplantation will dramatically increase the number of patients eligible for potentially life saving therapy and will reduce the cost of the procedure. The number of patients presenting with diseases potentially aided by stem cell transplantation therapy exceeds 100,000 per year in the United States.

Cultivation of stem cell products in the laboratory. Human stem cells have the capacity to differentiate into formed, mature blood cells. With the development of laboratory stem cell cultivation techniques, it can be envisioned that stem cells will be used not only for stem cell transplantation, but to serve as a "blood factory" in which relatively small numbers of stem cells properly stimulated, supported and cultivated in the laboratory will provide a never ending source of "stem cell products" such as red cells, white blood cells and platelets suitable for transfusion therapy. Cultivation of a small number of an individual's own stem cells in the laboratory for subsequent transfusion therapy will markedly reduce the expensive, inconvenient and sometimes futile effort to locate properly ABO-matched blood donors and will eliminate the risk of HIV (AIDS), hepatitis virus and other infections currently associated with transfusion therapy. Stem cell products will last longer in the body than blood products currently obtained from donors. Stem cell products will also have an indefinite shelf life since, unlike blood products currently obtained from donors, they can be frozen. The number of red blood cell and platelet transfusions administered in 1991 at the University of Minnesota hospital using current donor sources is 78,500. Ultimately, the stem cell selection and cultivation technique may obviate the need to locate donors as a source for many of these blood products.

Gene therapy. In a number of lethal diseases, strategies have been developed in which gene insertion into stem cells will either correct the underlying condition directly or will provide a survival advantage for stem cells which will indirectly facilitate therapy. Well known examples of such conditions include sickle cell anemia, thalassemia, the leukemias, the lymphomas, metastatic breast cancer and a variety of other metastatic malignancies. Further development of such treatment strategies is dependent on the ability to select human stem cells which can then be subjected to gene insertion technology.

Summary. We have already developed and published pioneering methods for the selection of human bone marrow stem cells. These studies have been performed in a basic research laboratory using small numbers of cells. In order to continue our lead in the development of stem cell selection techniques for clinical purposes, it is necessary to "scale-up" the stem cell selection methods. This "scale-up" effort is the object of this proposal and is intended to develop safe, efficient means for the selection of human stem cells in sufficient quantities to perform stem cell transplantation as innovative, curative therapy for leukemias, breast cancer and other conditions described above. The specific project as well as a budget and time table for the development of the large scale stem cell selection and initiation of clinical trials are described below.

PROPOSAL

Introduction. We have developed a laboratory method for the selection of stem cells from human bone marrow. We propose to modify these current techniques in order to provide a safe, efficient, reproducible, laboratory-based method for the selection of sufficient numbers of stem cells which can be used for human therapy.

Specific Project. Benign stem cells will be obtained from the bone marrow of patients with chronic myelogenous leukemia or breast cancer in sufficient quantities to allow stem cell transplantation therapy for these lethal diseases. The project will have three components which will be performed in parallel:

Project I: Scale-up of stem cell selection. A series of modifications of our current small scale, laboratory-based technique for selection of benign stem cells from the bone marrow of patients with CML or breast cancer will be performed to increase the yield of benign stem cells suitable for transplantation. As each modification is made, laboratory tests will be performed to ascertain that a viable benign stem cell population is being preserved.

Project II: Laboratory cultivation of mature blood cells from benign stem cells. Benign stem cells will be selected and cultivated in the laboratory to produce large numbers of blood cells suitable for infusion into the patient following stem cell transplantation. These cultivated stem cells will provide a large population of white blood cells needed to sustain the patient in the early course of the transplant. Modifications in our current methods for cultivation of such blood cells from the stem cell population will be made in order to scale-up the procedure. As each modification is made, the resultant stem cell products will be tested for their viability and benign nature.

Project III: Production of monoclonal antibodies to recognize human stem cells. Mouse antihuman monoclonal antibodies which recognize human stem cells will be manufactured. The characterization of one or more such monoclonal antibodies will greatly increase the efficiency of future stem cell selection approaches and may have great proprietary value.

Time course: We anticipate that the first human transplants using stem cell selection will be performed within 6–12 months after funding of the project, occupation of the stem cell laboratory and procurement of all necessary equipment. Should initial stem cell transplants be performed successfully, we anticipate pilot studies testing the efficacy of stem cell transplantation in the therapy of CML and, subsequently, breast cancer will be well underway within 24 to 36 months after initiation of the project.

Additional use of stem cell selection techniques. We anticipate that the stem cell selection and cultivation approaches described above will be applicable not only to therapy of chronic myelogenous leukemia and breast cancer with stem cell transplantation as described in Project I above, but to therapy of a variety of other cancers as well. Preliminary discussions are underway to initiate a similar study in the treatment of malignancies such as small cell cancer of the lung. These stem cell selection techniques will also be useful for clinical studies testing the efficacy of gene insertion currently in the early planning stages within the University of Minnesota Bone

Marrow Transplantation group. We anticipate that the stem cell cultivation techniques also to be developed in the project described above (Project II) will be applicable in a variety of transfusion therapy settings to be tested on our inpatient bone marrow transplantation unit and on the hematology/oncology inpatient treatment units.

IMPACT ON THE UNIVERSITY OF MINNESOTA MEDICAL CENTER

As described above, stem cell selection techniques may lend themselves to innovative therapy for a variety of diseases. Three examples in which stem cell selection might have a major impact on the visibility of the University of Minnesota Medical Center as well as a direct impact on patient accrual are presented below:

Stem cell transplantation therapy for CML. Approximately 46 patients received bone marrow transplantation therapy for CML at the University of Minnesota in 1991. The majority of these patients received related or unrelated donor transplantation. It has been estimated that only 50% of patients referred with CML are candidates for donor bone marrow transplantation because of restrictions in donor availability and applicability of donor transplantation to older recipients. Autologous bone marrow transplantation using stem cell selection techniques obviates the need for matched donors and considerably increases the recipient age limit. After adjustment for these factors, it is anticipated that within two to four years an additional 25–50 patients per year would be eligible for stem cell transplant relying solely on our current referral sources. Additional accrual might be expected if implementation of stem cell transplantation therapy and publication of results increased awareness of the University of Minnesota Bone Marrow Transplantation Program. After scale-up of the stem cell selection process, clinical trials of stem cell transplantation therapy for CML will be performed at the University of Minnesota.

Stem cell transplantation therapy for breast cancer. A second use for stem cell selection therapy would be in the case of stem cell transplantation for breast cancer. Here, selection of the benign

stem cell population coupled with high dose chemotherapy and radiation might prove to be highly effective therapy for this otherwise lethal condition. Approximately 40,000 women per year are diagnosed with stage IV breast cancer. Currently, no curative therapy exists for this condition. Implementation of clinical trials testing the efficacy of this novel and promising approach would be expected to increase visibility of the University of Minnesota Medical Center and Bone Marrow Transplantation Program markedly throughout the nation and to provide a virtually unlimited number of referrals for transplantation therapy as well spill over for other forms of therapy for breast cancer. Preliminary discussions are currently underway to initiate stage IV breast cancer stem cell transplant trials at the University of Minnesota.

Cultivation of stem cells in the laboratory for transfusion therapy. Development of methods for the cultivation of immature blood cells from a small stem cell population ("stem cell products") in the laboratory has important ramifications for transfusion support of patients undergoing high dose chemotherapy. Under such circumstances, a small population of stem cells could be selected from the bone marrow or peripheral blood of patients anticipating subsequent chemotherapy. Large numbers of cultivated stem cell products could be frozen and stored. Following high dose chemotherapy, the stem cell products could be thawed and reinfused to support patients during the period of anemia, low white count and low platelet counts. This would decrease dramatically the need for blood transfusions from donors. This benefit, in turn, would diminish the risk of infection from HIV (AIDS), hepatitis and other blood borne virus infections, would diminish dependency on the Red Cross blood donor network and might markedly diminish the length of hospital stay for patients receiving chemotherapy in the bone marrow transplant or anticancer setting. These stem cell products could be used by many of the approximately 1000 patients per year who receive marrow suppressive chemotherapy for a variety of malignancies at the University of Minnesota.

Proprietary interests. The funding and implementation of the proposed stem cell project for selection and cultivation of human hematopoietic stem cells will most probably result in the development of novel devices and biological substances with proprietary value. These devices may fall into at least two categories: 1) Devices for cultivation of stem cells in the laboratory may be invented. One novel device call the "Transwell system" has already been developed in our laboratory and will allow efficient cultivation of stem cells and stem cell products. Development of this device may lead to more efficient methods for the cultivation of blood products in the laboratory and for gene insertion. A patent application has been filed by our research group for this invention. 2) Our ability to isolate and cultivate human hematopoietic stem cells will allow us to apply conventional monoclonal antibody production techniques in order to create novel monoclonal antibodies which recognize receptors on the surface of human hematopoietic stem cells. We anticipate that one or more such novel monoclonal antibodies will be produced over the next 3 years if the proposed stem cell project is funded. Such monoclonal antibodies may allow us to develop a "one step" selection method for human hematopoietic stem cells to replace our current "four step" method. This would be a significant improvement in stem cell selection technology. Such novel monoclonal antibodies would be patented and would be expected to have a very high proprietary value.

COMPETION FOR STEM CELL TRANSPLANTATION

Introduction

Several bone marrow transplantation centers in the United States are developing the capability to perform stem cell transplantation. A brief description of these programs is provided:

M.D. Anderson Cancer Center (Houston). The M.D. Anderson Cancer Center is now rapidly developing a stem cell transplantation program based on basic research observations made at the University of Minnesota. They have developed their own monoclonal antibodies to recognize human stem cells and have actually begun a pilot study testing efficacy of a partially purified stem

cell population in autologous bone marrow transplantation. A more complete stem cell selection process similar to the one which is envisioned at the University of Minnesota will not be put in place at M.D. Anderson for at least 12–18 months. We can anticipate that the bone marrow transplantation program at M.D. Anderson will provide vigorous competition for us in the area of stem cell transplantation. This effort has been aided by their ability to focus a great deal of support on the development of stem cell transplantation over the last 12 months. This bone marrow transplantation program is rapidly becoming a major competitor for the University of Minnesota.

Stanford University Bone Marrow Transplantation Program (Palo Alto). The Stanford group has been a leader in the development of stem cell selection in the mouse model. They have recently focused their efforts on selection of a human stem cell. With the advent of a viable bone marrow transplantation program at Stanford over the last three years, basic and clinical researchers at Stanford have united in a common attempt to perform human stem cell transplants. We can anticipate that Stanford will perform a small number of well publicized stem cell transplants within the next 12–18 months. Should these transplants be successful, Stanford will become a major competitor in the area of stem cell transplantation.

Memorial Sloan Kettering Cancer Center (New York). The Memorial Sloan Kettering group has been interested in stem cell selection for at least three years. They are currently developing a method for selection of human bone marrow stem cells for subsequent stem cell transplantation and will undoubtedly initiate clinical stem cell transplant pilot studies.

Fred Hutchinson Cancer Research Center (Seattle). The Seattle bone marrow transplantation program has been interested in basic stem cell research for over five years. They are quite capable of developing clinical stem cell transplantation approaches. They have already performed a small pilot study testing the efficacy of transplantation therapy using partially purified stem cells in the treatment of advanced breast cancer. It can be anticipated that the Seattle group will initiate stem

cell transplantation within the next three to five years, if not sooner. The Seattle transplantation program is our chief competitor in the area of related and unrelated donor bone marrow transplantation and is the only bone marrow transplant program in the world which is larger than our own.

WSJ TUE, DEC 17, 1991

Sandoz Makes Big Biotech Bet On SyStemix

By CHARLES MCCOY
Staff Reporter of THE WALL STREET JOURNAL

Swiss pharmaceutical giant Sandoz Ltd. agreed to acquire 60% of tiny SyStemix Inc. for a pricey $392 million, extending a wave of acquisitions in the U.S. biotechnology business that's being driven by big-spending foreign investors.

SyStemix, which was founded in 1988 and only went public in August, has developed several avant-garde technologies in gene therapy and related fields that could lead to new treatments for immune disorders, cancers and genetic diseases. Its guiding light is Dr. Irving Weissman, a Stanford University professor who is one of the most highly regarded immunology specialists in the country.

Stock Price Jumps $19.75

Under yesterday's agreement, Sandoz will pay $70 a share for four million of SyStemix's shares outstanding and $56 a share for about two million newly issued shares. The average price, about $65 a share, represents a fat premium over SyStemix's recent trading range of around $35 a share.

After the announcement, SyStemix shares soared $19.75 to close at $53 in national over-the-counter trading. In Zurich, Sandoz closed at 2,410 Swiss francs ($1,718.81), down from Friday's close of 2,420 Swiss francs.

The agreement may signal a new phase of big-bucks acquisitions in the U.S. biotechnology industry. Ever since last year, powerhouse drug makers—often foreign concerns—have been paying fat premiums for smaller companies with promising, cutting-edge technologies. For example, Switzerland's Roche Holding Ltd. bought 60% of Genentech Inc. for $2.1 billion in 1990, a premium of about 66% over Genentech's stock price at the time.

The cash infusions are vital in an industry notorious for volatile stock prices and heavy spending on exotic, high-risk research. Foreign money has found ready takers because Wall Street has run hot and cold on the industry, though U.S. investors in recent months have shown renewed faith in biotechnolgy.

Research on 'Stem Cells'

The prize for Sandoz in gaining control of SyStemix is the work that Dr. Weissman and his team have done in isolating purified bone marrow "stem cells," which are known as the grandfather of all human stem cells. Scientists say stem cells hold great promise in helping treat various diseases. They also believe that using the purified stem cells could reduce rejection rates in organ transplants.

SyStemix caused a big splash in November when it announced that it had received a patent covering stem cells. In addition to the potential for developing treatments, the patent thrust SyStemix into the middle of the bubbling debate over attempts to patent the basic building blocks of human life.

The company also is known for developing a research animal endowed with a human immune system, the SCID-hu mouse. But clearly, SyStemix's work in stem cells is what caught Sandoz's eye. "We feel they are redefining the state of the art of biotechnology with their stem cell work," said Dr. Craig Burrell, vice president of external affairs for Sandoz Corp., the company's U.S. unit. "They are the world leaders, and their expertise will expand our ability in several key areas." He said the high price was justified, partly as a way to ensure that Dr. Weismann and his scientists stay on board.

SyStemix, Palo Alto, Calif., went public at $18 a share just four months ago. Dr. Weissman owns 5.3% of SyStemix, which gives his personal holdings a current value of about $27.6 million, based on the $65 average share price. But the biggest potential winner in the deal apparently is Eli Jacobs, the New York investor who owns the Baltimore Orioles baseball team. Mr. Jacobs owns about 38% of SyStemix, bought before the company went public; his shares now have a value of about $195 million.

...p — overreaction. WSJ 3/30/92

CellPro Inc. Planning To Start Clinical Tests On Bone Marrow Plan

BOTHELL, Wash.—CellPro Inc. plans to start clinical tests in the second quarter of bone marrow transplant in breast cancer patients, using its cell-separation system.

The biotechnology company makes devices that use monoclonal antibodies to isolate specific populations of blood cells for use in therapeutic, diagnostic and research applications.

Pending Food and Drug Administration approval of the test protocol, Richard Murdock, CellPro's president, said in an interview that about 80 patients would be treated at five U.S. medical centers with transplants of their own bone marrow.

Half of the test patients will be randomly assigned to receive bone marrow transplants with stem cells, which are primitive grandfather cells that give rise to all red and white cells of the bloodstream. The other half would receive their bone marrow without the stem-cell separation technique. The test seeks to compare the effectiveness of stem cells versus whole marrow transplants.

The CellPro cell separator isolates a mix of stem cells and other progenitor or early blood-cells which together constitute about 1% of all bone marrow cells. About 1% of this select group are comprised of true stem cells, which are "immortal" or self-replicating cells increasingly being sought by researchers doing cell-transplants and gene therapy.

Mr. Murdock said using the stem cell mixture instead of conventional bone marrow transplant may significantly reduce the time it takes to regenerate enough healthy white cells to protect patients against life-threatening infection. Currently, bone marrow transplant recipients must spend extended periods of time isolated in a germ-free environment.

Mr. Murdock said that after completion of clinical tests the company hopes to file for pre-market approval with the FDA in 1993 to use its cell-separation system in bone marrow transplants. He also said that the company hopes to be profitable by 1996.

THE UNIVERSITY OF MINNESOTA
HOSPITAL AND CLINIC
BOARD OF GOVERNORS

Planning & Dev. Committee Review:	April 22, 1992
Finance Committee Review:	April 22, 1992
Board of Governors Review:	April 22, 1992

MAJOR CAPITAL EXPENDITURE REPORT

EQUIPMENT: SP4000 Upgrade, Diagnostic Radiology; MRI Section

PURCHASE PRICE: $115,000

DESCRIPTION: The MRI Section of Diagnostic Radiology seeks to upgrade the current 1.5 Tesla System purchased in 1990 with a VAX 4000 Model 300 coast processor, disc drive, expansion board and optical disc storage unit. This upgrade will improve patient through put and image acquisition capabilities of this system which will allow the Department to increase scheduled patients by at least one per day, as well as allow the Department to perform more complex, time consuming MRI scans. This is particularly important given the expansion of coils needed to do state-of-the-art imaging.

Principally, this upgrade will allow patients to spend less time in the tunnel while being imaged. This, in turn, will increase our through put by 1+ patients per day. At $966 per exam, this represents a potential billable revenue of $251,160 in the first 12 months of ownership. Secondarily, the availability of this upgrade will allow us to expedite some of our more difficult neurovascular imaging cases which are currently taking an additional 30 to 60 minutes to complete. Given that our MRI neurovascular exams are up 8% since Dr. Latchaw's arrival, this upgrade enhancement can help to manage the additional case work time required by each additional exam. The decrease in per patient image acquisition/manipulation time can also reduce the number of aborted exams.

The cost of this acquisition is included in this year's budget.

Submitted By: Helen Pitt
Title: Associate Director

Approved By:
Title: Sr. Associate Director

THE UNIVERSITY OF MINNESOTA
HOSPITAL AND CLINIC
BOARD OF GOVERNORS

Planning & Dev. Committee Review:	April 22, 1992
Finance Committee Review:	April 22, 1992
Board of Governors Review:	April 22, 1992

MAJOR CAPITAL EXPENDITURE REPORT

EQUIPMENT: 100 Watt ND. YAG/20 WATT 532 GREEN COMBINATION SURGICAL LASER

PURCHASE PRICE: $114,000

DESCRIPTION:

The equipment requested consists of a 100 watt Nd: YAG/532 wavelength green combination laser with appropriate controlling, calibrating mechanisms and accessories.

