THE UNIVERSITY OF MINNESOTA
BOARD OF GOVERNORS
FINANCE,
PLANNING AND DEVELOPMENT COMMITTEE

Wednesday, January 26, 1994
12:30 - 2:00 p.m.*
University Hospital Board Room, 8-106

AGENDA

I.	Opening of Meeting and Approval of Minutes of Finance, Planning and Development Committee Meeting held 12/17/93 (Approval) pp. 5 - 7	Nellie Johnson
II.	December 31, 1993 Financial Statements (Information) pp. 8 - 12	Clifford Fearing
III.	Second Quarter 1993-94 Capital Expenditure Report (Information) pp. 13 - 14	Nels Larson
IV.	Second Quarter 1993-94 Bad Debt Report (Approval) pp. 15 - 24	Clifford Fearing
V.	Quarterly Purchasing Report (Approval/Consent) pp. 25	Mark Koenig
VI.	Short Stay Center (Approval) (To be Distributed at Meeting)	Joanne Disch
VII.	Capital - CT Scanner Replacement (Approval) pp. 40 - 41	Carter McComb
VIII.	Capital - Materials Distribution System (Information) pp. 26 - 27	Mark Koenig
IX.	Capital - Red Wing Land Acquisition (Information)	Clifford Fearing

X.	Development Office Update (Information) pp. 28 - 29	Fred Bertschinger
XI.	Audit Committee (Information)	Arthur Kydd
XII.	Resolution to conduct Non-Public Meeting to Discuss:	

1. Specific Marketing and Contracting Matters

* Lunch at 12:00 Noon with Full Board Meeting to follow.

THE UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BOARD OF GOVERNORS FINANCE,
PLANNING & DEVELOPMENT COMMITTEE
December 15,1993

MINUTES

ATTENDANCE:

Members: Leonard Bienias
Edward Ciriacy, M.D.
Cliff Fearing
Leo Furcht, M.D.
Greg Hart
William Jacott, M.D.
Arthur Kydd

Guests: Calvin Cameron, M.D.
Michael Fay, Board Member
Carter McComb
Barbara Neubauer, Board Member
William Thompson, M.D.

Staff: Beth Beyer
Joanne Disch
Nels Larson
Vaman Pai
Ted Thompson, M.D.

CALL TO ORDER:

The meeting of the Finance, Planning & Development Committee was called to order by Nellie Johnson, Committee Chairperson, on December 15, 1993 at 12:42 P.M.

A motion was seconded and passed to remove the "Capital - Materials Distributors System" off the agenda, since the presenter was ill today. It will be presented at the next Committee meeting in January.

APPROVAL OF THE MINUTES:

The Board of Governors Finance, Planning & Development Committee seconded and passed a motion to approve the Finance, Planning & Development Committee minutes of the November 17, 1993 meeting as written.

CAPITAL - CT SCANNER REPLACEMENT:

Mr. Kydd called on Mr. Carter McComb and Dr. William Thompson to present the Radiology CT Scanner Replacement request. This item was presented to the Committee for information and will be brought back for approval at the January meeting.

NOVEMBER 30, 1993 FINANCIAL STATEMENTS:

Mr. Cliff Fearing reported to the Committee, for information, the November 30, 1993 financial statements. The inpatient admissions totaled 1,438, which were 49 greater than budgeted admissions; average length of stay was 7.4 days; patient days totaled 10,175 and were 462 days below budget.

Outpatient encounters through November totaled 31,834, which was 4.6% above budgeted volumes.

Mr. Fearing indicated that the Hospital's Statement of Operations show revenues being greater than expenses by $6,150,000 and a favorable variance of $2,166,000. Operating expenditures through November totaled $121,482,000 and were 4.1% below budgeted levels of $126,645,000.

CAPITAL - RED WING LAND ACQUISITION:

Mr. Clifford Fearing presented to the Committee for information the Interstate Medical Center Joint Land Purchase with River Region Health Services. The cost of the land being purchased is $1.4 million. This item was previously brought to the Committee in October and will return to the Committee when the Interstate Medical Center Board approves this action.

AUDIT COMMITTEE MINUTES:

A motion was seconded and passed to approve the Audit Committee minutes from the meeting held on December 7, 1993, as written.

SHORT STAY CENTER:

Mr. Kydd called on Ms. Joanne Disch and Dr. Calvin Cameron to present the Short Stay Center proposal. This item was presented to the Committee for information and will be brought back for approval at the January Board meeting.

There being no further discussion, the December 15, 1993 meeting was adjourned at 1:47 p.m. A motion was seconded and passed to convene a non-public session of the Finance, Planning and

Development Committee. A non-public session of the Finance, Planning & Development was called at 1:50 p.m. to discuss specific marketing and labor contract matters.

Respectfully submitted,

Beth Beyer

Beth Beyer
Recording Secretary

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

January 26, 1994

TO: Board of Governors

FROM: Clifford P. Fearing

SUBJECT: Report of Operations for the Period
July 1, 1993 through December 31, 1993

The Hospital's operations for the month of December reflect admissions and outpatient encounters to be greater than budgeted levels. Average length of stay, and therefore patient days, continue to be lower than anticipated.