Laser technology as a surgical tool was introduced in the operating room during the late 1960's. Since that time, laser surgery has become the accepted method of choice for performing numerous surgical procedures due to its ability to cut, coagulate and vaporize tissue simultaneously, thus limiting local tissue destruction. Specifically the 532 wavelength green laser (also known as the KTP laser) represents the most recent of surgical laser technology developments. The primary benefits of this technology over earlier technologies such as the CO_2 laser is the high degree of both aim accuracy and surgical precision. While these features enhance the application of laser technology in several surgical specialties, they are of particular significance in the areas of Neurosurgery and Otolaryngology. Both of these services continue to show a strong growth pattern and their patient populations are most suitable to benefit from this newer technology. It is anticipated this device will be utilized in approximately 550 surgical procedures annually.

Additionally, the combination feature of this device would enable the O.R. to provide needed back-up for the older Nd: YAG laser currently being used for procedures within the main O.R. and Ambulatory Surgery. Further, case delays will be minimized as two cases can begin and precede concurrently.

Finally, acquisition of this laser technology is important from a competitive position in order to provide patients and referring physicians current surgical technology.

Submitted By: R. Carter McComb
Title: Associate Director

Approved By:
Title: Sr. Associate Director

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

April 16, 1992

TO: Members, Finance Committee

FROM: Robert Dickler
Hospital Director

SUBJECT: Renewal Project

At the February meeting of the Board of Governors we described the reconfiguration of the Renewal Project in general terms, noting in particular that we are proposing that we not proceed with the two floor addition to Unit J. We are providing the Board of Governors with more detail on the reconfiguration of the project this month.

Attached is information describing the components of the project, the previous and new budgets for each of the components, and a schedule for the project. As you can see, we are now budgeting a total of $23.0 million for the project, compared to the previously approved $37.6 million.

In addition to discussing the specific parameters of the project, the Board may wish to discuss what process it wishes to use for ongoing assessment and monitoring of the various elements of the project.

I look forward to our discussion next week.

/kj

attachments

RENEWAL PROJECT RECONFIGURATION

Psychiatry

New construction on top of Unit J will not occur. The Department of Psychiatry is in the preliminary stages of reconfiguring its programs based on an estimated bed capacity of 50 beds. One Unit J Med Surg Unit will be converted into a 18-24 bed high acuity Psych Unit. An existing Psych Unit on Mayo 6 will be renovated to accommodate 16-18 Chem Dep/Eating Disorder/Depression beds. A 12-14 bed Child Adolescent Unit will be accommodated in a yet undetermined location on the 5th or 6th floor of Mayo. Revised planning for Psych Day Hospital, Clinic and offices will soon be initiated. It is assumed these functions will be relocated to the 5th or 6th floor of Mayo at budget levels similar to previous commitments. The timetable for inpatient renovation is approximately 18-24 months. Approximately $50,000 has been spent to date on interim upgrades. The aggregate budget for renovations is $5.6 - 7 million.

Inpatient Rehab

A study is underway to determine if a segment of a Unit J Med Surg Unit can be renovated to accommodate approximately 10 inpatient Rehab beds. Relocation of Rehab beds to Unit J presents significant bed allocation and remodeling challenges which are currently being researched as part of this study. The previous budget of $.5 million is used here but may need to be revised.

Rehab Therapies

Both Adult and Pediatric Rehab therapies will consolidate on renovated Mayo 4 in revised planning. A preliminary estimate of renovation cost is $1 million. Some flexibility exists in contingency funds if a higher budget is justified.

The Adult Rehab satellite project planned for Unit J is currently underway. Peds Rehab Therapy satellite in Unit J is complete.

OB

Potential relocation of OB to Unit J is on hold pending the outcome of the discussion with Riverside Medical Center on merging OB programs.

OR Expansion/Urology Clinic/Cystoscopy/Ambulatory Surgery Same Day Admit Program

The expansion of 4 OR's in Unit J along with associated Post Anesthesia Care Unit renovation will move forward as planned. This expansion and renovation will accommodate the consolidation of

Ambulatory Surgery (currently in the PWB building) with the inpatient OR's and Post Anesthesia Care Unit at an approximate cost of $2.25 million.

The vacated Ambulatory Surgery space (in PWB) will be remodeled to house Cystoscopy and Urology Clinic. The admitting, assessment and waiting functions associated with Ambulatory Surgery will be accommodated on the Short Stay Unit which will occupy renovated space on Masonic 1 and/or 2. Current cost estimate for Short Stay Unit relocation and Urology Clinic/Cystoscopy renovation is $2.25 million.

Pharmacy

Pharmacy renovation planning is currently underway with an estimated cost of $.75 million.

Autopsy

Autopsy renovation is completed.

Mayo Upgrade

A $4 million budget for Mayo upgrading will remain intact to accommodate HVAC upgrade in Mayo and address life safety issues.

Faculty Office Renovation

The original commitment of space and $1.5 million for faculty office renovation remains valid. Approximately $50,000 has been spent to date on NICU offices.

REVISED RENEWAL PROJECT BUDGET
4/16/92

PROJECT ELEMENT	PREVIOUS LOCATION	PREVIOUS BUDGET	PROPOSED LOCATION	PROPOSED BUDGET	REMAINING EXPENSES
SHELL SPACE	UNIT J 9	$5.62		$0.00	$0.00
PSYCH INPATIENT	UNIT J 10	$16.40	UNIT J 7	$1.50	$1.50
PSYCH INPATIENT			MAYO 6 &5	$3.00	$3.00
PSYCH CLINIC	MAYO 4/6	$0.50	MAYO 6 &5	$0.50	$0.50
PSYCH DAY HOSP	MAYO 3/6	$0.57	MAYO 6 &5	$0.57	$0.57
PSYCH OFFICES	MAYO 3/6	BELOW	MAYO 6 &5	BELOW	BELOW
PSYCH TEMP FIX	MAYO 6	$0.10	MAYO 6	$0.10	$0.05
REHAB INPATIENT	REHAB 4	$0.50	UNIT J ?	$0.50	$0.50
REHAB THERAPY	MAYO 4	$1.96	MAYO 4	$1.00	$1.00
REHAB THER SAT	UNIT J ?	$0.24	UNIT J	$0.24	$0.18
OB INPT (TEMP)	MAYO 5/6	$0.37	MAYO 5/6	$0.37	DONE
OB INPT (FINAL)	UNIT J 5D	$0.75		$0.00	HOLD
OR EXPAN–AMB SURG	UNIT J 3	$1.97	UNIT J	$2.00	$2.00
AMB SURG SUPPORT	UNIT J / MAS	$0.25	UNIT J/MAS	PACU RENO	PACU RENO
SHORT STAY UNIT			MAS 1 & 2	$1.50	$1.50
UROLOGY CLINIC	PWB 1	$0.10	PWB 1	$0.25	$0.25
UROLOGY CYSTO	PWB 1	$0.45	PWB 1	$0.50	$0.50
UROLOGY TEMP FIX	MAYO 5	$0.10	MAYO 5	$0.10	$0.10
UROLOGY OFFICE	MAYO 5	BELOW	MAYO 5	BELOW	BELOW
PACU RENOVATION			UNIT J 3	$0.25	$0.25
PHARMACY		$0.60	KE 1	$0.75	$0.75
AUTOPSY	MAYO	$0.40	MAYO	$0.40	DONE
MAYO CODE/ ASBES	MAYO	$2.00	MAYO	$2.50	$2.50
MAYO SYS UPGRADE	MAYO	$2.00	MAYO	$2.50	$2.50
MAYO MISC RENO	MAYO	$0.14	MAYO	$0.70	$0.70
RELOCATION COST	VARIOUS	$1.10	VARIOUS	$1.00	$1.00
FACULTY OFFICE	VARIOUS	$1.50	VARIOUS	$1.50	$1.45
PROJ CONTINGENCY				$0.50	$0.50
TOTAL		$37.62		$22.23	$21.30

RENEWAL PROJECT RECONFIGURATION

	1992								1993												1994						
	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY
UNIT J SURGERY/OR	D D	D D	B B	B B	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C										
UROLOGY CYSTO								P	P P	D D	D D	D D	D D	D D	D D	B B	B C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C
SHORT STAY CENTER	P P	P D	D D	D D	D D	D D	D D	D B	B B	C C	C C	C C	C C	C C	C												
PACU	P P	P P	D D	D D	D D	D D	D D	D D	B B	B B	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C					
C.D.C.		D D	D D	D D	B B	B C	C C	C C	C C	C C																	
REHAB THERAPY: MAYO		P P	D D	D D	D D	D D	D D	D D	D D	D D	B B	B C	C C	C C	C C	C C	C C	C C	C C	C							
REHAB INPATIENT: UNIT J		P P	D D	D D	D D	D D	D D	D D	B B	B C	C C	C C	C C	C C	C C	C C	C										
REHAB SATELLITE																											
UNIT J PSYCH	P	P P	D D	D D	D D	D D	D D	D D	D D	D D	D D	D D	D D	B B	B C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C		
MAYO PSYCH	P	P P	P P	D D	D D	D D	D D	D D	D D	D D	D D	D D	D D	B B	B B	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C	C C
PHARMACY	P D	D D	D D	D D	D B	B B	C C	C C	C C	C C	C C	C C	C C	C C													
FACULTY OFFICES																											
MAYO SYSTEMS UPGRADE																											

KEY

P = PROGRAMMING
D = DESIGN
B = BID AND AWARD
C = CONSTRUCTION

16-Apr-92

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
DEBT/INVESTMENT RESTRUCTURING

Fixed Rate Debt

As of April 3, 1992, The University of Minnesota Hospital and Clinic (UMHC) has $102,160,000 in long term fixed rate debt with an average interest rate of 7.611% maturing from February 1, 1993 to February 1, 2011 with call dates beginning in February 1, 1996. (See schedule A)

Variable Rate Debt

As of March 31, 1992, UMHC has $62,971,000 of the $156,000,000 in University variable rate debt.

As of March 31, 1992, UMHC's effective rate for this debt is 6%. The 6% is based on an annual commitment for 1991-92 made by The University for UMHC on it's variable rate debt. This is an annual rate guaranteed by The University, rather than UMHC debt floating at market rates within one of the variable rate modes.

As of April 19, 1992, The University's $156,000,000 in debt had an average rate of 4.414%. (See schedule B and commercial paper rates were in the 3.0% range.)

UMHC Investments

As of March 31, 1992, UMHC had $155,000,000 invested in The University's Temporary Investment Pool and $20,000,000 invested in the Group Investment Pool. The Temporary Investment Pool is comprised of 40% U.S. Treasury funds with an average maturity of two years and 60% of the fund has maturities of under one year. This fund is currently yielding 4%. The Group Investment Pool is U.S. and foreign fixed investment funds with a six year average maturity. This fund is currently yielding 8.25%.

Recommendations:

1. Move $50 Million from the Temporary Investment Pool to the Group Investment Pool to partially hedge/offset 7.61% long term debt rate. The University can currently invest these funds at a minimum of 8.25% rather than the 7.61% investment limitation if we were to do a true defeasance of our existing long term fixed rate debt.

2. Unbundle UMHC's variable rate and move total $62,971,000 into commercial paper rates. Although there is more interest rate risk, UMHC's remaining Temporary Investment Pool funds (approximately $86M as of 3/31/92) will also fluctuate with the market. With our commercial paper at tax exempt rates and our Temporary Investment Pool funds at taxable levels, there should always be at least a match of interest rates to hedge this debt with investments.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
DEBT STRUCTURE AS OF MARCH, 1992

ISSUE	DUE	AMOUNT	INTEREST RATE	PRICE	APPROXIMATE YIELD TO MATURITY
SERIES 1986A	FEB. 1, 1993	$2,650,000	6.60%	100.00%	6.60%
	FEB. 1, 1994	2,830,000	6.80%	100.00%	6.80%
	FEB. 1, 1995	3,015,000	7.00%	100.00%	7.00%
	FEB. 1, 1996	3,230,000	7.10%	100.00%	7.10%
	FEB. 1, 1997	3,455,000	7.20%	100.00%	7.20%
	FEB. 1, 1998	3,705,000	7.30%	100.00%	7.30%
	FEB. 1, 1999	3,975,000	7.40%	100.00%	7.40%
	FEB. 1, 2000	4,270,000	7.50%	100.00%	7.50%
	FEB. 1, 2001	4,595,000	7.60%	100.00%	7.60%
	(SUBTOTAL)	$31,725,000			
	FEB. 1, 2005	$22,140,000	7.625%	98.75%	7.750%
	FEB. 1, 2010	38,670,000	7.750%	99.25%	7.820%
	FEB. 1, 2011	9,625,000	6.000%	81.00%	7.740%
	(SUBTOTAL)	$70,435,000			
	TOTAL	$102,160,000			7.611%
SERIES 1985 E,F,G,H,I	OCT. 1, 2012	$62,971,365 *			
TOTAL BOND PRINCIPAL OUTSTANDING		**$165,131,365**			

* SEE ATTACHED SCHEDULE OF CURRENT RATES APPLICABLE TO 1985 E,F,G,H,I BOND ISSUE.
HOSPITAL REPRESENTS 40.24% (62,971,365/156,500,000) OF CURRENT OUTSTANDING ISSUE.

SCHEDULE B

WEIGHTED AVERAGE COUPON RATE FOR THE 1985 E,F,G,H & I BOND ISSUE FOR THE WEEK ENDING APRIL 19, 1992

			MON		TUES		WED		THURS		FRI		SAT		SUN	
			4/13/92		4/14/92		4/15/92		4/16/92		4/17/92		4/18/92		4/19/92	
TOTAL	156,500,000			156,500,000		156,500,000		156,500,000		156,500,000		156,500,000		156,500,000		
Series F and G	70,000,000		2.875%	70,000,000	2.875%	70,000,000	2.875%	70,000,000	2.875%	70,000,000	2.875%	70,000,000	2.875%	70,000,000	2.875%	
COMMERCIAL PAPER																
Series H and I	70,000,000		2.874%	70,000,000	2.881%	70,000,000	2.881%	70,000,000	2.887%	70,000,000	2.887%	70,000,000	2.887%	70,000,000	2.887%	
Kenney Rate			3.380%		3.450%		3.450%		3.450%		3.450%		3.450%		3.450%	
Swap Rate			5.750%		5.750%		5.750%		5.750%		5.750%		5.750%		5.750%	
Effective Rate			5.244%		5.181%		5.181%		5.187%		5.187%		5.187%		5.187%	
Series E	16,500,000			16,500,000		16,500,000		16,500,000		16,500,000		16,500,000		16,500,000		
	1,050,000	@	3.150%	1,050,000	@ 3.150%	1,050,000	@ 3.150%	1,050,000	@ 3.150%	1,050,000	@ 3.150%	1,050,000	@ 3.150%	1,050,000	@ 3.150%	
	2,000,000	@	3.100%	2,000,000	@ 3.100%	2,000,000	@ 3.100%	2,000,000	@ 3.100%	2,000,000	@ 3.100%	2,000,000	@ 3.100%	2,000,000	@ 3.100%	
	1,500,000	@	3.000%	1,500,000	@ 3.000%	1,500,000	@ 3.000%	1,500,000	@ 3.000%	1,500,000	@ 3.000%	1,500,000	@ 3.000%	1,500,000	@ 3.000%	
	725,000	@	2.950%	725,000	@ 2.950%	725,000	@ 2.950%	725,000	@ 2.950%	725,000	@ 2.950%	725,000	@ 2.950%	725,000	@ 2.950%	
	7,025,000	@	2.900%	7,025,000	@ 2.900%	7,025,000	@ 2.900%	7,025,000	@ 2.900%	7,025,000	@ 2.900%	7,025,000	@ 2.900%	7,025,000	@ 2.900%	
	1,700,000	@	2.800%	1,700,000	@ 2.800%	1,700,000	@ 2.800%	1,700,000	@ 2.800%	1,700,000	@ 2.800%	1,700,000	@ 2.800%	1,700,000	@ 2.800%	
	1,000,000	@	2.750%	1,000,000	@ 2.750%	1,000,000	@ 2.750%	1,000,000	@ 2.750%	1,000,000	@ 2.750%	1,000,000	@ 2.750%	1,000,000	@ 2.750%	
	1,500,000	@	2.500%	1,500,000	@ 2.500%	1,500,000	@ 2.500%	1,500,000	@ 2.500%	1,500,000	@ 2.500%	1,500,000	@ 2.500%	1,500,000	@ 2.500%	
Series E Weighted Average			2.896%		2.896%		2.896%		2.896%		2.896%		2.896%		2.896%	
TOTAL WEIGHTED AVERAGE			3.937%		3.909%		3.909%		3.911%		3.911%		3.911%		3.911%	

WEEKLY AVG.	3.914%
FEES	0.500%
NET RATE	4.414%

FINANCE COMMITTEE

THE UNVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BOARD OF GOVERNORS
Wednesday May 27, 1992
12:30 - 2:00 p.m.*
The Board Room (8 - 106), University Hospital

FINANCE COMMITTEE

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC BOARD OF GOVERNORS

- CONTINUED -

Information /Consent	**VII.**	**Major Capital Expenditure: Dialysis Remodeling** **- Joanne Disch**	**38**
Information /Consent	**VIII.**	**Quarterly Capital Expenditure Report** **- Greg Hart**	**39**
	IX.	**Other Business**	**- -**
	X.	**Adjournment**	**- -**

*** Lunch will be served at 12:00 p.m. in the Board Room**

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BOARD OF GOVERNORS FINANCE COMMITTEE
April 22, 1992

MINUTES

ATTENDANCE:

Edward Ciriacy, M.D.
Robert Dickler
Michael Dougherty
Clifford Fearing
Leo Furcht, M.D.
Nellie Johnson
Maria Gomez
Arthur Kydd
Margaret Matalamaki
John Morrison
Roger Paschke
Vic Vikmanis

Staff: Giles Caver
Greg Hart
Nels Larson
Shannon Lorbiecki
Joanne Disch
Sharon Weiss

CALL TO ORDER:

The meeting of the Board of Governors Finance Committee was called to order by Nellie Johnson, Finance Committee Chairperson, on April 22, 1992 at 12:30 P.M.

APPROVAL OF THE MINUTES:

The Board of Governors Finance Committee seconded and passed a motion to approve the Finance Committee minutes of the March 25, 1992 meeting as written.

JULY 1, 1991 THROUGH MARCH 31, 1992 FINANCIALS:

Mr. Cliff Fearing reported to the Finance Committee the month of March inpatient admissions totaled 1,617 which was 93 over budget; average length of stay was 7.1 days or 0.2 days below budget; patient days totaled 12,680 which were 93 days over budget. The March average daily census was 409, which was above the budgeted level of 406. Clinic visits for the month of March were reported to be 6.5% above budget.

The Hospital's year-to-date Statement of Operations showed expenses being greater than revenues by $1,396,000, an unfavorable variance of $5,160,000. Gross patient revenue was 1.6% below budget and operating expenditures through March were reported to be 2.5% below budget.

As of March 31, the balance of accounts receivable totaled $109,873,000 and represented 101.4 days of revenue outstanding.

THIRD QUARTER, 1991-92 BAD DEBTS

Mr. Fearing reported the bad debts for the third quarter totaled $530,135.27 represented by 1,749 accounts. Receivables amounted to $1,782.14, leaving a net charge-off of $528,353.13. This amount represents 0.56% of gross charges and compares to a budgeted level of 0.79%.

The Finance Committee seconded and passed a motion to endorse the Third Quarter, 1991-92 Bad Debt report as submitted.

1992-93 BUDGET:

Mr. Dickler presented to the Committee, for information, the 1992-93 Operating Budget. The 1992-93 Budget will be brought before the Committee in May for endorsement.

Mr. Dickler highlighted several factors taken into consideration when drafting the 1992-93 budget. 1) The HealthRight legislation will impose a 2% provider tax which will be passed through to payors by increasing our rate increase by an additional 1%. 2) Due to a second legislative item of a 3.5% reduction in University appropriations made by the state, we anticipate a $540,000 reduction for UMHC. 3) We are seeking a $2,000,000 reduction in payments to the University for such things as fringe benefits, utilities, maintenance and construction, and other goods and services. This represents 40% of approximately $5,000,000 that UMHC is over assessed annually for these services. 4) Staffing reductions of approximately 140 FTE's by October 1, 1992 and reductions of $750,000 to various supply and expense categories.

To provide appropriate margin for change, a 2% net gain for the Hospital was built into the budget. It was also recommended that if financial levels exceed the budget that 20% of the excess be turned over to the various academic units that help the Hospital reach it's financial goals. In addition, it was recommended that $2,000,000 be set aside from reserves for special projects.

Mr. Fearing presented the UMHC 1992-93 Budget Letter explaining the assumptions used in developing the budget. The 1992-93 projections for admissions levels, length of stay and average daily census will decrease slightly from the current fiscal year while outpatient encounters are expected to increase. There is a reduction in ancillary service revenue due to a projected decline in inpatient admissions. It is projected that there will be an increase of 1.8% in expenditures for salaries, supplies and expenses.

Final approval of the 1992-93 Operations Budget will be sought from the Board of Governors in May and the Board of Regents in June.

BONE MARROW TRANSPLANT - STEM CELL PROJECT

Mr. Greg Hart presented to the Committee, for information, a proposal for enhancement of UMHC's Bone Marrow Transplant (BMT) program through development and clinical application of stem cell technology. The presentation of this proposal to the Board will be done in two segments over the next two months with business and financial aspects to be discussed at the May meeting.

It is probable that this project will be viewed both as an enhancement of a major patient care program and an investment in development of a proprietary technology. It was recommended that a special sub-committee be appointed to provide guidance to the potential commercialization of technology development opportunities of this nature.

MAJOR CAPITAL EXPENDITURES:

MRI Upgrade Diagnostic Radiology

Mr. Hart reported to the Committee, for information, a proposal to purchase a SP400 upgrade, to the current 1.5 Tesla System in the MRI Section of Diagnostic Radiology at a cost of $115,000.

This upgrade will improve patient through put and image acquisition capabilities of this system which will allow the Department to increase scheduled patients by at least one per day, as well as allow the Department to perform more complex, time consuming MRI scans.

The cost of this acquisition is included in this year's budget.

Surgical Laser

Mr. Hart reported to the Committee, for information, a proposal to purchase a 100 Watt ND YAG/20 Watt 532 Green Combination Surgical Laser at a cost of $114,000.

Mr. Hart stated this laser will enhance the application of laser technology in several surgical specialties in the areas of Neurosurgery and Otolaryngology. In addition, this device would enable the O.R. to provide needed back-up for the older ND:YAG laser.

RENEWAL PROJECT:

Mr. Dickler presented to the Committee, for information, a detailed report of the reconfiguration of the Renewal Project as it will be presented for information to the Board at this months meeting. Information was provided describing the components of the project, the previous and new budgets for each of the components, and a schedule for the project.

A total of $23,000,000 is now being budgeted for the project compared to the previous approved $37,600,000.

UMHC DEBT & INVESTMENT RESTRUCTURING:

Mr. Fearing presented to the Committee, for information, two recommendations for debt and investment restructuring.

It was decided to have several committee members meet with Mr. Fearing to look at restructuring options before a final presentation at the May meeting.

There being no further discussion, the April 22, 1992 meeting was adjourned at 2:15 P.M.

Respectfully submitted,

Clifford Fearing/sl

Clifford Fearing
Senior Associate Director

MINUTES
Finance Committee
Board of Governors
May 14, 1992

Attendance:	Present:	Edward Ciriacy, M.D. Robert Dickler Michael Dougherty Clifford Fearing Maria Gomez Albert Hanser Nellie Johnson Arthur Kydd Roger Paschke Vic Vikmanis
	Staff:	Giles Caver Joanne Disch, Ph.D. Greg Hart Nels Larson Shannon Lorbiecki

CALL TO ORDER

Ms. Nellie Johnson called the meeting to order at 3:35 p.m.

FISCAL YEAR 1993 OPERATING BUDGET

Mr. Clifford Fearing presented the Hospital's proposed operating budget for fiscal year 1993. Mr. Fearing said the budget proposal had been revised since the last board meeting on April 22. First, University Administration has not accepted UMHC's plan to reduce payment for fringe benefits by $ 2 Million. Therefore, the 1992 - 93 expense budget will increase by the $ 2 Million.. Second, University Administration decided not to reduce appropriations support to the Hospital by 3.5 percent, or $543,000, and therefore, the Hospital decided to maintain support for graduate medical education, other allied health programs, and academic support. Third, the Hospital plans to restructure its debt and investments throughout the University and thus save $ 2,794,000 annually. The net savings will enable the Hospital to reduce its planned rate increase from 8.0 to 5.9 percent. The budget as revised produces a margin of 2.1% ($ 6.8 million) and incorporates an expense reduction for 1992 - 93 of $ 11,250,000 from our 1991 - 92 expense base.

Following Mr. Fearing's presentation, Mr. Robert Dickler discussed the budget proposal. Mr. Dickler said the proposal was responsible and although he also hopes to further reduce expenses, the budget process is not the appropriate mechanism for doing so. He said the strategic planning process should result in strategic and operational changes and subsequent reductions in expenses.

Several members of the Finance Committee believed the Hospital's strategic position warrants further cost and price reduction measures. Mr. Dickler said the Hospital has the highest published rates in the community, with or without

an increase. Mr. Michael Dougherty proposed a 5.9 percent increase for fiscal year 1993 and no increase the following year. He said this measure would provide the requested increase this year and would force reductions next year following the completion of the strategic planning process.

Dr. Edward Ciriacy expressed concern about the Hospital's reliance upon interest income to fund operational expenses. He suggested the Hospital should wean itself off such income. Mr. Dickler reminded the Finance Committee it had promoted use of interest income to reduce the Hospital's reserves, but he agreed the Hospital should now consider ending this practice.

Mr. Dougherty suggested and Ms. Johnson asked Mr. Dickler and Mr. Fearing to present the Finance Committee later in the month with revised budget scenarios, illustrating both a 5.9 percent increase in fiscal year 1993 and no increase the following year, as well as a 3 to 4 percent increase in fiscal year 1993. Mr. Dickler and Mr. Fearing agreed to do so.

BOARD OF GOVERNORS' RESOLUTION ON UNIVERSITY FRINGE BENEFITS

Mr. Fearing presented a Board of Governors' resolution on University fringe benefits. He said University Administration had not accepted the Hospital's planned $2 Million reduction in payments to the University, but had promised to resolve the issue during the 1992 - 93 final year. The resolution acknowledged the Hospital operates in a cost competitive environment and cannot tolerate excessive charges by University Administration. As such, the resolution encouraged University Administration to address the issue by January 1, 1993 and resolve it on the fiscal year 1994 budget.

Mr. Fearing indicated he would bring the resolution back to the Finance Committee for approval at its next meeting.

DEBT AND INVESTMENT RESTRUCTURING

Mr. fearing presented the Hospital's plan to restructure its debt and investment. He said he had met with Mr. Roger Paschke, Mr. Michael Dougherty, Mr. Albert Hanser, and Mr. John Morrison to discuss such a restructuring, and they collectively developed the plan. The plan should decrease interest expenses by $ 1,564,000 and increase interest income by $ 1,220,000 annually for a net interest savings of $ 2,794,000.

The Finance Committee endorsed the Hospital's debt and investment restructuring plan.

ACCOUNTS RECEIVABLE EVALUATION AND U-CREDIT

Mr. Fearing provided an update regarding the external evaluation of the Hospital's accounts receivable. He said a consulting firm is assessing the accounts receivable operation and considering alternatives for the future. Specifically, the consultants are evaluating patient registration and admission, insurance billing and follow-up, patient collections, and billing for the Hospital and Interstate Medical Center.

In the area of patient collections, the Hospital is considering the development of what is being termed "U-Credit." U-Credit would establish interest bearing loans for unpaid bills and charge interest on the outstanding balances.

Mr. Fearing said he will continue to keep the Finance Committee informed of the ongoing evaluation of accounts receivable.

ADJOURNMENT

There being no further business, the Finance Committee meeting was adjourned at 5:00 p.m.

Respectfully submitted,

Giles Caver
Administrative Fellow

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

May 21, 1992

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing

SUBJECT: 1992-93 Operating Budget for the University of Minnesota Hospital and Clinic

At the May 14, 1992 meeting of the Board of Governors Finance Committee, we outlined a 1992-93 budget recommendation that required a 5.9 percent rate increase and yielded a 2.1 percent total margin. We also presented the impact of a 0.0 percent rate increase with a 0.0 percent total margin. As a result of the discussion on May 14, 1992, we were asked to also develop the impact of a 4.0 percent rate increase that would yield a 2.0 percent total margin. On Schedule I you will see the results of each of these budget options.

After careful review of each of the options presented, it would still be our recommendation to implement a 5.9 percent rate increase for the 1992-93 budget year. We make this recommendation because (1) there is still some benefit to us when our payor mix is considered; nearly one-third of our patient revenue stream is still charge based, and (2) a 5.9 percent rate increase still keeps us below average community increases. Our budget recommendation incorporates reductions to our 1991-92 expense base of nearly $11,250,000 in order to achieve the projected 2.0 percent margin.

If we were to implement a 4.0 percent rate increase and maintain the 2.0 percent total margin, an additional $1,300,000 in expense reductions would need to occur beyond those necessary with a 5.9 percent rate increase. The 0.0 percent rate increase option would eliminate the total margin of $6,787,000 and require expense reductions of $629,000 beyond those necessary with the 5.9 percent rate increase and a 2.0 percent margin.

In addition to the above, we were asked to project the 1993-94 fiscal year with a 0.0 percent rate increase. The result of this projection is shown on Schedule II. The 1993-94 projection was developed with a 2.0 percent margin and would require expense reductions of nearly $18,400,000 from the 1992-93 expense base.

We have also included schedules that compare UMHC to other Minnesota hospital providers regarding financial ratios, rate increases, and payment methods. In addition, we have included a pro forma projection through fiscal year 1996-97 assuming 4.0 percent rate increases each year together with 2.0 percent margins each year. We will review all of these schedules with you in detail at the May 27, 1992 Finance Committee meeting.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
SUMMARY STATEMENT OF OPERATIONS AND DETAILED OPERATING CASH FLOW

	1991/92 BOARD BUDGET	1991/92 SEASONALIZED PROJECTIONS	1992/93 BUDGET @ 5.9% RATE INCREASE	1992/93 BUDGET @ 4.0% RATE INCREASE	1992/93 BUDGET @ 0.0% RATE INCREASE
Gross Patient Charges	$375,569,000	$368,884,000	$381,972,000	375,967,000	361,507,000
Deductions from Charges	92,622,000	96,815,000	100,712,000	96,521,000	87,663,000
Other Operating Revenue	25,321,000	25,278,000	27,482,000	27,482,000	27,482,000
Total Operating Revenue	$308,268,000	$297,347,000	$308,742,000	$306,928,000	$301,326,000
Expenditures					
Salaries	$126,698,000	$123,907,000	121,561,000	120,563,000	121,201,000
Fringe Benefits	30,675,000	29,871,000	31,079,000	30,824,000	30,986,000
Contract Compensation	20,030,000	20,250,000	19,944,000	19,944,000	19,944,000
Medical Supplies, Drugs, Blood	66,583,000	64,477,000	69,569,000	69,569,000	69,569,000
Campus Administration Expense	311,000	311,000	327,000	327,000	327,000
Depreciation	19,548,000	18,569,000	18,942,000	18,942,000	18,942,000
Provisions for Uncollectables	2,982,000	3,179,000	3,298,000	3,247,000	3,122,000
General Supplies & Expense	47,779,000	46,572,000	46,608,000	46,608,000	46,608,000
Total Expenditures	$314,606,000	$307,136,000	$311,328,000	$310,024,000	$310,699,000
Net Revenue from Operations	($6,338,000)	($9,789,000)	($2,586,000)	($3,096,000)	($9,373,000)
Total Non-Operating Revenue					
Investment Income	11,557,000	9,531,000	9,373,000	9,373,000	9,373,000
Total Non-Operating Revenues	$11,557,000	$9,531,000	$9,373,000	$9,373,000	$9,373,000
Revenue Over/-Under Expenses	$5,219,000	($258,000)	$6,787,000	$6,277,000	$0
Add Non-Cash Outlays:					
Depreciation	19,548,000	18,569,000	18,942,000	18,942,000	18,942,000
Campus Administration Expense	211,000	211,000	227,000	227,000	227,000
Loss on Disposal of Assets	64,000	18,000	18,000	18,000	18,000
Increase in Accrued Interest	(165,000)	25,000	(716,000)	(716,000)	(716,000)
Increase in Accrued Expense	5,162,000	1,356,000	1,874,000	1,816,000	1,852,000
Decrease in Other Receivables	90,000	(3,990,000)	323,000	323,000	323,000
Transfer from Reserves for Interstate Medical Loans		4,268,000	0	0	0
Total Funds Provided	30,129,000	20,199,000	27,455,000	26,887,000	20,646,000
Funds Applied					
Increase in Accounts Receivable	2,673,000	4,917,000	(1,861,000)	(2,986,000)	(5,691,000)
Increase in Appropriations Receivable	(14,000)	(191,000)	159,000	159,000	159,000
Increase in Prepaid Expense	90,000	(44,000)	127,000	127,000	127,000
Increase in Inventories	565,000	402,000	423,000	423,000	423,000
Increase in Investments	779,000	911,000	1,035,000	1,035,000	1,035,000
Capital Obligations:					
Principal Payments on Debt and Equipment	3,555,000	3,367,000	3,336,000	3,336,000	3,336,000
Recurring Equipment and Renovation	8,511,000	8,511,000	8,200,000	8,200,000	8,200,000
Interest Income Committed to Capital Plan	8,909,000	7,911,000	7,651,000	7,651,000	7,651,000
Total Funds Applied	25,068,000	25,784,000	19,070,000	17,945,000	15,240,000
Total Cash Available from Operations	$5,061,000	($5,585,000)	$8,385,000	$8,942,000	$5,406,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
SUMMARY STATEMENT OF OPERATIONS AND DETAILED OPERATING CASH FLOW

	1991/92 BOARD BUDGET	1991/92 SEASONALIZED PROJECTIONS	1992/93 BUDGET @ 5.9% RATE INCREASE	1993/94 PROJECTIONS @ 0% RATE INCREASE
Gross Patient Charges	$375,569,000	$368,884,000	$381,972,000	$372,957,000
Deductions from Charges	92,622,000	96,815,000	100,712,000	95,362,000
Other Operating Revenue	25,321,000	25,278,000	27,482,000	28,011,000
Total Operating Revenue	$308,268,000	$297,347,000	$308,742,000	$305,606,000
Expenditures				
Salaries	$126,698,000	$123,907,000	121,561,000	112,645,000
Fringe Benefits	30,675,000	29,871,000	31,079,000	28,803,000
Contract Compensation	20,030,000	20,250,000	19,944,000	20,660,000
Medical Supplies, Drugs, Blood	66,583,000	64,477,000	69,569,000	72,915,000
Campus Administration Expense	311,000	311,000	327,000	343,000
Depreciation	19,548,000	18,569,000	18,942,000	21,333,000
Provisions for Uncollectables	2,982,000	3,179,000	3,298,000	2,934,000
General Supplies & Expense	47,779,000	46,572,000	46,608,000	48,118,000
Total Expenditures	$314,606,000	$307,136,000	$311,328,000	$307,751,000
Net Revenue from Operations	($6,338,000)	($9,789,000)	($2,586,000)	($2,145,000)
Total Non-Operating Revenue				
Investment Income	11,557,000	9,531,000	9,373,000	9,207,000
Total Non-Operating Revenues	$11,557,000	$9,531,000	$9,373,000	$9,207,000
Revenue Over/-Under Expenses	$5,219,000	($258,000)	$6,787,000	$7,062,000
Add Non-Cash Outlays:				
Depreciation	19,548,000	18,569,000	18,942,000	21,333,000
Campus Administration Expense	211,000	211,000	227,000	243,000
Loss on Disposal of Assets	64,000	18,000	18,000	19,000
Increase in Accrued Interest	(165,000)	25,000	(716,000)	(73,000)
Increase in Accrued Expense	5,162,000	1,356,000	1,874,000	1,030,000
Decrease in Other Receivables	90,000	(3,990,000)	323,000	365,000
Transfer from Reserves for Interstate Medical Loans		4,268,000	0	0
Total Funds Provided	30,129,000	20,199,000	27,455,000	29,979,000
Funds Applied				
Increase in Accounts Receivable	2,673,000	4,917,000	(1,861,000)	(5,206,000)
Increase in Appropriations Receivable	(14,000)	(191,000)	159,000	26,000
Increase in Prepaid Expense	90,000	(44,000)	127,000	134,000
Increase in Inventories	565,000	402,000	423,000	268,000
Increase in Investments	779,000	911,000	1,035,000	1,035,000
Capital Obligations:				
Principal Payments on Debt and Equipment	3,555,000	3,367,000	3,336,000	3,475,000
Recurring Equipment and Renovation	8,511,000	8,511,000	8,200,000	8,800,000
Interest Income Committed to Capital Plan	8,909,000	7,911,000	7,651,000	7,485,000
Total Funds Applied	25,068,000	25,784,000	19,070,000	16,017,000
Total Cash Available from Operations	$5,061,000	($5,585,000)	$8,385,000	$13,962,000