INPATIENT CENSUS: For the month of December, inpatient admissions totaled 1,421 which were 49 greater than budgeted admissions of 1,372. Our overall average length of stay for the month was 7.0 days. Patient days for December totaled 10,391 and were 118 days below budget. Admissions were over budgeted levels this month in the areas of Neurosurgery, Orthopedics, Otolaryngology, and Pediatrics.

OUTPATIENT CENSUS: Ambulatory care encounters (including CUHCC and Home Health) for the month of December totaled 32,591 which was 2,116, or 6.9%, above budgeted volumes of 30,475. Encounters were over budgeted levels in the CUHCC, Masonic Day Hospital, Medicine, Psychiatry, Radiation Therapy, and Surgery clinical areas this month. Encounters continued to be under budgeted levels in the areas of Emergency Room, Home Health, Mental Health, and Women's Health.

To recap our census:

Monthly Data						YTD Data				
92/93 Actual	93/94 Budget	93/94 Actual	Variance	% Var		92/93 Actual	93/94 Budget	93/94 Actual	Variance	% Var
1,450	1,372	1,421	49	3.6	Admissions	8,930	8,809	8,804	(5)	(0.1)
10,463	10,509	10,391	(118)	(1.1)	Patient Days	66,533	66,360	63,904	(2,456)	(3.7)
7.0	7.7	7.0	(0.7)	(8.6)	Avg Length of Stay	7.4	7.5	7.2	(0.3)	(4.4)
337.5	339.0	335.2	(3.8)	(1.1)	Avg Daily Census	361.6	360.6	347.3	(13.3)	(3.7)
60.1	60.3	59.6	(0.7)	(1.2)	Percent Occupancy	64.4	64.2	61.8	((2.4)	(3.7)
31,884	30,475	32,591	2,116	6.9	Amb Care Encounters	193,561	194,338	198,082	3,744	1.9

FINANCIAL OPERATIONS: The Hospital's Statement of Operations shows year to date revenues being greater than expenses, before the extraordinary loss, by $6,452,000. This is a favorable variance of $3,554,000. After the extraordinary loss of $442,000 revenues exceed expenses by $6,010,000.

Patient care charges through December totaled $186,138,000, which was 2.6% less than budget. Ancillary revenue was $2,892,000 (2.1%) under budget and routine revenue was $2,144,000 (4.1%) under budget. Inpatient revenue averaged $16,006 per admission compared to the budgeted average of $16,323. Outpatient revenue averaged $228 per encounter compared to the budgeted average of $244

Deductions from revenue totaled $50,088,000 which was $4,374,000 (8.0%) under budgeted deductions of $54,462,000. Deductions from revenue continue to be below budget, primarily due to the overall average charge utilization being below expected levels. The decline in average charges per patient had the effect of reducing the contractual allowances and discounts, given our current payment levels. We also budgeted for some residual write-offs associated with the accounts receivable project that was initiated and largely completed last fiscal year. However, we have not seen significant actual write-offs for the further clean up of accounts receivable.

Operating expenditures through December totaled $147,156,000 and were $4,935,000 (3.2%) below budgeted levels of $152,091,000. The overall favorable variance was due to reduced spending levels in almost all categories of expenses, as a result of lower than anticipated patient volumes. The favorable variance also includes the savings being realized in interest expense as a result of the restructuring of debt.

ACCOUNTS RECEIVABLE: The balance in patient accounts receivable as of December 31, 1993, totaled $52,489,000 and represented 66.2 days of revenue outstanding. Days in receivables increased by .7 from the November level of 65.5 days which is a seasonal increase that we typically experience in the month of December.

CONCLUSION: Our operating position through the end of December is positive and above budgeted levels. While our overall census levels, and net patient service revenues are close to budget, our expenses are nearly $5 million below budget.

It is critically important for us to continue our cost reduction efforts. By making ourselves more competitive on a cost basis, we will have a better opportunity to be a significant participant in our rapidly changing market environment.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
SUMMARY STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 1, 1993 TO DECEMBER 31, 1993