University of Minnesota Hospital and Clinic

Comparative Payment Methods

Payor Mix April, 1992 FYTD

Inpatient

	Case Distribution	U M H C Payment Methodology	Community Payment Methodology		Percentage Payments / Charges
Blue Cross – AWARE	14.6%	Diagnosis, Procedure --> I O G *(I O G = Illness Outcome Group)*	Diagnosis, Procedure --> I O G		72.1%
H M Os / P P Os	12.1%	Percentage of charges / Per Diem	Percentage of charges / Per Diem		68.9%
Organ Transplant	2.0%	Contract fees	Contract fees		78.9%
Medicare	27.1%	D R G Payments	D R G Payments		68.8%
Medical Assistance	13.4%	M D C Payments	M D C Payments		67.5%
Other Government	3.0%	Charges / Fee schedules	Charges / Fee schedules		62.9%
Commercial & Self Pay	27.8%	Charges	Charges	**	100.0%
	100.0%				

**** NOTE: Less allowances for Billing Adjustments and Bad Debts**

PERFORMANCE CRITERIA OF MINNESOTA HOSPITALS

Hospital Name	Fiscal Year End	PROFITABILITY RATIOS: TOTAL MARGIN RATIO	PROFITABILITY RATIOS: OPERATING MARGIN RATIO	LIQUIDITY RATIO: CURRENT RATIO	CAPITAL STRUCTURE RATIOS: LONG TERM DEBT TO EQUITY RATIO	CAPITAL STRUCTURE RATIOS: DEBT SERVICE COVERAGE RATIO
University of Minnesota Hospital and Clinic	6/30/91	3.99%	−0.15%	1.823	0.835	2.571
University of Minnesota Hospital and Clinic	6/30/92	−0.08%	−3.19%	2.130	0.821	1.971
University of Minnesota Hospital and Clinic	6/30/93	2.13%	−0.81%	2.126	0.781	2.665
Abbott−Northwestern Hospital	12/31/91	6.15%	3.85%	1.367	1.025	4.033
Health One Corporation	12/31/91	1.38%	−1.15%	0.941	1.958	1.802
HealthEast Affiliates	8/31/91	2.95%	1.64%	1.264	13.790	1.445
Methodist Hospital	12/31/91	7.22%	2.94%	0.958	1.466	2.432
North Memorial	12/31/91	6.38%	4.03%	1.150	0.616	4.819
Riverside Medical Center	12/31/90	−1.40%	−1.40%	1.303	-- [1]	Not Avail
Rochester Methodist Hospital	12/31/91	12.46%	12.41%	1.409	0.624	Not Avail
Saint Marys Hospital of Rochester	12/31/91	0.00%	18.70%	1.122	0.604	Not Avail
Saint Paul Ramsey	12/31/91	2.29%	2.04%	1.515	0.004	48.579
Comparative Averages (Excludes UMHC)		4.16%	4.79%	1.225	2.232	9.016

[1] Riverside Medical Center reported a deficit fund balance.

RECENT COMMUNITY RATE INCREASES*

	HOSPITAL	1989	1990	1991	1992	CUMULATIVE
1)	Abbott-Northwestern	8.0%	8.0%	7.5%	3.6%	27.1%
2)	Fairview Southdale	15.0%	15.0%	15.0%	12.5%	57.5%
3)	Hennepin County Medical Center	15.0%	13.0%	15.0%	12.6%	55.6%
4)	Methodist	9.9%	9.9%	9.9%	15.0%	44.7%
5)	Metropolitan-Mount Sinai Medical Center	19.0%	22.0%	10.0%	15.0%	66.0%
6)	Midway Hospital	27.8%	12.0%	0.0%	9.9%	49.7%
7)	North Memorial Medical Center	5.0%	9.0%	9.5%	8.1%	31.6%
8)	Riverside	6.0%	10.0%	8.0%	9.5%	33.5%
9)	Rochester Methodist	6.8%	8.5%	5.2%	6.0%	26.5%
10)	St. Mary's, Rochester	7.2%	10.6%	5.3%	8.1%	31.2%
11)	St. Paul Ramsey Medical Center	8.0%	14.0%	10.0%	8.9%	40.9%
12)	St. Paul United Hospital	15.7%	16.5%	15.0%	13.2%	60.4%
13)	University of Minnesota Hospital and Clinic	7.5%	7.5%	5.0%	5.9%	25.9%

* All rate increases are effective on January 1 of each year with the exception of Midway, whose rate increases ar implemented September 1; Methodist, whose rate increases go into effect November 1; and UMHC, whose rates g into effect July 1. All information has been provided UMHC by the Minnesota Rate Review Program.

PROFORMA PROJECTIONS
4.0% rate increases applied to fiscal years 1992-93 through 1996-97.

21-May-92

University of Minnesota Hospital and Clinic
STATEMENT OF REVENUE AND EXPENSES

	1992	1993	1994	1995	1996	1997
PATIENT REVENUE						
Inpatient Services	$290,284	$291,873	$292,571	$297,408	$301,885	$310,462
Outpatient Services	78,600	84,094	89,207	94,631	100,384	106,487
GROSS PATIENT REVENUE	368,884	375,967	381,778	392,038	402,270	416,950
DEDUCTIONS FROM PATIENT REVENUE						
Contractual Discounts	96,010	95,645	99,970	103,147	106,494	110,791
Provision for Bad Debts and Charity	3,984	4,123	4,137	4,209	4,279	4,435
TOTAL DEDUCTIONS FROM REVENUE	99,994	99,768	104,108	107,356	110,773	115,226
NET PATIENT REVENUE	268,891	276,199	277,670	284,683	291,496	301,724
OTHER OPERATING REVENUE						
State Appropriations and Support	13,611	15,516	15,826	16,143	16,466	16,795
Other	11,667	11,966	12,264	12,595	12,936	13,311
NET OTHER OPERATING REVENUE	25,278	27,482	28,090	28,738	29,402	30,106
TOTAL OPERATING REVENUE	294,169	303,681	305,761	313,421	320,898	331,830
OPERATING EXPENSES						
Salaries and Wages	123,907	120,563	115,504	115,267	115,047	116,404
Employee Benefits	29,871	30,824	29,534	29,474	29,418	29,764
Medical fees	9,530	8,799	9,248	9,719	10,215	10,736
Supplies	68,649	73,744	77,246	81,802	86,563	92,503
Purchased Services	7,441	7,534	7,933	8,354	8,797	9,263
Depreciation	18,488	18,862	21,333	22,057	22,344	22,709
Interest	11,895	10,187	9,862	9,615	9,369	9,126
Other	34,177	36,265	38,023	39,887	41,842	43,911
	0	0	0	0	0	0
NET OPERATING EXPENSES	303,958	306,777	308,685	316,175	323,595	334,416
EXCESS OF R/E FROM OPERATIONS	(9,789)	(3,096)	(2,924)	(2,754)	(2,696)	(2,586)
NONOPERATING REVENUE						
Investment Income	9,298	8,936	8,800	8,775	8,868	8,971
Interest Expense	0	0	0	0	0	0
Other	233	435	435	435	435	435
NET NONOPERATING REVENUE	9,531	9,371	9,235	9,210	9,303	9,406
EXCESS OF R/E BEFORE EXTRA.	(258)	6,275	6,311	6,456	6,607	6,820
EXTRAORDINARY ITEMS	0	0	0	0	0	0
EXCESS OF REVENUE OVER EXPENSES	($258)	$6,275	$6,311	$6,456	$6,607	$6,820
TOTAL MARGIN	-0.09%	2.00%	2.00%	2.00%	2.00%	2.00%

21-May-92

	1992	1993	1994	1995	1996	1997
University of Minnesota Hospital and Clinic						
CASH FLOW STATEMENT						
SOURCES OF CASH:						
Excess of Revenues over Expenses from Operations	($9,789)	($3,096)	($2,924)	($2,754)	($2,696)	($2,586)
Net Nonoperating Income, Excluding Interest Income and Expense	233	435	435	435	435	435
Extraordinary Items	0	0	0	0	0	0
Items Not Affecting Working Capital:						
Depreciation	18,488	18,862	21,333	22,057	22,344	22,709
Amortization of Financing Costs	81	80	78	76	73	71
Other	348	1,023	1,034	1,046	1,061	1,076
Long Term Debt Proceeds	0	0	0	0	0	0
Total Sources of Cash	9,361	17,304	19,956	20,860	21,217	21,705
USES OF CASH:						
Change in Working Capital, Excluding Current Portion of Debt	7,493	(3,161)	(1,746)	776	701	906
Additions to Property, Plant & Equipment, net	24,670	43,248	39,879	17,698	15,749	16,759
Long Term Debt Principal Repayments, (Net)	3,289	3,258	3,394	3,539	3,226	3,450
Total Uses of Cash	35,452	43,345	41,527	22,013	19,676	21,115
Cash Provided (Used) Prior to Interest Income	(26,091)	(26,041)	(21,571)	(1,153)	1,541	590
CASH PROVIDED from Interest Income	9,298	8,936	8,800	8,775	8,868	8,971
CASH USED by Interest Expense	0	0	0	0	0	0
Cash Provided (Used)	(16,793)	(17,106)	(12,770)	7,622	10,409	9,561
Cash Balance, beginning of period	178,788	161,995	144,890	132,120	139,741	150,151
Cash Balance, end of period	$161,995	$144,890	$132,120	$139,741	$150,151	$159,712

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

May 20, 1992

TO: Board of Governors Finance Committee

FROM: Clifford P. Fearing

SUBJECT: Report of Operations for the Period **July 1, 1991 through April 30, 1992**

The Hospital's operations for the month of April reflect inpatient census and outpatient encounters to be greater than budgeted levels.

INPATIENT CENSUS: For the month of April, inpatient admissions totaled 1,519 which was 14 over budgeted admissions of 1,505. Our overall average length of stay for the month was 7.3 days. Patient days for April totaled 11,325 and were 827 days under budget. The areas in which admissions were most significantly over budget were Medicine, Neurosurgery, and Family Practice. Admissions were significantly under budget in the areas of Gynecology, Pediatrics and Surgery.

OUTPATIENT CENSUS: Outpatient encounters (including CUHCC and Home Health) for the month of April totaled 32,213 which was 2,375, or 8.0%, more than budgeted visits of 29,838. CUHCC was 446 or 10.1% over budget and Home Health was 490 or 56.9% over budget. Other areas in which encounters were significantly over budget include Adult Psych, Ambulatory Surgery, Neurology, Sports Medicine, Family Practice, Heart Cath Lab (not budgeted for), and Rehabilitation. Rehabilitation includes Cardiac and Speech Rehab which were not budgeted for. Areas which were significantly under budget were Child Psych, Medicine/Endoscopy, and Radiation Therapy.

To recap our census:

Monthly Data						YTD Data				
90/91 Actual	91/92 Budget	91/92 Actual	Variance	% Var		90/91 Actual	91/92 Budget	91/92 Actual	Variance	% Var
1,549	1,505	1,519	14	0.9	Admissions	15,246	15,301	15,086	(215)	(1.4)
11,824	12,152	11,325	(827)	(6.8)	Patient Days	121,822	123,976	117,238	(6,738)	(5.4)
8.2	8.1	7.3	(0.8)	(9.9)	Avg Length of Stay	8.0	8.1	7.8	(0.3)	(3.7)
394.1	405.1	377.5	(27.6)	(6.8)	Avg Daily Census	400.7	406.4	384.4	(22.0)	(5.4)
68.4	70.3	67.3	(3.0)	(4.3)	Percent Occupancy	69.5	70.6	67.8	(2.8)	(4.0)
30,160	29,838	32,213	2,375	8.0	Outpt Encounters	281,155	287,607	290,159	2,552	0.9

FINANCIAL OPERATIONS: The Hospital's Statement of Operations shows expenses being greater than revenues by $662,000, an unfavorable variance of $(5,056,000).

Patient care charges through April totaled $309,632,000, which was 1.1% under budget. Ancillary revenue was $1,928,000 (0.9%) above budget and routine revenue was $5,314,000 (5.8%) below budget and reflects both our unfavorable inpatient and outpatient census variance. Inpatient revenue averaged $16,202 per admission compared to the budgeted average of $16,350. Outpatient revenue per outpatient encounter averaged $225 per visit compared to the budgeted average of $219.

Deductions from charges totaled $82,871,000, which was $5,675,000 (7.4%) over budgeted deductions of $77,196,000. The variance is largely due to the Medicare and Medical Assistance programs where the average charges per case are higher than projected, thus resulting in higher than anticipated deductions. Other factors contributing to the variance include increased activity with Laboratory Outreach programs, increased write-offs associated with an increase in transplant activity, and increased contract activity from the Veterans Administration Hospital.

Operating expenditures through April totaled $256,106,000 and were $6,199,000 (2.4%) below budgeted levels of $262,305,000. The overall favorable variance was primarily due to lower patient related costs (personnel, drugs and blood) and anticipated expenses that will not be incurred.

ACCOUNTS RECEIVABLE: The balance in patient accounts receivable as of April 30, 1992, totaled $110,016,000 and represented 98.7 days of revenue outstanding. The overall decrease in patient receivables in April of 2.7 days is reflective of the decreased balance in Discharged but not Final Billed totals. This decrease is mainly due to the more efficient operation of the Outpatient Encounter Billing System.

CONCLUSION: The Hospital's overall operating position for the month of April was positive. Both increased patient volumes and reduced expenditure levels contributed to our favorable month outcome. We will continue to take appropriate actions with regard to our expenditure base to ensure at least a break-even financial position for the fourth quarter of the 1991/92 fiscal year.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
SUMMARY STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 1, 1991 TO APRIL 30, 1992

	1991–92 Budgeted	1991–92 Actual	Variance Over/(Under) Budget	Variance %
Gross Patient Revenue	$313,018,000	$309,632,000	($3,386,000)	–1.1%
Deductions From Revenue	77,196,000	82,871,000	5,675,000	7.4%
Net Patient Service Revenue	235,822,000	226,761,000	(9,061,000)	–3.8%
Other Operating Revenue				
Appropriation & Support	11,150,000	10,966,000	(184,000)	–1.7%
Other Revenue	9,952,000	9,698,000	(254,000)	–2.6%
Total Other Revenue	21,102,000	20,664,000	(438,000)	–2.1%
Total Revenue From Operations	256,924,000	247,425,000	(9,499,000)	–3.7%
Operating Expenses:				
Salaries	105,799,000	103,210,000	(2,589,000)	–2.4%
Fringe Benefits	25,592,000	24,823,000	(769,000)	–3.0%
Contract Compensation	16,683,000	16,732,000	49,000	0.3%
Supplies And Services	58,871,000	57,747,000	(1,124,000)	–1.9%
Utilities And Maintenance	9,726,000	10,235,000	509,000	5.2%
General Supplies & Expense	15,811,000	14,060,000	(1,751,000)	–11.1%
Insurance	1,559,000	1,558,000	(1,000)	–0.1%
Depreciation & Amortization	16,192,000	15,244,000	(948,000)	–5.9%
Interest	9,587,000	9,830,000	243,000	2.5%
Provision For Uncollectibles	2,485,000	2,667,000	182,000	7.3%
Total Operating Expenses	262,305,000	256,106,000	(6,199,000)	–2.4%
Net Revenue From Operations	(5,381,000)	(8,681,000)	(3,300,000)	
Nonoperating Gains: Investment Income	9,775,000	8,019,000	(1,756,000)	–18.0%
Revenue And Gains In Excess Of Expense	$4,394,000	($662,000)	($5,056,000)	

	1991–92 Budgeted	1991–92 Actual	Variance Over/(Under) Budget	Variance %
Admissions	15,301	15,086	(215)	–1.4%
Patient Days	123,976	117,238	(6,738)	–5.4%
Average Length Of Stay	8.1	7.8	(0.3)	–3.7%
Average Daily Census	406.5	384.4	(22.1)	–5.4%
Percentage Occupancy	70.6	67.8	(2.8)	–4.0%
Outpatient Encounters	287,607	290,159	2,552	0.9%

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
BALANCE SHEETS

APRIL 30, 1992 AND JUNE 30, 1991

ASSETS	04/30/92	6/30/91
CURRENT ASSETS		
Operating Cash	$4,969,000	$13,611,000
Reserve Cash- Third Party Payable	23,428,000	21,246,000
Reserve Cash- Current Indebtedness	3,482,000	5,721,000
Accounts Receivable		
Patient Receivables	110,016,000	95,679,000
Other Receivables	1,984,000	1,795,000
Third Party Receivable	1,427,000	2,145,000
Appropriation Receivable	2,357,000	1,325,000
Promissory Notes Receivable	211,000	0
	115,995,000	100,944,000
Less Allowances for Losses in Collection	(8,089,000)	(7,805,000)
Less Allowances for Discounts to Third Party Payors	(30,973,000)	(24,620,000)
	76,933,000	68,519,000
Inventories of Drugs & Supplies	4,690,000	4,723,000
Prepaid Expenses	600,000	1,061,000
TOTAL CURRENT ASSETS	$114,102,000	$114,881,000
ASSETS WHOSE USE IS LIMITED		
Board Designated Assets Available for Assignment		
Cash & Investments	$51,926,000	$44,819,000
Accrued Interest	1,307,000	148,000
	53,233,000	44,967,000
Cash & Invest for Debt Service	13,000,000	13,000,000
Cash & Invest for Working Capital	16,000,000	16,000,000
TOTAL	$82,233,000	$73,967,000
PROPERTY, PLANT, & EQUIPMENT		
Land, Buildings & Improvements	$192,129,000	$191,909,000
Equipment	106,879,000	98,495,000
	299,008,000	290,404,000
Less Accumulated Depreciation	(148,555,000)	(133,650,000)
	150,453,000	156,754,000
Construction in Progress	8,796,000	5,581,000
TOTAL PROPERTY, PLANT, & EQUIPMENT	159,249,000	162,335,000
Assigned Cash & Investments for Construction/Equipment	40,443,000	45,136,000
TOTAL	$199,692,000	$207,471,000
INVESTMENTS HELD BY BOND TRUSTEE	$17,374,000	$19,108,000
PROMISSORY NOTES RECEIVABLE	$4,407,000	$0
OTHER ASSETS		
Deferred Third Party Reimbursement	$5,849,000	$6,404,000
Deferred Debt Expense	939,000	1,009,000
Deposits and Other	1,202,000	374,000
TOTAL	$7,990,000	$7,787,000
TOTAL ASSETS	$425,798,000	$423,214,000
RESTRICTED ASSETS		
Cash and Investments	$8,132,000	$7,416,000

LIABILITIES AND FUND BALANCES	04/30/92	6/30/91
CURRENT LIABILITIES		
Accounts Payable	$13,497,000	$11,539,000
Payable to Third Party Contr. Payors	20,613,000	18,431,000
Salaries, Wages and Payroll Taxes	8,904,000	9,833,000
Accrued Vacation	9,221,000	9,233,000
Accrued Professional Fees and Physician Compensation	2,024,000	2,171,000
Contracts Payable	5,659,000	522,000
Construction Retainages	139,000	307,000
Interest Payable	2,820,000	4,684,000
Current Portion of Long-Term Debt	3,111,000	3,157,000
TOTAL CURRENT LIABILITIES	$65,988,000	$59,877,000
LONG-TERM DEBT, LESS CURRENT PORTION	$162,220,000	$165,282,000
UNRESTRICTED FUND BALANCE	$197,590,000	$198,055,000
TOTAL LIABILITIES & FUND BALANCE	$425,798,000	$423,214,000
RESTRICTED FUND BALANCES		
Endowment Funds	$2,787,000	$2,553,000
Gift Funds	5,345,000	4,863,000
	$8,132,000	$7,416,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC

CASH FLOW

FOR THE PERIOD JULY 1, 1991 TO APRIL 30, 1992

OPERATING ACTIVITIES AND NONOPERATING REVENUES:	
Excess of operating revenues over operating expenses:	($8,681,000)
Noncash revenues and expenses included in operating activity:	
Depreciation and amortization	$15,911,000
Unreimbursed University G & A services	184,000
Provision for uncollectible accounts	2,667,000
Change in patient receivable and other receivables	(11,587,000)
Change in due from third party reimbursement program	717,000
Change in due to third party reimbursement programs	2,182,000
Change in accounts payable	1,958,000
Change in accrued expenses	2,018,000
Other, net	(334,000)
Net cash provided by operating activities	$5,035,000
Nonoperating revenues	$8,019,000
Net cash provided by operating activities and nonoperating revenues	$13,054,000
INVESTING ACTIVITIES:	
Acquisition of property, plant and equipment	($12,089,000)
Funds transferred from other sources	13,000
Cash outflows for property & plant	(12,076,000)
Increase in promissory notes receivable	(4,618,000)
Increase in assets whose use is limited	(1,838,000)
Net cash used in investing activities	($18,532,000)
FINANCING ACTIVITIES:	
Repayment of long-term debt	($2,490,000)
Repayment of notes payable	(730,000)
	($3,220,000)
Decrease in cash and equivalents	($8,698,000)
Cash and cash equivalents at June 30, 1991	$40,577,000
Cash and equivalents at April 30, 1992	$31,879,000

University of Minnesota Hospital & Clinic

Statement of Changes in Fund Balance

For the Period July 1, 1991 through April 30, 1992

	OPERATING FUND	CURRENT DEBT SERVICE FUND	BOARD DESIGNATED FUND	PLANT FUND	TRUSTEE FUND	TOTAL UNRESTRICTE FUNDS
UNRESTRICTED FUNDS						
Beginning Balance	$53,120,000	$5,721,000	$73,967,000	$46,139,000	$19,108,000	$198,055,000
Net Income						
Excess of Revenue over Expense	5,712,000					
Interest Income on Reserves			6,675,000			
Depreciation Expense				(15,175,000)		
Gain on Disposal of Assets				1,000		
Interest Income on Trustee Held Fund					1,154,000	
Amortization of Deferred Bond Expense				(181,000)		
Amort of Deferred 3rd Party Reimb.				(556,000)		
Interest Income on Bond Proceeds			1,584,000		124,000	
Total Income						(662,000)
Less Expense						
University Support: G & A	184,000					184,000
Transfers Between Funds						
Major Building Projects- Hosp.	(1,302,000)			1,302,000		
Capital Expenditures	(6,248,000)			6,248,000		
Major Equipment Requisition	(730,000)			730,000		
Bond Interest Payment	11,409,000	(10,887,000)			(522,000)	
Bond Principal Payment				2,490,000	(2,490,000)	
Bond Interest Expense Funding	(9,023,000)	9,023,000				
Bond Principal Funding	375,000	(375,000)				
Dermatology Loan Payment	(7,000)		7,000			
Transfer from Gift Fund to Plant				13,000		13,000
Ending Balance	$53,490,000	$3,482,000	$82,233,000	$41,011,000	$17,374,000	$197,590,000

RESTRICTED FUNDS	GIFT	ENDOWMENT	TOTAL
Beginning Balance	$4,863,000	$2,553,000	$7,416,000
Income	666,000	234,000	899,000
Disbursements	(171,000)		(170,000)
Transfer to Plant Fund for Capital Exp.	(13,000)		(13,000)
Ending Balance	$5,345,000	$2,787,000	$8,132,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
ADMISSIONS & AVERAGE LENGTH OF STAY (ALOS) BY SERVICE
1990/91 AND 1991/92 COMPARISON

	ADMISSIONS							AVERAGE LENGTH OF STAY		
CLINICAL SERVICE	1990/91 APR YTD ACTUAL	APR YTD BUDGET	1991/92 APR YTD ACTUAL	VARIANCE	% VARIANCE	CHANGE FROM PRIOR YR	% CHNAGE FROM PRIOR YR	1990/91 APR YTD ALOS	1991/92 APR YTD ALOS	CHANGE
ANESTHESIOLOGY	0	0	1	1		1		0.0	1.5	1.5
CLINICAL RESEARCH	313	335	250	(85)	-25.4%	(63)	-20.1%	3.4	3.0	(0.4)
DENTISTRY	5	5	3	(2)	-40.0%	(2)	-40.0%	0.6	2.3	1.7
ORAL SURGERY	48	41	63	22	53.7%	15	31.3%	1.5	1.5	0.0
DERMATOLOGY	12	12	12	0	0.0%	0	0.0%	4.2	6.4	2.2
FAMILY PRACTICE	32	20	100	80	400.0%	68	212.5%	4.3	3.4	(0.9)
GYNECOLOGY	1,130	1,198	945	(253)	-21.1%	(185)	-16.4%	4.9	4.6	(0.3)
MEDICINE	3,733	3,745	3,974	229	6.1%	241	6.5%	6.5	6.4	(0.1)
NEWBORN	290	302	275	(27)	-8.9%	(15)	-5.2%	2.4	1.9	(0.5)
NEUROLOGY	282	272	292	20	7.4%	10	3.5%	6.4	6.4	0.0
NEUROSURGERY	850	816	972	156	19.1%	122	14.4%	6.0	5.8	(0.2)
OBSTETRICS	462	468	431	(37)	-7.9%	(31)	-6.7%	3.0	3.0	0.0
OPHTHALMOLOGY	405	391	333	(58)	-14.8%	(72)	-17.8%	2.9	2.6	(0.3)
ORTHOPEDICS	920	920	978	58	6.3%	58	6.3%	5.6	5.4	(0.2)
OTOLARYNGOLOGY	342	341	309	(32)	-9.4%	(33)	-9.6%	4.4	4.2	(0.2)
PEDIATRICS	2,647	2,697	2,423	(274)	-10.2%	(224)	-8.5%	10.1	9.0	(1.1)
PHYSICAL MEDICINE & REHAB	171	177	155	(22)	-12.4%	(16)	-9.4%	18.0	19.1	1.1
PSYCHIATRY ADULT	679	656	634	(22)	-3.4%	(45)	-6.6%	13.8	14.7	0.9
PSYCHIATRY CHILD	64	52	70	18	34.6%	6	9.4%	22.8	25.9	3.1
RADIATION THERAPY	0	0	1	1		1		0.0	1.0	1.0
RADIOLOGY	27	21	16	(5)	-23.8%	(11)	-40.7%	1.4	1.4	0.0
SURGERY	2,370	2,412	2,382	(30)	-1.2%	12	0.5%	9.4	9.5	0.1
UROLOGY	464	420	467	47	11.2%	3	0.6%	4.8	4.9	0.1
TOTAL	15,246	15,301	15,086	(215)	-1.4%	(160)	-1.0%	8.0	7.8	(0.2)

University of Minnesota Hospital and Clinic
Board Designated Fund Activity
7–01–91 through 6–30–93

Schedule X

	Unassigned	Assigned	Total
Beginning Balance at 7–01–91	$44,967,100	$45,136,600	$90,103,700
Investment Income:	6,853,600	–0–	6,853,600
Other receipts:	51,400	–0–	51,400
Project Expenditures:	–0–	(5,192,900)	(5,192,900)
Transfer 90–91 unused Equipment Reserve to Operations:	–0–	(2,622,100)	(2,622,100)
Net 91–92 Equipment Rollforward Reserve:	–0–	4,855,900	4,855,900
Ending Balance at 2–29–92	$51,872,100	$42,177,500	$94,049,600
Investment Income:	3,115,400	–0–	3,115,400
Funding for Projects:	(10,306,000)	10,306,000	–0–
Project Expenditures:	–0–	(11,895,300)	(11,895,300)
91–92 Equipment Rollforward Expenditures:	–0–	(3,800,000)	(3,800,000)
Projected Ending Balance at 6–30–92	$44,681,500	$36,788,200	$81,469,700
Investment Income:	8,439,000	–0–	8,439,000
Funding for Projects:	(26,348,400)	26,348,400	–0–
Project Expenditures:	–0–	(34,916,800)	(34,916,800)
Transfer 91–92 unused Equipment Reserve to Operations:	–0–	(1,055,900)	(1,055,900)
Net 92–93 Equipment Rollforward Reserve:	–0–	1,029,900	1,029,900
Projected Ending Balance at 6–30–93	$26,772,100	$28,193,800	$54,965,900

University of Minnesota Hospital and Clinic **Schedule XI**
Board Designated Fund Activity
7–01–91 through 2–29–92

	Unassigned	Assigned	Total
Beginning Balance at 7–01–91	$44,967,100	$45,136,600	$90,106,700
Investment Income on Reserves	5,552,700	–0–	5,552,700
Investment Income from Bond Proceeds	1,300,900	–0–	1,300,900
Loan Principal Payments:	21,900		21,900
Project Insurance Reimbursement:	29,500		29,500
Expenditures:			
Heart Cath Lab	–0–	(1,466,100)	(1,466,100)
Computer/Backbone	–0–	(700,100)	(700,100)
Neuroradiology	–0–	(1,449,000)	(1,449,000)
Bone Marrow	–0–	(12,700)	(12,700)
BMT/ICU 4F	–0–	(87,900)	(87,900)
CUHCC	–0–	(123,800)	(123,800)
Temporary Psych	–0–	(8,500)	(8,500)
Rehab Satellites	–0–	(3,600)	(3,600)
Autopsy – 1st Floor Mayo	–0–	(198,200)	(198,200)
Temporary OB	–0–	(269,900)	(269,900)
Urology Remodeling	–0–	(2,000)	(2,000)
Architect & Engineer Mgr.	–0–	(871,100)	(871,100)
Equipment Rollforward Reserve:			
Transfer to Operations of Unexpended 1989–1990 Reserves	–0–	(2,622,100)	(2,622,100)
Transfer from Operations for Unexpended 1990–1991 Capital Budget	–0–	6,233,600	6,233,600
Expenditures against 1990–1991 Reserve	–0–	(1,377,700)	(1,377,700)
Ending Balance at 2–29–92	$51,872,100	$42,177,500	$94,049,600

* In addition to the 2–29–92 balance for Board Designated Funds, there is cash and investments of $13,000,000 for Debt Service Reserves, and $16,000,000 for Working Capital Reserves.

University of Minnesota Hospital and Clinic **Schedule XII**
Board Designated Fund Activity
Projected 3–01–92 through 6–30–92

	Unassigned	Assigned	Total
Beginning Balance at 3–01–92	$51,872,100	$42,177,500	$94,049,600
Investment Income on Reserves	2,358,300	–0–	2,358,300
Investment Income from Bond Proceeds	757,100	–0–	757,100
Funding for Plant Projects			
Computer Upgrade	(2,180,000)	2,180,000	–0–
Linear Accelerator	(450,000)	450,000	–0–
BMT/ICU	(510,000)	510,000	–0–
Practice Acquisition	(4,746,000)	4,746,000	–0–
MRI	(1,920,000)	1,920,000	–0–
New Program Development	(500,000)	500,000	–0–
Expenditures			
MRI	–0–	(1,920,000)	(1,920,000)
Practice Acquisition	–0–	(4,746,000)	(4,746,000)
CUHCC	–0–	(3,200)	(3,200)
Computer Upgrade	–0–	(1,489,900)	(1,489,900)
Neuroradiology	–0–	(420,900)	(420,900)
Heart Cath Lab	–0–	(620,800)	(620,800)
BMT/ICU	–0–	(523,000)	(523,000)
Linear Accelerator	–0–	(450,000)	(450,000)
New Program Development	–0–	(500,000)	(500,000)
Cancer Center	–0–	(142,800)	(142,800)
Phase II Renovation	–0–	(1,078,700)	(1,078,700)
Projected Equipment Rollforward Purchases	–0–	(3,800,000)	(3,800,000)
Ending Balance at 6–30–92	$44,681,500	$36,788,200	$81,469,700

* In addition to the 6–30–92 projected balance for Board Designated Funds, there is cash and investments of $13,000,000 for Debt Service Reserves, and $16,000,000 for Working Capital Reserves.

University of Minnesota Hospital and Clinic
Board Designated Fund Activity
Projected 7–01–92 through 6–30–93

Schedule XIII

	Unassigned	Assigned	Total
Beginning Balance at 7–01–92	$44,681,500	$36,788,200	$81,469,700
Investment Income from Reserves	6,431,000	–0–	6,431,000
Investment Income from Bond Proceeds	2,008,000	–0–	2,008,000
Funding for Plant Projects			
MRI – 1992	(1,080,000)	1,080,000	–0–
Neuroangiography Systems	(1,440,000)	1,440,000	–0–
Computer Upgrade	(2,760,000)	2,760,000	–0–
Heart Cath	(3,200,000)	3,200,000	–0–
Parking Ramp	(1,000,000)	1,000,000	–0–
MTS Replacement	(600,000)	600,000	–0–
Linear Accelerator	(1,420,000)	1,420,000	–0–
Laboratories / Mayo 2	(1,400,000)	1,400,000	–0–
Cancer Center	(142,900)	142,900	–0–
CT Scanners	(1,369,500)	1,369,500	–0–
New Program / Technology	(2,000,000)	2,000,000	–0–
Stem Cell Support	(1,036,000)	1,036,000	–0–
Practice Acquisition	(8,100,000)	8,100,000	–0–
Neurorad Gamma Camera	(800,000)	800,000	–0–
Expenditures:			
MRI – 1992	–0–	(1,080,000)	(1,080,000)
Neuroangiography Systems	–0–	(1,440,000)	(1,440,000)
Computer Upgrade	–0–	(2,760,000)	(2,760,000)
Heart Cath	–0–	(3,200,000)	(3,200,000)
Parking Ramp	–0–	(1,000,000)	(1,000,000)
MTS Replacement	–0–	(600,000)	(600,000)
Linear Accelerator	–0–	(1,420,000)	(1,420,000)
Laboratories / Mayo 2	–0–	(1,400,000)	(1,400,000)
Cancer Center	–0–	(142,900)	(142,900)
CT Scanners	–0–	(1,369,500)	(1,369,500)
New Program / Technology	–0–	(2,000,000)	(2,000,000)
Stem Cell Support	–0–	(1,036,000)	(1,036,000)
Practice Acquisition	–0–	(8,100,000)	(8,100,000)
Neurorad Gamma Camera	–0–	(800,000)	(800,000)
Phase II Renovation	–0–	(8,568,400)	(8,568,400)
Equipment Rollforward Reserve			
Transfer of Unexpended 1990–91 Reserves	–0–	(973,300)	(973,300)
Transfer for Unexpended 1991–92 Capital Budget	–0–	5,797,300	5,797,300
Expenditure Against 1991–92 Reserve	–0–	(4,850,000)	(4,850,000)
Ending Balance at 6–30–93	$26,772,100	$28,193,800	$54,965,900

* In addition to the 6–30–92 projected balance for Board Designated Funds, there is cash and investments of $13,000,000 for Debt Service Reserves, and $16,000,000 for Working Capital Reserves.

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

May 20, 1992

TO: Members, Finance Committee

FROM: Robert Dickler
Hospital Director

SUBJECT: 1992-93 Employee Compensation Plan

Each year at this time we request Board approval of the employee compensation plan for the upcoming fiscal year. The purpose of this memo is to outline our recommendations for 1992-93, and to request your approval of these recommendations.

You will recall that our employees fall into several groups:

(a) Our support service, health care nonprofessional, and clerical staff are represented by unions. We will be in the second year of existing collective bargaining agreements for these groups; thus no Board action is required for these employees.

(b) Approximately 10% of our staff are in University dominated classes, that is, job classes where most of the employees in that class work elsewhere in the University. Pay plans for this group are set by the University. This group of employees will receive increase of 5.1% in 1992-93. Of this amount, 3% will be in the form of movement in salary ranges, and 2.1% will be in the form of progression increases.

(c) We are recommending that increases for staff in Hospital-dominated classes generally average 5%. This includes both range changes and progression or "step" increases. There will be some classes which will receive slightly more than 5%, and some slightly less, based upon the marketplace.

The above 5% recommendation is made with several reference points in mind, including the Hospital marketplace, the University, and the existing collective bargaining agreements. The above recommendation can be financed within the assumptions built into the 1992-93 budget.

These increases would be effective July 1, 1992.

(d) The Hospital's administrative staff were placed into a new system last year, the Hospital Administrative Personnel System (HAPS). We are also recommending that the increases for the HAPS group average 5% for 1992-93. We are currently in the process of developing 1992-93 performance criteria related to the potential bonus component of the HAPS plan, which would not be finalized until the first quarter of 1993.

We will likely be bringing additional compensation-related recommendations to the Board late this summer. We are currently reviewing possible changes in our sick leave and vacation systems. We are also considering recommendation of broader application of incentive based compensation systems, for 1993-94. Both would require Board approval prior to announcement or implementation.

Thank you for your attention to these recommendations.