December Budgeted	December Actual	Variance Over/(Under) Budget	Variance %		1993-94 Budgeted	1993-94 Actual	Variance Over/(Under) Budget	Variance %
$29,809,000	$31,522,000	$1,713,000	5.7%	Gross Patient Revenue	$191,174,000	$186,138,000	($5,036,000)	-2.6%
8,477,000	8,379,000	(98,000)	-1.2%	Deductions From Revenue	54,462,000	50,088,000	(4,374,000)	-8.0%
21,332,000	23,143,000	1,811,000	8.5%	Net Patient Service Revenue	136,712,000	136,050,000	(662,000)	-0.5%
				Other Operating Revenue				
1,280,000	1,282,000	2,000	0.2%	Appropriation & Support	7,682,000	7,693,000	11,000	0.1%
993,000	1,260,000	267,000	26.9%	Other Revenue	6,060,000	7,143,000	1,083,000	17.9%
2,273,000	2,542,000	269,000	11.8%	Total Other Revenue	13,742,000	14,836,000	1,094,000	8.0%
23,605,000	25,685,000	2,080,000	8.8%	Total Revenue From Operations	150,454,000	150,886,000	432,000	0.3%
				Operating Expenses:				
10,706,000	11,058,000	352,000	3.3%	Salaries	61,893,000	60,976,000	(917,000)	-1.5%
2,375,000	2,246,000	(129,000)	-5.4%	Fringe Benefits	13,664,000	13,170,000	(494,000)	-3.6%
1,631,000	1,697,000	66,000	4.0%	Contract Compensation	9,785,000	10,036,000	251,000	2.6%
5,215,000	5,773,000	558,000	10.7%	Supplies And Services	33,614,000	32,887,000	(727,000)	-2.2%
1,090,000	1,008,000	(82,000)	-7.5%	Utilities And Maintenance	6,577,000	6,091,000	(486,000)	-7.4%
1,493,000	1,100,000	(393,000)	-26.3%	General Supplies & Expense	8,881,000	7,658,000	(1,223,000)	-13.8%
14,000	14,000	0	0.0%	Insurance	82,000	148,000	66,000	80.5%
1,578,000	1,572,000	(6,000)	-0.4%	Depreciation & Amortization	9,409,000	9,316,000	(93,000)	-1.0%
805,000	616,000	(189,000)	-23.5%	Interest	4,852,000	3,351,000	(1,501,000)	-30.9%
0,000	331,000	31,000	10.3%	Minnesota Care Tax	1,800,000	2,035,000	235,000	13.1%
9,000	259,000	20,000	8.4%	Provision For Uncollectibles	1,534,000	1,488,000	(46,000)	-3.0%
25,446,000	25,674,000	228,000	0.9%	Total Operating Expenses	152,091,000	147,156,000	(4,935,000)	-3.2%
(1,841,000)	11,000	1,852,000		Net Revenue From Operations	(1,637,000)	3,730,000	5,367,000	
755,000	291,000	(464,000)	-61.5%	Nonoperating Gains: Investment Income	4,535,000	2,722,000	(1,813,000)	-40.0%
(1,086,000)	302,000	1,388,000		Revenue And Gains In Excess Of Expense Before Extraordinary Item	2,898,000	6,452,000	3,554,000	
0	0	0		Extraordinary Gain (Loss)	0	(442,000)	(442,000)	
(1,086,000)	302,000	1,388,000		Revenue And Gains In Excess Of Expense	2,898,000	6,010,000	3,112,000	

December Budgeted	December Actual	Variance Over/(Under) Budget	Variance %		1993-94 Budgeted	1993-94 Actual	Variance Over/(Under) Budget	Variance %
1,372	1,421	49	3.6%	Admissions	8,809	8,804	(5)	-0.1%
10,509	10,391	(118)	-1.1%	Patient Days	66,360	63,904	(2,456)	-3.7%
7.7	7.0	(0.7)	-9.1%	Average Length Of Stay	7.5	7.2	(0.3)	-4.4%
339.0	335.2	(3.8)	-1.1%	Average Daily Census	360.7	347.3	(13.4)	-3.7%
60.3	59.6	(0.7)	-1.2%	Percentage Occupancy	64.2	61.8	(2.4)	-3.7%
0,475	32,591	2,116	6.9%	Ambulatory Care Encounters	194,338	198,082	3,744	1.9%

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BALANCE SHEETS
DECEMBER 31, 1993 AND JUNE 30, 1993

ASSETS	12/31/93	6/30/93
General Funds		
Current assets:		
Cash and cash equivalents	$42,604,000	$28,798,000
Receivables:		
Patient services, net of allowances and uncollectible accounts of $29,265,000 at Dec. '93 and $27,841,000 at June '93	52,489,000	50,424,000
State appropriations	1,282,000	1,293,000
Other	2,971,000	3,321,000
Inventories	5,170,000	5,250,000
Prepaid expenses and other	307,000	748,000
Total current assets	104,823,000	89,834,000
[illegible]s whose use is limited:		
By board for property and equipment replacement and expansion	158,184,000	85,306,000
Under bond indenture agreement held by trustee	10,739,000	11,616,000
Total assets whose use is limited	168,923,000	96,922,000
Property and Equipment, net	147,830,000	151,281,000
Other Assets:		
Long-term portion - promissory note	4,829,000	4,373,000
Deferred third-party reimbursement	4,071,000	5,071,000
Deferred financing costs	898,000	252,000
Other	4,764,000	5,140,000
Total other assets	14,562,000	14,836,000
TOTAL ASSETS	$436,138,000	$352,873,000
R[illegible]cted Funds		
Investments	$8,484,000	$8,234,000

LIABILITIES AND FUND BALANCES	12/31/93	6/30/93
General Funds		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$8,623,000	$20,352,000
Accounts payable	27,064,000	22,958,000
Due to third-party payors	15,874,000	10,545,000
Accrued liabilities:		
Salaries, wages and employee benefits	25,456,000	25,139,000
Interest	1,386,000	1,725,000
Total current liabilities	78,403,000	80,719,000
Long-term debt and capital lease obligations, less current maturities	152,753,000	73,649,000
Fund Balance	204,982,000	198,505,000
TOTAL LIABILITIES AND FUND BALANCE	$436,138,000	$352,873,000
Fund Balances:		
Endowment funds	$2,953,000	$2,917,000
Specific purpose funds	5,531,000	5,317,000
	$8,484,000	$8,234,000

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
STATEMENT OF CASH FLOWS OF GENERAL FUNDS
FOR THE PERIOD JULY 1, 1993 TO DECEMBER 31, 1993