/kj

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

May 20, 1992

TO: Members, Board of Governors Finance Committee

FROM: Mary Ellen Wells
Associate Director

During the past year, the Hospital and the Department of Orthopaedics have studied the feasibility of consolidating Sports Medicine services into an off-site facility. At the same time, the Hospital explored the potential of moving related outpatient therapy services off-site to an adjacent location. The attached proposal outlines these efforts and concludes by recommending that the Board approve the leasehold improvements and equipment purchases that total $650,000.

The proposed site for the programs is the FMC Building located near 35W and Washington Avenue. We recently learned that this space may be unavailable to the Hospital because another University unit could need it. To conserve time, we would like to move forward with your review of the proposal for informational purposes this month, and have approval next month pending the University's decision on the space.

Dr. Elizabeth Arendt and I will present this proposal and answer any questions you may have at your meeting next week. I look forward to seeing you then.

SPORTS MEDICINE INSTITUTE

PROPOSAL FOR OFF SITE LOCATION

SUMMARY

The University of Minnesota Hospital and Clinic proposes to lease 11,500 square feet of space on the fifth floor of the former FMC building to house a Sports Medicine Institute. The building, currently leased in its entirety by the University of Minnesota, gives the Sports Medicine program access and visibility to the University and the greater Twin Cities population, and provides strong links back to University services and operations.

Services provided will include general medical care for the athlete by a generalist and specialist faculty in orthopaedic surgery, physical therapy and occupational therapy. UMHC and the Department of Orthopaedics will continue to provide services to the student athletes of the University of Minnesota, and will continue to expand services to the greater Twin Cities population.

I. BACKGROUND

The University of Minnesota Hospital and Clinic (UMHC) established a Sports Medicine Institute in 1984 in a 2,000 square feet clinic in the Phillips Wangensteen Building (PWB). Because the space is too small to allow both physicians and therapists to practice together, the services there have been limited to physical therapy.

Since 1984, the Department of Orthopaedics (Orthopaedics) has focused its attention on developing expertise in the Sports Medicine arena. Orthopaedics provides medical direction for the University's student athletes. Although UMHC's sport medicine services have been received favorably, the lack of contiguous space for the physicians and therapists results in a disjointed program with limited potential for growth.

In the fall of 1989, the University of Minnesota Men's Intercollegiate Athletic Department indicated an interest in moving the medical care of the athletes from UMHC and Orthopaedics to community physicians. Because management and care of University athletes are important components of Orthopaedic's residency and training programs, and are a key component in marketing Sports Medicine services to the public, both Orthopaedics and the Hospital were greatly concerned about the potential of losing this business. Accordingly, they responded quickly, and instituted a number of changes that improved the way student athletes were handled:

(1) Orthopaedics assigned a physician to provide medical oversight for all care provided the athletes at UMHC. The lines of communication between the Men's Intercollegiate Athletic Department and UMHC were strengthened, with the lead Sports Medicine physician assigned the task of identifying and correcting any perceived problems, concerns and obstructions to high quality care and service;

(2) Inpatient units, clinics, the emergency room, and ancillary departments were geared up to handle the special needs of the student athletes; and,

(3) Athletes were flagged in the Hospital's computer system, so that UMHC staff knew they were working with a student athlete;

To address concerns about accessibility and patient convenience, Orthopaedics and UMHC also began investigating the feasibility of opening a Sports Medicine Institute near the University campus. These actions persuaded the Men's Athletic

Department and University Administration to retain Orthopaerdics and the Hospital as the medical provider for University athletes.

At the same time, UMHC's Department of Rehabilitation Services recognized the need for consolidating its outpatient services, and for improving accessibility for patients who needed only outpatient physical or occupational therapy. Since sports medicine necessarily includes rehabilitation therapy, and a significant portion of outpatient therapy referrals are from UMHC's Sports Medicine physicians, the scope of the Sports Medicine Institute investigation was broadened to include adjacent outpatient rehabilitation therapies.

The Hospital asked a firm of health planning consultants to assess existing university sports medicine/fitness programs, and identify programmatic and facility opportunities and needs. Their report recommends that the Hospital and Orthopaedics establish a freestanding Sports Medicine Center, offering consolidated services within that Center. Ideally, the Center would be on or near the Minneapolis University campus.

Based on these recommendations, UMHC and Orthopaedics agreed to continue to plan a Sports Medicine Institute, consisting of a medical clinic and related therapy services.

II. PROGRAM DESCRIPTIONS

A. SPORTS MEDICINE/MEDICAL

The Institute will function as a satellite operation of UMHC. The medical clinic will offer general oversight care related to sports injuries and orthopaedic specialty care. Sports Medicine physicians focus on injuries suffered most often by athletes, but provide services to any patient with such an injury, not only athletes. UMHC's Sports Medicine Institute will provide care for knee, ankle, shoulder and hand injuries.

Given the volume of X-Ray activity, The clinic will provide radiology services on site. The X-Ray unit will accommodate up to 95% of radiographs necessary for Sports Medicine practice. Laboratory specimens will be collected as needed and sent to UMHC Laboratories for testing.

The Institute enhances the Department of Orthopaedic's clinical activities, and will strengthen its residency program as well as its other academic programs. While some of the clinic's volume is activity that will be relocated from the Orthopaedics Clinic currently located in the Phillips Wangensteen Building, most of the activity is new business generated by physicians who are joining the Department during the 1992-93 academic year. Currently, new sports medicine patients are waiting up to six or more weeks to see a physician. As they build their practices, the new physicians will fill an immediate need for relieving over-booked schedules.

B. THERAPIES

Outpatient therapy services will be provided for the sports and other related orthopaedic patients. Currently, these services are provided in the Sports Medicine Institute on the sixth floor of PWB and in the Rehabilitation Services Department on the seventh floor of the Mayo Building. Patients travel back and forth between the sites depending on testing and equipment needs. Space

constraints in the current facility prohibit consolidation of the program into one area.

The therapy services will center around the needs of the sports medicine patient. Equipment and staffing are geared toward responding quickly and completely to the special needs of the injured athlete. However, much of the testing and exercise equipment used by the sports medicine patient is also used by other patients needing rehabilitation services. Therefore, to minimize duplication of equipment and staff, industrial rehabilitation services will be offered at this site. Services will include Functional Capacity Assessments, Special Purpose Assessments, Work Hardening, and Job Site Assessment. These services are now offered on the seventh floor of Mayo.

Outpatient pediatric care and adult neurologic and geriatric therapy will remain in the Health Sciences complex, since these services require specialized equipment also used by the inpatient population. Patients typically are wheelchair-bound, and have access to parking in the Mayo garage.

C. PROGRAM BENEFITS

UMHC and Orthopaedics will benefit substantially from relocation and expansion of the Sports Medicine Institute. The new patient visits generated by the Sports Medicine physicians will result not only in an increased outpatient population, but also in more admissions and surgeries. Typically, one admission or surgery results from every ten clinic visits. Inpatient sports medicine activity covers both direct and allocated indirect hospital costs.

The enhanced program will strengthen an already strong orthopaedic residency and training program. Thirteen percent of total orthopaedic admissions are for sports medicine procedures; 27% of Orthopaedics' metropolitan patients are admitted for sports medicine procedures. In addition, new programs for athletes, such as orthotics, management of knee pain, and gait analysis, can be pursued. The move off-site also will open up much-needed space on campus.

The move of some physicians to the Sports Medicine Institute will not have a negative impact on the Orthopaedics Clinic in the Phillips Wangensteen Building. Historically, the Orthopaedics Department has utilized clinic space to its maximum potential. In addition, the Department of Orthopaedics is adding a minimum of three new physicians to its staff in the next fiscal year. It anticipates that the renovated clinic on campus will not be able to accommodate the new faculty's clinic time requests. The expanded clinic availability, both off-site and on campus, will fill the immediate need to alleviate appointment backlogs and allow the new physicians to build their practices.

Consolidating the therapy and medical programs to one site will improve the quality of care, allow the services to offer extended hours, integrate services, and provide easier access both to physicians and therapists.

Currently, the diverse locations of outpatient services prohibit many staff efficiencies. In addition, the market demand for physical therapists is high nation-wide, making staff retention and recruitment a growing concern. Consolidating the services and related equipment in one location will increase efficiencies, allow the staff to carry a greater and more varied patient load, and provide a comfortable and interesting work site for valued employees.

III. LOCATION

Two alternatives were researched: leasing space or purchasing land and constructing a facility. Since (1) the program currently is not big enough to support a stand-alone facility, (2) the purchase of land and construction would take a minimum of two years, and space and program constraints dictate a more aggressive time line, and (3) no land or building of adequate size and appropriate purchase price is immediately available near the campus, the rental of space in an existing building is the preferred option.

After a diligent search, the former FMC building on 35W and Washington Avenue has been identified as the most appropriate location for the Sports Medicine facility. It is convenient and accessible, and it offers a good mix of amenities both for the staff and the patients.

The University of Minnesota has leased the building at 1300 South Second Street for five years, with an option to purchase the building or extend the lease for an additional five years. The building is six stories tall, and is used primarily for office space. The Sports Medicine Institute would occupy half of the fifth floor (11,500 square feet).

The building is an excellent blend of high visibility and good access for the general population, and has convenient links back to University services and operations. The building is part of the University's telephone system. An underground parking garage is available for staff at the University's monthly rates. The University operates a cafeteria on the first floor, and a shuttle runs between Mayo and the building every half hour.

Security services staff the building 24 hours a day, seven days a week. Over 100 parking spaces are available for patients and visitors directly adjacent to the building's first floor. Ramps and elevators make the building accessible for the handicapped. A number of conference rooms of varying sizes are available, as well as two large meeting rooms that share a large audio-visual facility.

Total leased space would equal 11,500 square feet: 2,800 square feet of clinic space, and 8,700 square feet of therapy space. Leasehold improvements are estimated at $25 per square foot for all but the X-Ray room, and $200 per square foot for the 500 square feet of X-Ray space.

IV. FINANCIAL PROJECTIONS

Financial projections for the two programs are attached. Exhibit A summarizes the assumptions used to develop the plan, including visit projections, staffing, clinic charges, deductions from charges, and leasehold improvement costs. The charges detailed in the exhibits are the clinic fees only, and do not include physicians' professional fees. UMHC and Orthopaedics have agreed that the combined clinic and professional fee will be competitive in the Twin Cities market, and have priced their separate fees accordingly.

Third party payers will see no difference in charging mechanisms from either UMHC or Orthopaedics. The Hospital is moving an already-existing program to a new location, and there is no need to negotiate new pricing structures or develop new contracts with any payer. The new Workers' Compensation legislation and changes in Medical Assistance reimbursement will have a negative impact on the level of reimbursement for approximately 29% of the clinic patients and 18%

of the therapy patients. This impact is reflected in increased deductions from charges detailed in Exhibit A, and reflected in the figures in Exhibits B and C.

Exhibit B is the five year financial projection for the medical clinic. The detailed expenses are UMHC expenses, and do not include physicians' salaries or Orthopaedic overhead. Using conservative estimates, the clinic will break even in the second year of operation. Exhibit C is the five year financial projection for therapy services. Therapies have a small loss in the first year, and achieve a 1% contribution margin (surplus over net revenues) by the second year.

Leasehold improvement expenses total $375,000 -- $217,500 for therapy space, and $157,500 for the clinic. Equipment purchases total $275,000 -- $100,000 for radiology, $100,000 for therapies, and $75,000 for the clinic. The total initial capital outlay is $650,000, which will be taken from reserves.

V. REQUIRED APPROVAL

Approval from the Board of Governors is required, since the total project exceeds $600,000. Regential approval is not specifically required, since the project is included in the Hospital's capital budget.

EXHIBIT A

SPORTS MEDICINE INSTITUTE
BUDGET ASSUMPTIONS

VOLUME

Physician Volume:
Year One: 6,000 visits
Years Two through Five: 7,200 visits

Therapy Volume:	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Sports Medicine	8,247	8,904	9,076	9,250	9,428
Hand & Spine	4,913	5,172	5,275	5,381	5,488
Industrial Rehab	396	396	396	396	396
Industrial Consulting	72	96	96	96	96

STAFFING

Clinic:

Job Classification	Full Time Equivalent				
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Manager	0.10	0.10	0.10	0.10	0.10
Clerical	1.20	1.20	1.20	1.20	1.20
Gen Staff Nurse	1.00	1.00	1.00	1.00	1.00
Lic Prac Nurse	1.00	1.00	1.00	1.00	1.00
Radiology Technician	1.00	1.20	1.20	1.20	1.20

Therapies:

Job Classification	Full Time Equivalent				
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Manager	0.60	0.70	0.80	1.00	1.00
Physical Therapists	6.00	6.25	6.45	6.50	6.50
Occupational Ther	4.00	4.25	4.15	4.25	4.50
Clerical/Support	3.00	3.30	3.40	3.80	3.80

DEDUCTIONS FROM CHARGES

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Clinic:	30.37%	31.01%	31.64%	32.27%	32.90%
Therapies:	22.81%	23.20%	23.58%	23.97%	24.35%
Ind Rehab:	5.00%	7.00%	9.00%	11.00%	13.00%

LEASE EXPENSES

LEASE COST (PER SQ FT)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
	$13.13	$13.51	$13.91	$14.33	$14.77

COMMON SPACE SURCHARGE: 34% of lease
CLINIC SPACE: 2,800 square feet
THERAPY SPACE: 8,700 square feet
LEASEHOLD IMPROVEMENTS: $25.00 per square foot
X-Ray (500 square feet) -- $200 per square foot

DEPRECIATION

5 year straight-line depreciation on leasehold improvements
5 year straight-line depreciation on all equipment except X-Ray
10 year straight-line depreciation on X-Ray equipment
Depreciation expense increases 5% per year in anticipation of recurring equipment purchases

SPORTS MEDICINE INSTITUTE
OFF–SITE CLINIC
FIVE YEAR FINANCIAL PROJECTION

	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
REVENUE					
VISIT CHARGES	216,000	280,800	302,400	324,000	345,600
LAB (SPECIMEN COLLECTING)	2,100	2,646	2,790	2,934	3,082
RADIOLOGY	172,000	220,848	232,848	252,845	270,544
TOTAL GROSS REVENUE	390,100	504,294	538,038	579,779	619,226
DEDUCTIONS FROM CHARGES	(118,473)	(156,382)	(170,235)	(187,095)	(203,725)
SUBTOTAL NET REVENUE	271,627	347,912	367,803	392,684	415,500
HEALTH RIGHT TAX RECOVERY	1,358	3,479	3,678	3,927	4,155
TOTAL NET REVENUE	***272,985***	***351,392***	***371,481***	***396,611***	***419,655***
EXPENSES					
CLINIC PERSONNEL	139,241	154,962	162,706	170,851	179,411
FRINGE BENEFITS	36,203	40,290	42,304	44,421	46,647
TOTAL PERSONNEL EXPENSES	**175,444**	**195,252**	**205,010**	**215,272**	**226,057**

SPORTS MEDICINE INSTITUTE
OFF–SITE CLINIC
FIVE YEAR FINANCIAL PROJECTION

	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
NON–PERSONNEL EXPENSES					
Temporary Personnel	5,173	5,432	5,703	5,988	6,288
Rent	36,764	37,828	38,948	40,124	41,356
Surcharge on Common Space	12,500	12,862	13,242	13,642	14,061
Moving Expenses	2,475	0	0	0	0
Office Supplies	600	630	662	695	729
Medical/Linen Supp/Equip	6,600	8,316	8,732	9,169	9,627
Radiology Supplies	10,000	14,969	15,717	16,503	17,328
Continuing Education	500	525	551	579	608
Advertising/Marketing	2,500	2,625	2,756	2,894	3,039
Journals/Subscriptions	500	525	551	579	608
Educational Materials	500	525	551	579	608
Mail/Copy/Courier	5,400	5,670	5,953	6,251	6,564
Phone	1,600	1,680	1,764	1,852	1,945
Pager	300	315	331	347	365
Depreciation––Equipment	25,000	26,250	27,563	28,941	30,388
Depreciation––Leasehold Improvements	31,500	31,500	31,500	31,500	31,500
HealthRight Tax	2,716	6,958	7,356	7,854	8,310
TOTAL NON–PERSONNEL EXPENSES	144,628	156,610	161,880	167,496	173,325
TOTAL EXPENSES	320,072	351,862	366,890	382,768	399,382
SURPLUS/(DEFICIT)	(47,087)	(471)	4,591	13,843	20,273
CONTRIBUTION MARGIN	*–17.34%*	*–0.14%*	*1.25%*	*3.53%*	*4.88%*

OTHER ASSUMPTIONS

CLINIC:

FACILITY/PROCEDURES CHARGE
Average Charge: $36.00 year one; 7% increase yrs 2 through 5

X-RAY
Volume: One-third of patient visits
Average Charge: $86.00 year one; 7% increase yrs 2 through 5

LABORATORY SPECIMEN COLLECTIONS
Volume: 5% of patient visits
Charge: $7.00 year one; 7% increase years two through five

FRINGE BENEFITS
26% of salaries

THERAPIES:

PROCEDURES CHARGES

Average Charge, Year One:	Sports Medicine	$ 65
	Biomechanical	$ 106
	Hand	$ 65
	Spine	$ 85
	Ind Rehab	$ 340
	Ind Consult	$ 110

7% increase years two through five

FRINGE BENEFITS
25% of salaries

May 20, 1992

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
OFFSITE CLINIC

OUTPATIENT PHYSICAL THERAPY AND REHABILITATION
FIVE YEAR FINANCIAL PROJECTION

	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
REVENUE & VOLUME					
ACTIVITY					
SPORTS MEDICINE THERAPY	546,937	634,824	682,588	749,360	809,866
HAND THERAPY	208,221	236,040	254,486	280,640	304,130
SPINE FITNESS THERAPY	145,350	163,800	178,092	194,792	212,010
MEDICAL EQUIPMENT AND SUPPLIES	20,000	21,000	22,050	23,152	24,310
TOTAL REVENUE -- THERAPY	920,508	1,055,664	1,137,216	1,247,944	1,350,316
INDUSTRIAL REHABILITATION	146,040	149,772	160,212	171,456	183,288
DEDUCTIONS FROM CHARGES -- THERAPY	(209,968)	(244,914)	(268,156)	(299,132)	(328,802)
DEDUCTIONS FROM CHARGES -- IND REHAB	(7,302)	(10,484)	(14,419)	(18,860)	(23,827)
SUBTOTAL NET REVENUE	849,278	950,038	1,014,853	1,101,408	1,180,975
HEALTH RIGHT TAX RECOVERY	4,246	9,500	10,149	11,014	11,810
NET REVENUE	853,524	959,538	1,025,002	1,112,422	1,192,785
EXPENSES					
PERSONNEL					
Manager	30,488	38,424	46,109	60,528	63,565
Physical Therapy	217,974	242,897	262,812	277,458	290,922
Occupational Therapy	134,597	154,441	158,382	170,314	189,379
Clerical and Office Staff	72,181	82,002	88,287	103,192	108,364
TOTAL SALARIES	455,240	517,764	555,590	611,492	652,230
FRINGE BENEFITS	113,810	129,545	139,120	153,423	163,710
TOTAL PERSONNEL EXPENSES	**569,050**	**647,309**	**694,710**	**764,915**	**815,940**