OPERATING ACTIVITIES AND NONOPERATING REVENUES:	
Revenue and gain in excess of expenses	$6,452,000
Adjustments to reconcile revenue and gain in excess of expenses to net cash provided by operating activities and gain:	
Depreciation and amortization	10,316,000
Unreimbursed University general and administrative services	147,000
(Increase) decrease in receivables	(1,704,000)
(Decrease) increase in accounts payable	4,106,000
(Decrease) increase in net amounts due to third-party payors	5,329,000
(Decrease) increase in accrued liabilities	(22,000)
(Increase) decrease in inventories	80,000
(Increase) decrease in prepaid expenses and other assets	(224,000)
Total adjustments	18,028,000
Net cash provided by operating activities and gain	$24,480,000
INVESTING ACTIVITIES:	
Acquisition of property, plant and equipment	($5,481,000)
Change in promissory notes	243,000
Increase in assets whose use is limited	(72,000,000)
Net cash used in investing activities	($77,238,000)
FINANCING ACTIVITIES:	
Repayment of long-term debt	($3,500,000)
Repayment of notes payable	(286,000)
Funds transferred from other sources	1,315,000
Issuance of long-term debt	69,035,000
	$66,564,000
Change in cash and equivalents	$13,806,000
Cash and cash equivalents at June 30, 1993	$28,798,000
Cash and equivalents at December 31, 1993	$42,604,000

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE PERIOD JULY 1, 1993 TO DECEMBER 31, 1993

		Donor Restricted Fund	
	General	Specific	Endowment
Balance at beginning of year	$198,505,000	$5,317,000	$2,917,000
Additions:			
Revenue and gain in excess of expenses	6,010,000		
Unreimbursed University general and administrative services	147,000		
Medical School funding of stem cell	0		
Transfer to finance property and equipment additions	320,000	(320,000)	
Gifts and investment income		593,000	42,000
Deductions:			
Adjustment to shared building	0		
Disbursements		(59,000)	(6,000)
Balance at end of period	$204,982,000	$5,531,000	$2,953,000

UNIVERSIT. OF MINNESOTA HOSPITAL & CLINIC
ADMISSIONS & AVERAGE LENGTH OF STAY (ALOS) BY SERVICE
1992/93 AND 1993/94 COMPARISON

	ADMISSIONS							AVERAGE LENGTH OF STAY		
	1992/93		1993/94			CHANGE	% CHANGE	1992/93	1993/94	
	DEC YTD	DEC YTD	DEC YTD		%	FROM	FROM	DEC YTD	DEC YTD	
CLINICAL SERVICE	ACTUAL	BUDGET	ACTUAL	VARIANCE	VARIANCE	PRIOR YR	PRIOR YR	ALOS	ALOS	CHANGE
ANESTHESIOLOGY	1	1	2	1	100.0%	1	100.0%	3.0	7.5	4.5
CLINICAL RESEARCH	161	161	252	91	56.5%	91	56.5%	3.4	3.0	(0.4)
DENTISTRY	2	2	0	(2)	-100.0%	(2)	-100.0%	0.0	0.0	0.0
ORAL SURGERY	42	43	33	(10)	-23.3%	(9)	-21.4%	1.4	1.1	(0.3)
DERMATOLOGY	2	2	0	(2)	-100.0%	(2)	-100.0%	6.0	0.0	(6.0)
FAMILY PRACTICE	81	138	104	(34)	-24.6%	23	28.4%	3.8	4.0	0.2
GYNECOLOGY	634	665	597	(68)	-10.2%	(37)	-5.8%	5.0	4.3	(0.7)
MEDICINE	2,269	2,244	2,052	(192)	-8.6%	(217)	-9.6%	6.3	6.2	(0.1)
NEWBORN	178	172	172	0	0.0%	(6)	-3.4%	1.8	1.9	0.1
NEUROLOGY	210	213	172	(41)	-19.2%	(38)	-18.1%	5.2	4.4	(0.8)
NEUROSURGERY	605	591	567	(24)	-4.1%	(38)	-6.3%	5.3	6.1	0.8
OBSTETRICS	253	246	263	17	6.9%	10	4.0%	3.1	2.7	(0.4)
OPHTHALMOLOGY	183	172	171	(1)	-0.6%	(12)	-6.6%	2.2	1.9	(0.3)
ORTHOPEDICS	563	531	618	87	16.4%	55	9.8%	5.0	4.7	(0.3)
OTOLARYNGOLOGY	173	170	194	24	14.1%	21	12.1%	4.7	4.2	(0.5)
PEDIATRICS	1,410	1,415	1,494	79	5.6%	84	6.0%	8.4	8.7	0.3
PHYSICAL MEDICINE & REHAB	116	99	107	8	8.1%	(9)	-7.8%	18.7	16.4	(2.3)
PSYCHIATRY ADULT	363	361	368	7	1.9%	5	1.4%	14.0	13.9	(0.1)
PSYCHIATRY CHILD	49	57	44	(13)	-22.8%	(5)	-10.2%	24.5	28.5	4.0
RADIATION THERAPY	0	0	0	0		0		0.0	0.0	0.0
RADIOLOGY	25	27	13	(14)	-51.9%	(12)	-48.0%	1.4	0.4	(1.0)
SURGERY	1,396	1,294	1,397	103	8.0%	1	0.1%	8.8	8.6	(0.2)
UROLOGY	214	205	184	(21)	-10.2%	(30)	-14.0%	4.2	4.1	(0.1)
TOTAL	8,930	8,809	8,804	(5)	-0.1%	(126)	-1.4%	7.4	7.2	(0.2)

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
CAPITAL EXPENDITURES
7-1-93 THRU 12-31-93

CAPITAL PROJECTS	UMHC FUNDS FROM RESERVES	ADDITIONAL FUNDS FROM OTHER SOURCES	TOTAL BUDGET	1st QUARTER EXPEND. 1993-94	2nd QUARTER EXPEND. 1993-94	3rd QUARTER EXPEND. 1993-94	4th QUARTER EXPEND. 1993-94	CURRENT & PRIOR YEAR(S) EXPENDITURES
(1) ARCHITECT FEES PH II								$252,731
(1) REHAB THERAPY SAT.	$60,000		$60,000					$40,253
(1) PYSCH. TEMP RENOV.	$100,000		$100,000	$120	$5,262			$23,161
(1) PYSCH. I/P - Unit J	$1,500,000		$1,500,000		$72,543			$72,543
(1) MAYO CODE/ABESTOS	$2,500,000		$2,500,000	$13,217	$35,812			$169,697
(1) PHARMACY RENOVATION	$750,000		$750,000	$24,993	$116,502			$189,873
(1) RELOCATION COSTS	$1,000,000		$1,000,000	$11,712	$3,613			$85,619
(1) MAYO SYS UPGRADE	$2,500,000		$2,500,000	$1,624	$5,799			$17,093
(1) REHAB THERAPY	$1,480,000		$1,480,000		$67,894			$68,613
(1) OR EXPANSION	$2,000,000		$2,000,000		$64,392			$166,215
(1) FACULTY OFFICES	$1,500,000		$1,500,000	$134,900				$134,900
(1) UROLOGY TEMP.	$200,000		$200,000	$6,267	$157,502			$204,097
(2) PHARMACY WORKSTATION	$400,000		$400,000					$110,000
(3) SHORT STAY					$9,026			$9,026
CUHCC	$1,800,000	$550,000	$2,350,000					$2,320,227
COMPUTER UPGRADE	$3,890,000		$3,890,000	$549,669	$418,964			$3,752,102
IDX - OUTPATIENT REGISTRATION	$1,374,700		$1,374,700	$125,366	$372,407			$497,773
HEART CATH ROOM	$3,100,000		$3,100,000	$19,991	$11,847			$3,049,187
LINEAR ACCELERATOR	$2,100,000		$2,100,000	$18,255				$1,227,073
MRI	$3,000,000		$3,000,000	$268	$2,901			$2,681,510
SPORTS MED	$825,000		$825,000	$1,466	$518			$1,984
BMT - STEM CELL	$877,000		$877,000					$836,047
STAR CLINIC	$47,600		$47,600	$3,848				$50,874
TOTAL	**$31,004,300**	**$550,000**	**$31,554,300**	**$911,696**	**$1,344,981**	**$0**	**$0**	**$15,960,597**

1.) THESE PROJECT COSTS ARE BUDGETED IN THE $20.48 MILLION RENOVATION PROJECT.

* ARCHITECT FEES AND CONSTRUCTION MANAGER FEES ASSOCIATED WITH PHASE II PLANS TOTAL $1,898,000 OF THIS AMOUNT $1,645,529 HAS BEEN ABANDONED AND WRITTEN-OFF.

2.) THIS PROJECT IS ANTICIPATED NEW TECHNOLOGY WHICH HAS A BUDGET OF $2,000,000.

3) SHORT STAY IS PENDING BOARD APPROVAL, THE SECOND QUARTER EXPENDITURES REFLECT PLANNING COSTS.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
CAPITAL EXPENDITURES
7-1-93 THRU 12-31-93

	ANNUAL BUDGET AND ROLLFORWARD						ACTUAL EXPENDITURES			BUDGET LESS ACTUAL
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(Col 6 Col 9)
RECURRING EQUIP & REMOD	**BUDGET**	**ROLLFORWARD FROM 6-30-93**	**TOTAL**	**6 - MONTH BUDGET**	**6 - MONTH ROLLFORWARD**	**TOTAL**	**93-94 ACTUAL**	**92-93 ROLLFORWARD**	**TOTAL**	
EQUIPMENT PURCHASES										
93-94 BUDGET	$6,253,918		$6,253,918	$3,126,959		$3,126,959	$548,617		$548,617	$2,578,342
ROLLFORWARD		$6,188,050	$6,188,050		$3,094,025	$3,094,025		$2,238,945	$2,238,945	$855,080
	$6,253,918	$6,188,050	$12,441,968	$3,126,959	$3,094,025	$6,220,984	$548,617	$2,238,945	$2,787,562	$3,433,422
REMODELING PROJECTS										
93-94 BUDGET	$1,746,082		$1,746,082	$873,041		$873,041	$51,185		$51,185	$821,856
ROLLFORWARD		$2,190,262	$2,190,262		$1,095,131	$1,095,131		$405,002	$405,002	$690,129
	$1,746,082	$2,190,262	$3,936,344	$873,041	$1,095,131	$1,968,172	$51,185	$405,002	$456,187	$1,511,985
	$8,000,000	$8,378,312	$16,378,312	4,000,000	$4,189,156	$8,189,156	$599,802	$2,643,947	$3,243,749	$4,945,407
PRINCIPLE PAYMENTS										
LAB CHEMICAL ANALIZERS	$32,265		$32,265	$27,554		$27,554	$27,554		$27,554	$0
MRI 2	$536,619		$536,619	$263,336		$263,336	$263,336		$263,336	($0)
KODAK COPIER	$10,959		$10,959	$5,349		$5,349	$5,349		$5,349	($0)
	$579,843		$579,843	$296,239		$296,239	$296,240		$296,240	$0
TOTAL:	**$8,579,843**		**$16,958,155**	**$4,296,239**		**$8,485,395**	**$896,041**		**$3,539,989**	$4,945,406