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
OFFSITE CLINIC

OUTPATIENT PHYSICAL THERAPY AND REHABILITATION
FIVE YEAR FINANCIAL PROJECTION

	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
NON–PERSONNEL					
Rent	114,231	117,537	121,017	124,671	128,499
Common Space Surcharge	38,839	39,963	41,146	42,388	43,690
Moving Costs	5,025	0	0	0	0
Office Supplies	2,500	2,678	2,869	3,012	3,226
Medical Supplies	32,000	34,272	36,705	39,311	41,245
Cont Ed & Travel	9,000	9,639	10,121	10,627	11,158
Marketing & Advertising	6,000	6,300	6,615	6,946	7,293
Journals & Subscriptions	1,500	1,575	1,654	1,736	1,823
Postage & Mailing	1,000	1,050	1,103	1,158	1,216
Courier Service	500	525	551	579	608
Phones	3,200	3,360	3,528	3,704	3,890
Pager	420	441	463	486	511
Depreciation on Equipment	20,000	21,000	22,050	23,153	24,311
Dep on Leasehold Improvements	43,500	43,500	43,500	43,500	43,500
Linen	600	630	662	695	729
Uniform Allowance	500	563	591	621	652
HealthRight Tax	8,493	19,001	20,297	22,028	23,620
TOTAL NON–PERSONNEL EXPENSES	**287,308**	**302,034**	**312,872**	**324,615**	**335,971**
TOTAL EXPENSES	***856,358***	***949,343***	***1,007,582***	***1,089,530***	***1,151,911***
SURPLUS/(DEFICIT)	**(2,834)**	**10,195**	**17,420**	**22,892**	**40,874**
CONTRIBUTION MARGIN	***–0.33%***	***1.06%***	***1.70%***	***2.06%***	***3.43%***

THE UNIVERSITY OF MINNESOTA
HOSPITAL AND CLINIC
BOARD OF GOVERNORS

Planning & Dev. Committee Review:	May 27, 1992
Finance Committee Review:	May 27, 1992
Board of Governors Review:	May 27, 1992

MAJOR CAPITAL EXPENDITURE REPORT

EQUIPMENT:

PURCHASE PRICE:

$200,000 for remodeling the Kidney Dialysis Unit and developing a pediatric area within the Unit.

DESCRIPTION:

Renovation of the Dialysis Unit.

The goals of the project are to create a separate identity for treatment of pediatric patients, to provide flexibility for use of all dialysis beds and to ensure an environment that will enhance the cooperative and effective use of the space.

Electrical, mechanical and patient communication systems will be upgraded, revised or replaced to meet the needs of the patients and code requirements. Aesthetic upgrades are included in the project.

The historical background leading to this project was initiated one year ago when the adult and pediatric dialysis programs were merged in one location. This merger was supported to increase efficiency and provide a cost effective program. As the adult and pediatric patient populations were merged the identified future goal was to develop a family centered care approach. This project responds to that goal.

Submitted By: Jeanne Jacobson
Title: Interim Associate Director

Approved By: Joanne Dick
Title: Senior Assoc Director
Director of Nursing

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC

CAPITAL EXPENDITURES
7-1-91 THRU 3-31-92

RECURRING EQUIP & REMOD	BUDGET	ROLLFORWARD FROM 6-30-91	TOTAL	9-MONTH BUDGET	6-MONTH ROLLFORWARD	TOTAL	91-92 ACTUAL	90-91 ROLLFORWARD	TOTAL
EQUIPMENT PURCHASES									
91-92 BUDGET	$6,818,850		$6,818,850	$5,100,000		$5,100,000	$2,209,208	$0	$2,209,208
ROLLFORWARD		$4,871,763	$4,871,763		$3,650,000	$3,650,000	$0	$1,767,694	$1,767,694
	$6,818,850	$4,871,763	$11,690,613	$5,100,000	$3,650,000	$8,750,000	$2,209,208	$1,767,694	$3,976,902
REMODELING PROJECTS									
91-92 BUDGET	$1,692,150		$1,692,150	$1,200,000		$1,200,000	$224,353		$224,353
ROLLFORWARD		$1,446,000	$1,446,000		$1,000,000	$1,000,000		$595,946	$595,946
	$1,692,150	$1,446,000	$3,138,150	$1,200,000	$1,000,000	$2,200,000	$224,353	$595,946	$820,299
	$8,511,000	$6,317,763	$14,828,763	$6,300,000	$4,650,000	$10,950,000	$2,433,561	$2,363,640	$4,797,201
PRINCIPLE PAYMENTS									
LAB CHEMICAL ANALIZERS	$126,841		$126,841	$94,078		$94,078	$88,390		$88,390
CT SCANNER	$71,575		$71,575	$71,575		$71,575	$71,575		$71,575
COMPUTER EQUIP	$139,517		$139,517	$139,517		$139,517	$139,517		$139,517
MRI 2	$462,648		$462,648	$343,749		$343,749	$343,749		$343,749
	$800,581		$800,581	$648,919		$648,919	$643,231		$643,231
TOTAL:	$9,311,581		$15,629,344	$6,948,919		$11,598,919	$3,076,792		$5,440,432

BOND PAYMENTS: $2,490,000 (PAYMENTS MADE FEB. 1, 1992)

CAPITAL PROJECTS:	UMHC FUNDS FROM RESERVES	ADDITIONAL FUNDS FROM OTHER SOURCES	TOTAL BUDGET	1st QUARTER EXPEND. 1991-92	2nd QUARTER EXPEND. 1991-92	3rd QUARTER EXPEND. 1991-92	CURRENT & PRIOR YEAR(S) EXPENDITURES
(1) ARCHITECT FEES PH II				$104,166	$274,038	$276,791	$1,728,260
(1) OFFSITE RELOC.							$10,516
(1) AUTOPSY	$415,000		$415,000	$86,365	$32,933	$56,046	$358,459
(1) OB INPT. (TEMP)	$370,000		$370,000	$119,782	$43,721	$10,224	$326,956
(1) REHAB THERAPY SAT.	$240,000		$240,000			$6,554	$6,554
(1) PYSCH. TEMP RENOV.	$100,000		$100,000			$14,476	$14,476
(1) UROLOGY TEMP.	$100,000		$100,000			$3,618	$3,618
BMT/CU 4F	$100,000		$100,000	$1,874	$1,689		$89,300
BONE MARROW TRAN. EXP.	$220,000		$220,000	$8,900	$116,071	$174,945	$303,383
NEURO-ANGIOGRAPHY SYST	$1,900,000		$1,900,000	$1,345,114	$73,928	$346,988	$1,796,030
CUHCC	$1,800,000	$550,000	$2,350,000	$15,036	($15,306)	$46,266	$2,269,030
COMPUTER UPGRADE	$4,348,000		$4,348,000	$28,338	$209,219	$492,294	$1,470,288
AF15 SOFTWARE LICENSE	$783,000		$783,000	$782,157			$782,157
HEART CATH ROOM	$3,100,000		$3,100,000		$1,515,073	$781,603	$2,309,785
TOTAL	$13,476,000	$550,000	$14,026,000	$2,491,733	$2,251,367	$2,209,805	$11,468,812

1.) THESE PROJECT COSTS ARE BUDGETED FOR IN THE $37.62 MILLION RENOVATION PROJECT.

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

May 21, 1992

TO: Members, Finance Committee

FROM: Robert Dickler
Hospital Director

SUBJECT: Stem Cell Project

The Board of Governors heard a presentation last month from Dr. Philip McGlave on a project to initiate a laboratory for stem cell selection and cultivation and to begin stem cell transplantation as part of the bone marrow transplant program at UMHC. We are requesting Board approval for initiation of the project this month.

Following the attached narrative project proposal is a financial analysis of the potential investment in the project. This analysis tests out the project investment using conservative assumptions against a target 8% return on investment rate over a five year period. The conclusion of the analysis is that the project meets this investment threshold.

The opportunities and risks of this investment, beyond those specifically identified in the proposal and analysis, are summarized in the following paragraphs.

The analysis is conservative, and thus there are additional opportunities for return on investment, from the following perspectives:

1. The volume experienced could be substantially above that estimated. For example, there are 50,000 new cases of Stage IV breast cancer each year. The analysis assumes a maximum of 20 transplants per year are done. If the volume projections in the analysis are exceeded, the return on investment increases dramatically.

2. The expense estimates for the additional transplant procedures are "fully loaded", and assume 100% variable or incremental expense increases for both direct and indirect costs of the BMT program. This level of actual expense increase is unlikely.

3. There is no positive spillover effect in other volumes assumed from the enhanced reputation the stem cell project will hopefully bring to the BMT program.

4. There is no financial benefit assumed from the potential commercialization of the technology. If potential commercial value were to be realized, it would add significantly to the investment return.

The primary risks associated with the project include:

1. The stem cell selection and cultivation techniques may not work, and the investment in the laboratory would be lost.

2. The volumes projected may not be achieved, and/or reimbursability of the procedure may not be established.

3. The clinical application of the technology, i.e., actual stem cell transplantation, may prove to be unsuccessful.

4. Other institutions may establish themselves earlier or with greater effectiveness.

Our recommendations are that the Board of Governors approve the project as follows:

A. The initial capital expenditures for equipment and remodeling, should be approved in the amounts of $ 527,000 for equipment and $ 350,000 for remodeling. (of the latter amount, 50% will be provided from non-hospital sources.)

B. The operating expenses for the lab (salaries, supplies, etc.) be authorized for 1992 through early 1994, as outlined in the schedule on projected research expenditures.

C. Hospital administration and Dr. McGlave should provide the Board with a project status report in early 1994, addressing the status of the technology, clinical application and outcomes, and financial status.

D. Hospital administration should seek advise from some of the Board members on commercialization strategies and should provide the Board with updates on the status of possible commercialization of the technology over the coming months.

Because of the strategic and marketing implications of this project, and because of the potentially trade secret nature of the technology, this material is sent to you under confidential cover and will be discussed in closed session at the committee meetings and the full Board meetings. We look forward to answering your questions at that time.

HUMAN BONE MARROW STEM CELL PROJECT

Philip McGlave, M.D.

INTRODUCTION

The human bone marrow stem cell has the capability to produce red blood cells which carry oxygen throughout the body, white blood cells which defend the body against infection and platelets which facilitate blood clotting. The stem cell also has the unique capacity to replicate itself, thereby providing a long lasting reservoir of stem cells to sustain blood production throughout the human life span. The stem cell represents only approximately one in one million cells in the human bone marrow. We have recently developed laboratory methods to select human bone marrow stem cells. After further development of this technology, stem cell selection can be applied to the treatment of human diseases under several different circumstances . General application of stem cell selection technology include:

Stem Cell Transplantation. In a variety of lethal human diseases including acute leukemias, chronic leukemias, lymphomas, metastatic breast cancer and other cancers, normal human stem cells co-exist with malignant cells in the bone marrow. Selection and storage of benign stem cells permits treatment of the patient with very high doses of chemotherapy and radiation. Subsequently the patient is "rescued" by reinfusion of the patient's own stem cell population in a procedure termed "stem cell transplantation." Stem cell transplantation has several advantages over currently available donor bone marrow transplant approaches: It is unnecessary to locate a donor, older patients can be transplanted, side effects, inpatient hospital stay and mortality are markedly diminished. These features of stem cell transplantation will dramatically increase the number of patients eligible for potentially life saving therapy and will reduce the cost of the procedure. The number of patients presenting with diseases potentially aided by stem cell transplantation therapy exceeds 100,000 per year in the United States.

Cultivation of stem cell products in the laboratory. Human stem cells have the capacity to differentiate into formed, mature blood cells. With the development of laboratory stem cell cultivation techniques, it can be envisioned that stem cells will be used not only for stem cell transplantation, but to serve as a "blood factory" in which relatively small numbers of stem cells properly stimulated, supported and cultivated in the laboratory will provide a never ending source of "stem cell products" such as red cells, white blood cells and platelets suitable for transfusion therapy. Cultivation of a small number of an individual's own stem cells in the laboratory for subsequent transfusion therapy will markedly reduce the expensive, inconvenient and sometimes futile effort to locate properly ABO-matched blood donors and will eliminate the risk of HIV (AIDS), hepatitis virus and other infections currently associated with transfusion therapy. Stem cell products will last longer in the body than blood products currently obtained from donors. Stem cell products will also have an indefinite shelf life since, unlike blood products currently obtained from donors, they can be frozen. The number of red blood cell and platelet transfusions administered in 1991 at the University of Minnesota hospital using current donor sources is 78,500. Ultimately, the stem cell selection and cultivation technique may obviate the need to locate donors as a source for many of these blood products.

Gene therapy. In a number of lethal diseases, strategies have been developed in which gene insertion into stem cells will either correct the underlying condition directly or will provide a survival advantage for stem cells which will indirectly facilitate therapy. Well known examples of such conditions include sickle cell anemia, thalassemia, the leukemias, the lymphomas, metastatic breast cancer and a variety of other metastatic malignancies. Further development of such treatment strategies is dependent on the ability to select human stem cells which can then be subjected to gene insertion technology.

Summary. We have already developed and published pioneering methods for the selection of human bone marrow stem cells. These studies have been performed in a basic research laboratory using small numbers of cells. In order to continue our lead in the development of stem cell selection techniques for clinical purposes, it is necessary to "scale-up" the stem cell selection methods. This "scale-up" effort is the object of this proposal and is intended to develop safe, efficient means for the selection of human stem cells in sufficient quantities to perform stem cell transplantation as innovative, curative therapy for leukemias, breast cancer and other conditions described above. The specific project as well as a budget and time table for the development of the large scale stem cell selection and initiation of clinical trials are described below.

PROPOSAL

Introduction. We have developed a laboratory method for the selection of stem cells from human bone marrow. We propose to modify these current techniques in order to provide a safe, efficient, reproducible, laboratory-based method for the selection of sufficient numbers of stem cells which can be used for human therapy.

Specific Project. Benign stem cells will be obtained from the bone marrow of patients with chronic myelogenous leukemia or breast cancer in sufficient quantities to allow stem cell transplantation therapy for these lethal diseases. The project will have three components which will be performed in parallel:

Project I: Scale-up of stem cell selection. A series of modifications of our current small scale, laboratory-based technique for selection of benign stem cells from the bone marrow of patients with CML or breast cancer will be performed to increase the yield of benign stem cells suitable for transplantation. As each modification is made, laboratory tests will be performed to ascertain that a viable benign stem cell population is being preserved.

Project II: Laboratory cultivation of mature blood cells from benign stem cells. Benign stem cells will be selected and cultivated in the laboratory to produce large numbers of blood cells suitable for infusion into the patient following stem cell transplantation. These cultivated stem cells will provide a large population of white blood cells needed to sustain the patient in the early course of the transplant. Modifications in our current methods for cultivation of such blood cells from the stem cell population will be made in order to scale-up the procedure. As each modification is made, the resultant stem cell products will be tested for their viability and benign nature.

Project III: Production of monoclonal antibodies to recognize human stem cells. Mouse antihuman monoclonal antibodies which recognize human stem cells will be manufactured. The characterization of one or more such monoclonal antibodies will greatly increase the efficiency of future stem cell selection approaches and may have great proprietary value.

Time course: We anticipate that the first human transplants using stem cell selection will be performed within 6–12 months after funding of the project, occupation of the stem cell laboratory and procurement of all necessary equipment. Should initial stem cell transplants be performed successfully, we anticipate pilot studies testing the efficacy of stem cell transplantation in the therapy of CML and, subsequently, breast cancer will be well underway within 24 to 36 months after initiation of the project.

Additional use of stem cell selection techniques. We anticipate that the stem cell selection and cultivation approaches described above will be applicable not only to therapy of chronic myelogenous leukemia and breast cancer with stem cell transplantation as described in Project I above, but to therapy of a variety of other cancers as well. Preliminary discussions are underway to initiate a similar study in the treatment of malignancies such as small cell cancer of the lung. These stem cell selection techniques will also be useful for clinical studies testing the efficacy of gene insertion currently in the early planning stages within the University of Minnesota Bone

Marrow Transplantation group. We anticipate that the stem cell cultivation techniques also to be developed in the project described above (Project II) will be applicable in a variety of transfusion therapy settings to be tested on our inpatient bone marrow transplantation unit and on the hematology/oncology inpatient treatment units.

IMPACT ON THE UNIVERSITY OF MINNESOTA MEDICAL CENTER

As described above, stem cell selection techniques may lend themselves to innovative therapy for a variety of diseases. Three examples in which stem cell selection might have a major impact on the visibility of the University of Minnesota Medical Center as well as a direct impact on patient accrual are presented below:

Stem cell transplantation therapy for CML. Approximately 46 patients received bone marrow transplantation therapy for CML at the University of Minnesota in 1991. The majority of these patients received related or unrelated donor transplantation. It has been estimated that only 50% of patients referred with CML are candidates for donor bone marrow transplantation because of restrictions in donor availability and applicability of donor transplantation to older recipients. Autologous bone marrow transplantation using stem cell selection techniques obviates the need for matched donors and considerably increases the recipient age limit. After adjustment for these factors, it is anticipated that within two to four years an additional 25–50 patients per year would be eligible for stem cell transplant relying solely on our current referral sources. Additional accrual might be expected if implementation of stem cell transplantation therapy and publication of results increased awareness of the University of Minnesota Bone Marrow Transplantation Program. After scale-up of the stem cell selection process, clinical trials of stem cell transplantation therapy for CML will be performed at the University of Minnesota.

Stem cell transplantation therapy for breast cancer. A second use for stem cell selection therapy would be in the case of stem cell transplantation for breast cancer. Here, selection of the benign

stem cell population coupled with high dose chemotherapy and radiation might prove to be highly effective therapy for this otherwise lethal condition. Approximately 40,000 women per year are diagnosed with stage IV breast cancer. Currently, no curative therapy exists for this condition. Implementation of clinical trials testing the efficacy of this novel and promising approach would be expected to increase visibility of the University of Minnesota Medical Center and Bone Marrow Transplantation Program markedly throughout the nation and to provide a virtually unlimited number of referrals for transplantation therapy as well spill over for other forms of therapy for breast cancer. Preliminary discussions are currently underway to initiate stage IV breast cancer stem cell transplant trials at the University of Minnesota.