BOND PAYMENTS:	
1985E BOND (PAYMENT 10/1/93)	$3 500,000
1986A BOND (PAYMENT DUE 2/1/94)	$2,830,000
TOTAL:	$6,330,000

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
CAPITAL EXPENDITURES
7-1-93 THRU 12-31-93

CAPITAL PROJECTS	UMHC FUNDS FROM RESERVES	ADDITIONAL FUNDS FROM OTHER SOURCES	TOTAL BUDGET	1st QUARTER EXPEND. 1993-94	2nd QUARTER EXPEND. 1993-94	3rd QUARTER EXPEND. 1993-94	4th QUARTER EXPEND. 1993-94	CURRENT & PRIOR YEAR(S) EXPENDITURES
(1) ARCHITECT FEES PH II								$252,731
(1) REHAB THERAPY SAT.	$60,000		$60,000					$40,253
(1) PYSCH. TEMP RENOV.	$100,000		$100,000	$120	$5,262			$23,161
(1) PYSCH. I/P - Unit J	$1,500,000		$1,500,000		$72,543			$72,543
(1) MAYO CODE/ABESTOS	$2,500,000		$2,500,000	$13,217	$35,812			$169,697
(1) PHARMACY RENOVATION	$750,000		$750,000	$24,993	$116,502			$189,873
(1) RELOCATION COSTS	$1,000,000		$1,000,000	$11,712	$3,613			$85,619
(1) MAYO SYS UPGRADE	$2,500,000		$2,500,000	$1,624	$5,799			$17,093
(1) REHAB THERAPY	$1,480,000		$1,480,000		$67,894			$68,613
(1) OR EXPANSION	$2,000,000		$2,000,000		$64,392			$166,215
(1) FACULTY OFFICES	$1,500,000		$1,500,000	$134,900				$134,900
(1) UROLOGY TEMP.	$200,000		$200,000	$6,267	$157,502			$204,097
(2) PHARMACY WORKSTATION	$400,000		$400,000					$110,000
(3) SHORT STAY					$9,026			$9,026
CUHCC	$1,800,000	$550,000	$2,350,000					$2,320,227
COMPUTER UPGRADE	$3,890,000		$3,890,000	$549,669	$418,964			$3,752,102
IDX - OUTPATIENT REGISTRATION	$1,374,700		$1,374,700	$125,366	$372,407			$497,773
HEART CATH ROOM	$3,100,000		$3,100,000	$19,991	$11,847			$3,049,187
LINEAR ACCELERATOR	$2,100,000		$2,100,000	$18,255				$1,227,073
MRI	$3,000,000		$3,000,000	$268	$2,901			$2,681,510
SPORTS MED	$825,000		$825,000	$1,466	$518			$1,984
BMT - STEM CELL	$877,000		$877,000					$836,047
STAR CLINIC	$47,600		$47,600	$3,848				$50,874
TOTAL	**$31,004,300**	**$550,000**	**$31,554,300**	**$911,696**	**$1,344,981**	**$0**	**$0**	**$15,960,597**

1.) THESE PROJECT COSTS ARE BUDGETED IN THE $20.48 MILLION RENOVATION PROJECT.

* ARCHITECT FEES AND CONSTRUCTION MANAGER FEES ASSOCIATED WITH PHASE II PLANS TOTAL $1,898,000 OF THIS AMOUNT $1,645,529 HAS BEEN ABANDONED AND WRITTEN-OFF.

2.) THIS PROJECT IS ANTICIPATED NEW TECHNOLOGY WHICH HAS A BUDGET OF $2,000,000.

3) SHORT STAY IS PENDING BOARD APPROVAL, THE SECOND QUARTER EXPENDITURES REFLECT PLANNING COSTS.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
CAPITAL EXPENDITURES
7-1-93 THRU 12-31-93

	ANNUAL BUDGET AND ROLLFORWARD						ACTUAL EXPENDITURES			BUDGET LESS ACTUAL
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(Col 6 - Col 9)
RECURRING EQUIP & REMOD	**BUDGET**	**ROLLFORWARD FROM 6-30-93**	**TOTAL**	**6 - MONTH BUDGET**	**6 - MONTH ROLLFORWARD**	**TOTAL**	**93-94 ACTUAL**	**92-93 ROLLFORWARD**	**TOTAL**	
EQUIPMENT PURCHASES										
93-94 BUDGET	$6,253,918		$6,253,918	$3,126,959		$3,126,959	$548,617		$548,617	$2,578,342
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PRINCIPLE PAYMENTS										
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MRI 2	$536,619		$536,619	$263,336		$263,336	$263,336		$263,336	($0)
KODAK COPIER	$10,959		$10,959	$5,349		$5,349	$5,349		$5,349	($0)
	$579,843		$579,843	$296,239		$296,239	$296,240		$296,240	$0
TOTAL:	**$8,579,843**		**$16,958,155**	**$4,296,239**		**$8,485,395**	**$896,041**		**$3,539,989**	**$4,945,406**

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1986A BOND (PAYMENT DUE 2/1/94)	$2,830,000
TOTAL:	$6,330,000

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

January 26, 1994

TO: UMHC Board of Governors Finance, Planning and Development Committee

FROM: Clifford P. Fearing
Senior Associate Director, UMHC

SUBJECT: Bad Debts - Second Quarter
Fiscal Year 1993-94

The total amount recommended for bad debt for Hospital and Clinic accounts receivable during the second quarter of 1993-94 is $685,338 represented by 1,456 accounts. Bad debt recoveries during the period amounted to $12,208 (86 accounts) leaving a net charge-off of $673,130.

The net bad debts of $673,130 for the quarter were .73% of gross charges. This compares to a budgeted level of bad debts of .80% ($1,534,000).

A statistical summary is attached along with a detailed description of losses $10,000 and recoveries $200 for each month of the first quarter.

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

CPF:bab

Attachments

UMHC Hospital Billing Department

Bad Debt Statistics: Second Quarter and Year-to-Date, Fiscal Year 1994
By Service

Admitting Service	Second Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Anesthesiology			0.00	0
Clinical Research			1,844.06	1
Dentistry	5,742.00	2	5,742.00	2
Dermatology			0.00	0
Family Practice			0.00	0
OB			0.00	0
NB			0.00	0
GYN			0.00	0
GYN-Oncology	8,776.31	4	23,641.47	19
Hematology	19,653.81	5	33,503.51	7
Medicine-General	528.56	2	36,232.62	9
Medicine-Blue	10,463.28	7	123,379.09	12
Green	792.53	4	792.53	4
Masonic (Onc)	10,631.89	7	13,754.20	15
Purple	297.14	1	297.14	1
Red A			0.00	0
Red B			0.00	0
Rose A	463.00	1	463.00	1
Rose B			723.90	1
White A	32,649.72	14	42,323.13	21
White B			490.33	1
White C			695.40	1
Yellow A			55.00	1
Yellow B	6,032.95	4	8,915.42	6
Neurology	4,848.26	2	13,918.27	8
Neuro-epilepsy			0.00	0
Neurosurgery	126,368.85	12	127,346.52	18
New Born-General			533.20	1
Obstetrics-General			13,009.04	3
-Midwife			0.00	0
Ophthalmology	3,135.70	2	3,135.70	2
Oral Surgery			0.00	0
Orthopaedic Surgery	11,807.34	7	35,153.87	16
Otolaryngology	5,119.97	5	5,692.91	8
Pediatrics-General	564.73	1	564.73	1
Cardiology	1,169.07	2	1,412.37	3
Dentistry			0.00	0
Dermatology			0.00	0
Gastro-Intestinal			0.00	0
Hematology Oncology			25,161.69	2
Neonatology	884.72	2	1,476.79	3
Neurology			1,327.91	2
Neurosurgery			0.00	0
Opthalmology	495.88	1	495.88	1
Orthopaedics	1,007.60	1	1,094.26	2
Otolaryngology	2,335.39	1	5,570.74	2
Pulmonary	978.19	1	1,020.29	2
Renal			636.52	1
Surgery Green			2,006.80	1
Surgery Orange			0.00	0
Surg. Transplant	446.97	1	446.97	1
Urology			0.00	0

UMHC Hospital Billing Department

Bad Debt Statistics: **Second Quarter and Year-to-Date, Fiscal Year 1994**
By Service

Admitting Service	Second Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Physical Med. & Rehab.	480.30	1	480.30	1
Psychiatry-Child	484.30	1	811.30	2
-Adult	20,228.48	9	37,803.61	21
Radiology			0.00	0
Surgery-Blue	13,711.21	7	34,995.56	23
Orange	278.14	2	89,906.25	10
Purple	12,904.09	6	26,383.44	8
Red	127,961.51	9	132,246.65	14
White	4,122.26	4	6,690.43	13
Therapeutic Radiology			0.00	0
Urology	7,187.79	4	11,655.72	6
Unknown	515.00	1	8,584.25	3
Outpatient	230,919.22	1,333	477,139.86	2,806
Total	673,986.16	1466	1,359,554.63	3086
Medicare Bad Debt*	($1,490.12)	(16)	(7,048.75)	(42)
Legal Settlements	10,136.05	3	22,863.56	6
Bad Debt Agcy Und $50			0.00	0
Bad Debt - Med NC Chgs	2,706.06	3	4,904.74	5
Grand Total	685,338.15	1,456	1,380,274.18	3,055
Recoveries	(12,207.99)	86	(94,218.55)	150
Net Total	**673,130.16**	**1,456**	**1,286,055.63**	**3,055**

* 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: Second Quarter and Year-to-Date, Fiscal Year 1994
By State