Cultivation of stem cells in the laboratory for transfusion therapy. Development of methods for the cultivation of immature blood cells from a small stem cell population ("stem cell products") in the laboratory has important ramifications for transfusion support of patients undergoing high dose chemotherapy. Under such circumstances, a small population of stem cells could be selected from the bone marrow or peripheral blood of patients anticipating subsequent chemotherapy. Large numbers of cultivated stem cell products could be frozen and stored. Following high dose chemotherapy, the stem cell products could be thawed and reinfused to support patients during the period of anemia, low white count and low platelet counts. This would decrease dramatically the need for blood transfusions from donors. This benefit, in turn, would diminish the risk of infection from HIV (AIDS), hepatitis and other blood borne virus infections, would diminish dependency on the Red Cross blood donor network and might markedly diminish the length of hospital stay for patients receiving chemotherapy in the bone marrow transplant or anticancer setting. These stem cell products could be used by many of the approximately 1000 patients per year who receive marrow suppressive chemotherapy for a variety of malignancies at the University of Minnesota.

Proprietary interests. The funding and implementation of the proposed stem cell project for selection and cultivation of human hematopoietic stem cells will most probably result in the development of novel devices and biological substances with proprietary value. These devices may fall into at least two categories: 1) Devices for cultivation of stem cells in the laboratory may be invented. One novel device call the "Transwell system" has already been developed in our laboratory and will allow efficient cultivation of stem cells and stem cell products. Development of this device may lead to more efficient methods for the cultivation of blood products in the laboratory and for gene insertion. A patent application has been filed by our research group for this invention. 2) Our ability to isolate and cultivate human hematopoietic stem cells will allow us to apply conventional monoclonal antibody production techniques in order to create novel monoclonal antibodies which recognize receptors on the surface of human hematopoietic stem cells. We anticipate that one or more such novel monoclonal antibodies will be produced over the next 3 years if the proposed stem cell project is funded. Such monoclonal antibodies may allow us to develop a "one step" selection method for human hematopoietic stem cells to replace our current "four step" method. This would be a significant improvement in stem cell selection technology. Such novel monoclonal antibodies would be patented and would be expected to have a very high proprietary value.

COMPETION FOR STEM CELL TRANSPLANTATION

Introduction

Several bone marrow transplantation centers in the United States are developing the capability to perform stem cell transplantation. A brief description of these programs is provided:

M.D. Anderson Cancer Center (Houston). The M.D. Anderson Cancer Center is now rapidly developing a stem cell transplantation program based on basic research observations made at the University of Minnesota. They have developed their own monoclonal antibodies to recognize human stem cells and have actually begun a pilot study testing efficacy of a partially purified stem

cell population in autologous bone marrow transplantation. A more complete stem cell selection process similar to the one which is envisioned at the University of Minnesota will not be put in place at M.D. Anderson for at least 12–18 months. We can anticipate that the bone marrow transplantation program at M.D. Anderson will provide vigorous competition for us in the area of stem cell transplantation. This effort has been aided by their ability to focus a great deal of support on the development of stem cell transplantation over the last 12 months. This bone marrow transplantation program is rapidly becoming a major competitor for the University of Minnesota.

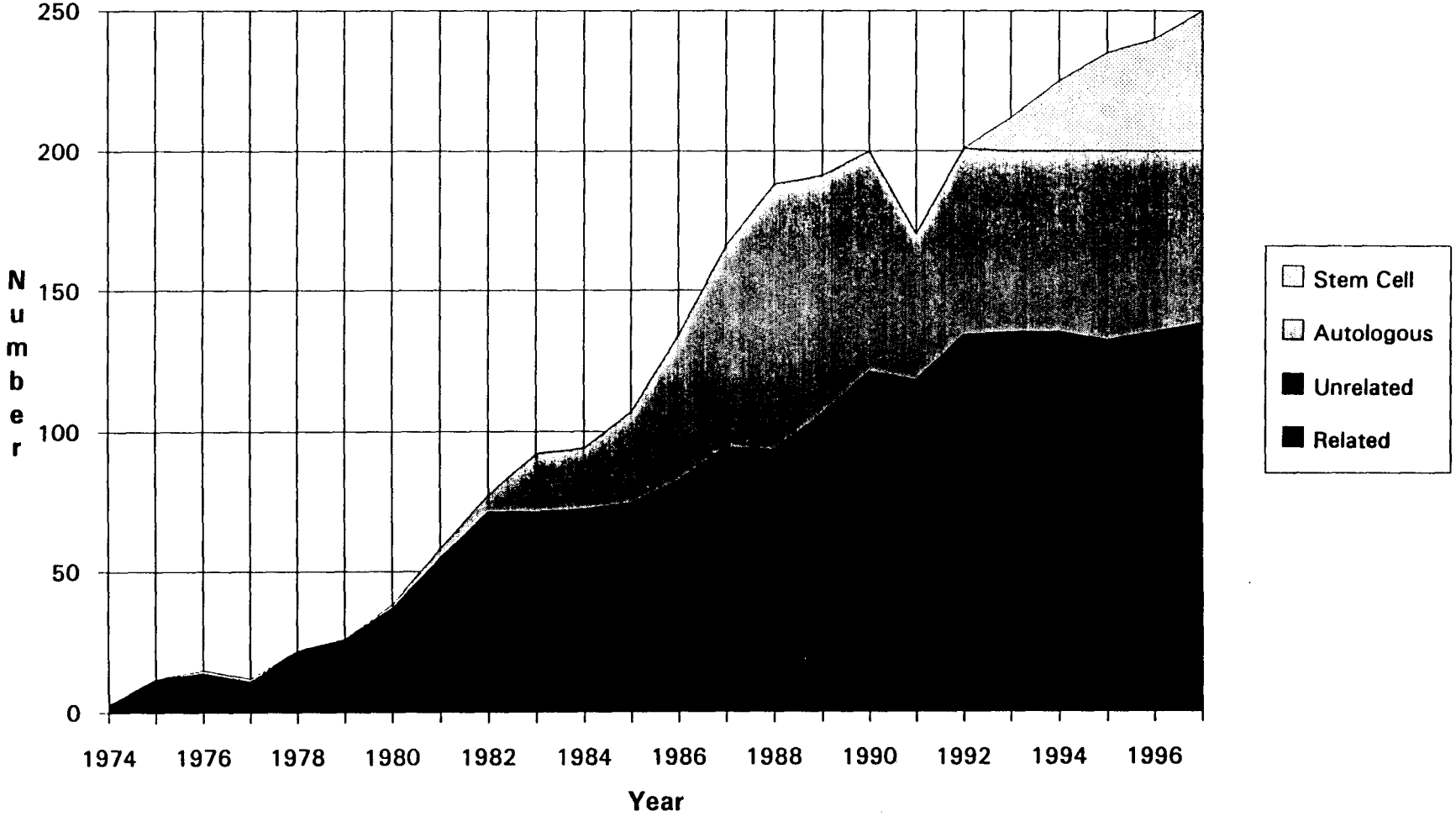
Stanford University Bone Marrow Transplantation Program (Palo Alto). The Stanford group has been a leader in the development of stem cell selection in the mouse model. They have recently focused their efforts on selection of a human stem cell. With the advent of a viable bone marrow transplantation program at Stanford over the last three years, basic and clinical researchers at Stanford have united in a common attempt to perform human stem cell transplants. We can anticipate that Stanford will perform a small number of well publicized stem cell transplants within the next 12–18 months. Should these transplants be successful, Stanford will become a major competitor in the area of stem cell transplantation.

Memorial Sloan Kettering Cancer Center (New York). The Memorial Sloan Kettering group has been interested in stem cell selection for at least three years. They are currently developing a method for selection of human bone marrow stem cells for subsequent stem cell transplantation and will undoubtedly initiate clinical stem cell transplant pilot studies.

Fred Hutchinson Cancer Research Center (Seattle). The Seattle bone marrow transplantation program has been interested in basic stem cell research for over five years. They are quite capable of developing clinical stem cell transplantation approaches. They have already performed a small pilot study testing the efficacy of transplantation therapy using partially purified stem cells in the treatment of advanced breast cancer. It can be anticipated that the Seattle group will initiate stem

cell transplantation within the next three to five years, if not sooner. The Seattle transplantation program is our chief competitor in the area of related and unrelated donor bone marrow transplantation and is the only bone marrow transplant program in the world which is larger than our own.

Projected Bone Marrow Transplants by Donor Type



STEM CELL PROJECT
PROJECTED RESEARCH EXPENDITURES

19-May-92

	1992	1993	1994	1995	1996	1997	Total
Personnal:							
Senior Scientist (1 FTE)	$18,375	$38,588	$40,517	$42,543	$44,670	$46,903	$231,595
Junior Scientists:							
CML (3 FTE)	$37,800	$79,380	$83,349	$87,516	$91,892	$96,487	$476,425
Breast Cancer (1 FTE)	$12,600	$26,460	$27,783	$29,172	$30,631	$32,162	$158,808
FACS (1 FTE)	$12,600	$26,460	$27,783	$29,172	$30,631	$32,162	$158,808
Total Salary	$81,375	$170,888	$179,432	$188,403	$197,824	$207,715	$1,025,636
Fringe Benefits	$24,006	$51,266	$54,727	$57,463	$60,336	$63,353	$311,151
Total Payroll	$105,381	$222,154	$234,159	$245,867	$258,160	$271,068	$1,336,787
Supplies							
Laboratory Supplies	$102,675	$217,671	$230,731	$244,575	$259,250	$274,805	$1,329,707
FACS Supplies:							
Inventory	$10,000	$0	$0	$0	$0	$0	$10,000
Miscellaneous	$5,000	$5,300	$5,618	$5,955	$6,312	$6,691	$34,877
Other Supplies	$500	$1,060	$1,124	$1,191	$1,262	$1,338	$6,475
Total Supplies	$118,175	$224,031	$237,473	$251,721	$266,825	$282,834	$1,381,059
Depreciation							
Building Remodeling	$17,500	$35,000	$35,000	$35,000	$35,000	$35,000	$192,500
FACS	$22,000	$44,000	$44,000	$44,000	$44,000	$22,000	$220,000
Elutriator	$6,000	$12,000	$12,000	$12,000	$12,000	$6,000	$60,000
Other Equipment	$9,813	$19,625	$19,625	$19,625	$19,625	$19,625	$107,938
Office Furniture	$337	$674	$674	$674	$674	$674	$3,704
Total Depreciation	$55,649	$111,299	$111,299	$111,299	$111,299	$83,299	$584,142
Other Expenses							
FACS	$3,500	$0	$0	$0	$0	$0	$3,500
Service Contracts:							
FACS	$0	$22,245	$22,245	$22,245	$25,000	$25,000	$116,735
Elutriator	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$36,000
Other	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$12,000
Total Other Expenses	$11,500	$30,245	$30,245	$30,245	$33,000	$33,000	$168,235
Total Expenditures	$290,705	$587,728	$613,175	$639,131	$669,283	$670,200	$3,470,223

STEM CELL PROJECT
FINANCIAL SUMMARY
CML & BREAST CANCER

19-May-92

		1992	1993	1994	1995	1996	1997	Total
PROJECT INVESTMENT		$290,705	$587,728	$613,175	$639,131	$669,283	$670,200	$3,470,223
Return on Investment at :	8.00%	$139,538	$235,091	$196,216	$153,392	$107,085	$53,616	$884,938
Total Return Requirement		$430,243	$822,820	$809,391	$792,523	$776,368	$723,816	$4,355,161
STATEMENT OF OPERATIONS:								
Patient Care Charges:								
Pre-Transplant Inpatient		$0	$152,704	$320,678	$505,068	$687,454	$928,063	$2,593,966
Pre-Transplant Outpatient		$0	$186,222	$391,067	$615,931	$838,350	$1,131,773	$3,163,344
Transplant Stay		$0	$1,879,006	$3,354,025	$4,661,108	$5,365,052	$6,103,157	$21,362,348
Stem Cell (Blood Bank) Charges		$0	$180,000	$378,000	$595,350	$810,337	$1,093,956	$3,057,643
Post-Transplant Inpatient		$0	$217,432	$456,608	$719,158	$978,854	$1,321,452	$3,693,504
Post-Transplant Outpatient		$0	$98,596	$310,577	$625,036	$1,014,551	$1,484,732	$3,533,490
Total Gross Charges		$0	$2,713,960	$5,210,955	$7,721,651	$9,694,598	$12,063,132	$37,404,296
Third Party Contractual Adjustment		$0	$363,873	$723,718	$1,119,990	$1,459,426	$1,885,808	$5,552,814
Net Revenue From Operations		$0	$2,350,088	$4,487,237	$6,601,661	$8,235,172	$10,177,324	$31,851,482
Expenditures:								
Pre-Transplant Inpatient		$0	$113,154	$237,622	$374,255	$509,403	$687,694	$1,922,129
Pre-Transplant Outpatient		$0	$141,529	$297,211	$468,107	$637,146	$860,147	$2,404,141
Transplant Stay		$0	$1,337,852	$2,388,066	$3,318,709	$3,819,917	$4,345,447	$15,209,991
Stem Cell (Blood Bank) Cost		$0	$142,200	$298,620	$470,326	$640,167	$864,225	$2,415,538
Post-Transplant Inpatient		$0	$153,072	$321,452	$506,287	$689,113	$930,302	$2,600,227
Post-Transplant Outpatient		$0	$80,158	$252,499	$508,154	$824,830	$1,207,087	$2,872,728
Total Patient Care Expenditures		$0	$1,967,965	$3,795,470	$5,645,840	$7,120,576	$8,894,903	$27,424,755
Revenue Over/(Under) Expense		$0	$382,122	$691,767	$955,821	$1,114,596	$1,282,421	$4,426,727
Gain/(Loss) Relative to Investment		($430,243)	($440,697)	($117,624)	$163,299	$338,228	$558,604	$71,566
Cumulative Gain/(Loss) to Investment		($430,243)	($870,941)	($988,565)	($825,266)	($487,038)	$71,566	

BMT Stem Cell Financial Feasibility Analysis – CML
Volume Derivation

19–May–92

	1993 Year 1	1994 Year 2	1995 Year 3	1996 Year 4	1997 Year 5
Year 1 Group					
Pre–Transplant Inpatient	6	0	0	0	0
Pre–Transplant Outpatient	6	0	0	0	0
Transplant	6	0	0	0	0
Post–Transplant Inpatient	6	0	0	0	0
Post–Transplant Outpatient	6	6	6	6	6
Annual Outpatient Follow–up Factor	0.00%	100.00%	75.00%	50.00%	25.00%
Year 2 Group					
Pre–Transplant Inpatient	0	12	0	0	0
Pre–Transplant Outpatient	0	12	0	0	0
Transplant	0	12	0	0	0
Post–Transplant Inpatient	0	12	0	0	0
Post–Transplant Outpatient	0	12	12	12	12
Annual Outpatient Follow–up Factor	0.00%	0.00%	100.00%	75.00%	50.00%
Year 3 Group					
Pre–Transplant Inpatient	0	0	18	0	0
Pre–Transplant Outpatient	0	0	18	0	0
Transplant	0	0	18	0	0
Post–Transplant Inpatient	0	0	18	0	0
Post–Transplant Outpatient	0	0	18	18	18
Annual Outpatient Follow–up Factor	0.00%	0.00%	0.00%	100.00%	75.00%
Year 4 Group					
Pre–Transplant Inpatient	0	0	0	20	0
Pre–Transplant Outpatient	0	0	0	20	0
Transplant	0	0	0	20	0
Post–Transplant Inpatient	0	0	0	20	0
Post–Transplant Outpatient	0	0	0	20	20
Annual Outpatient Follow–up Factor	0.00%	0.00%	0.00%	0.00%	100.00%
Year 5 Group					
Pre–Transplant Inpatient	0	0	0	0	25
Pre–Transplant Outpatient	0	0	0	0	25
Transplant	0	0	0	0	25
Post–Transplant Inpatient	0	0	0	0	25
Post–Transplant Outpatient	0	0	0	0	25
Annual Outpatient Follow–up Factor	0.00%	0.00%	0.00%	0.00%	0.00%

BMT Stem Cell Financial Feasibility Analysis – Breast Cancer
Volume Derivation

19-May-92

	1993 Year 1	1994 Year 2	1995 Year 3	1996 Year 4	1997 Year 5
Year 1 Group					
Pre-Transplant Inpatient	3	0	0	0	0
Pre-Transplant Outpatient	3	0	0	0	0
Transplant	3	0	0	0	0
Post-Transplant Inpatient	3	0	0	0	0
Post-Transplant Outpatient	3	3	3	3	3
Annual Outpatient Follow-up Factor	0.00%	100.00%	75.00%	50.00%	25.00%
Year 2 Group					
Pre-Transplant Inpatient	0	6	0	0	0
Pre-Transplant Outpatient	0	6	0	0	0
Transplant	0	6	0	0	0
Post-Transplant Inpatient	0	6	0	0	0
Post-Transplant Outpatient	0	6	6	6	6
Annual Outpatient Follow-up Factor	0.00%	0.00%	100.00%	75.00%	50.00%
Year 3 Group					
Pre-Transplant Inpatient	0	0	9	0	0
Pre-Transplant Outpatient	0	0	9	0	0
Transplant	0	0	9	0	0
Post-Transplant Inpatient	0	0	9	0	0
Post-Transplant Outpatient	0	0	9	9	9
Annual Outpatient Follow-up Factor	0.00%	0.00%	0.00%	100.00%	75.00%
Year 4 Group					
Pre-Transplant Inpatient	0	0	0	15	0
Pre-Transplant Outpatient	0	0	0	15	0
Transplant	0	0	0	15	0
Post-Transplant Inpatient	0	0	0	15	0
Post-Transplant Outpatient	0	0	0	15	15
Annual Outpatient Follow-up Factor	0.00%	0.00%	0.00%	0.00%	100.00%
Year 5 Group					
Pre-Transplant Inpatient	0	0	0	0	20
Pre-Transplant Outpatient	0	0	0	0	20
Transplant	0	0	0	0	20
Post-Transplant Inpatient	0	0	0	0	20
Post-Transplant Outpatient	0	0	0	0	20
Annual Outpatient Follow-up Factor	0.00%	0.00%	0.00%	0.00%	0.00%