State	Second Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Alabama	0.00	0	8,544.17	11
Alaska			0.00	0
Arizona	285.92	2	285.92	2
Arkansas	564.73	1	564.73	1
California	764.82	7	5,606.33	11
Colorado	0.00	0	184.65	1
Connecticut	1,129.04	6	1,446.20	9
Delaware			0.00	0
Dist. of Colombia			0.00	0
Florida	12,000.30	21	12,029.65	22
Georgia	722.90	1	722.90	1
Hawaii			0.00	0
Idaho	130.66	1	130.66	1
Illinois	3,542.49	12	4,307.71	22
Indiana	17,079.00	5	18,176.35	9
Iowa	10,373.08	6	12,772.42	12
Kansas	4,818.54	12	6,737.44	14
Kentucky	10,325.07	3	10,325.07	3
Louisiana	0.00	0	168.40	1
Maine	213.30	1	213.30	1
Maryland	121.50	1	121.50	1
Massachusetts	263.53	2	308.53	4
Michigan	1,519.39	11	3,867.81	24
Minnesota	277,897.43	1,165	856,758.50	2,548
Mississippi			0.00	0
Missouri	128.15	2	1,904.35	3
Montana	265.50	2	305.42	3
Nebraska			0.00	0
Nevada	756.94	5	756.94	5
New Hampshire	356.90	2	356.90	2
New Jersey	0.00	0	1,019.37	4
New Mexico	364.10	1	400.10	2
New York	3,407.17	9	4,694.97	16
North Carolina	0.00	0	432.00	1
North Dakota	9,820.10	28	19,720.50	46
Ohio	115.78	2	1,659.49	10
Oklahoma	785.66	4	25,936.23	7
Oregon	0.00	0	12,498.94	1
Pennsylvania			0.00	0
Puerto Rico			0.00	0
Rhode Island			0.00	0
South Carolina	0.00	0	886.83	7
South Dakota	147,367.09	62	151,716.90	93

UMHC Hospital Billing Department

Bad Debt Statistics: Second Quarter and Year-to-Date, Fiscal Year 1994
By State

State	Second Quarter Amount	# of Accounts	Y-T-D Total Amount	Total # of Accounts
Tennessee	290.87	1	429.66	3
Texas	739.69	3	786.59	4
Utah			0.00	0
Vermont			0.00	0
Virginia	811.51	1	980.71	2
Washington	360.28	2	719.13	4
West Virginia	1,292.57	4	1,770.12	6
Wisconsin	162,406.70	74	186,256.79	148
Wyoming	53.90	1	53.90	1
Out-of-Country	2,911.55	6	2,996.55	9
Total	673,986.16	1,466	1,359,554.63	3,075
Medicare Bad Debt*	($1,490.12)	(16)	(7,048.75)	(42)
Legal Settlements	10,136.05	3	22,863.56	6
Bad Debt Agcy Und $50			0.00	0
Bad Debt - Med NC Chgs	2,706.06	3	4,904.74	5
Grand Total	685,338.15	1,456	1,380,274.18	3,044
Recoveries	(12,207.99)	86	(94,218.55)	150
Net Total	**673,130.16**	**1,456**	**1,286,055.63**	**3,044**

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

REPORT ON PURCHASING ACTIVITY
PERIOD OF OCTOBER 1, 1993 THROUGH DECEMBER 31, 1993

Equipment Greater than $250,000

Dept:	Radiology
Item:	Neuroradiology Equipment
Vendor:	Northern X-ray
Amount:	$2,183,280
Comment:	Approved at the November 17, 1993 Board Meeting

Construction Greater than $250,000

No activity this quarter.

Supply Contracts Greater than $750,000

No activity this quarter.

Service Contracts Greater than $250,000

No activity this quarter.

Consultant Contracts Greater than $250,000

No activity this quarter.

Lease or Purchase of Property Greater than $250,000

No activity this quarter.

Awards to Other Than Low Bidder Greater than $100,000

Dept:	Cardiorespiratory Services
Item:	Operating Room Monitors
Unsuccessful Vendor:	Nihon Koden America at $181,721
Successful Vendor:	Spacelabs at $191,898
Comments:	Si02 module and printer module are not available. A VIDCO slavescope was offered, but found to be unacceptable because waveforms are hard to see and numbers are difficult to decipher. Cost savings overall is not enough to justify the purchase of this alternate which would be a third brand, necessitating more training, and stocking of repair parts and cables.

3rd Step Vendor Appeals

No activity this quarter.

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

January 26, 1994

TO: Board of Governors

FROM: Joanne Disch, PhD, RN JD

SUBJECT: Short Stay Center Proposal

Attached for your review is the proposal for the Short Stay Center project. This was brought to the December Board of Governors meeting for information. We are bringing this forward now for approval of the program and the requested funding. Board action does not indicate approval of a particular site. If final site selection requires a significant revision to the financial projections, a revised proposal will be brought forward at a future date.

Short Stay Center

Board Of Governors Proposal

December 1993

Introduction

The purpose of this document is to describe the concept of a Short Stay Center, to outline the development of an integrated program and facility, and to seek approval and funding to accomplish this goal.

University of Minnesota Hospital and Clinic (UMHC) has responded to the needs of patients undergoing outpatient surgeries, procedures and treatments in various ways over the past ten years. At the present time, programs are decentralized and physically separated. The need to provide program integration and coordinated service resulted in conceptualization of the Short Stay Center. The Center will provide an alternate level of care that is uniquely different from current outpatient and inpatient models. The driving force for development of this alternate care delivery model is a direct result of changes in our healthcare environment in the community.

The proposed Short Stay Center program will provide a framework for a creative, responsive and proactive approach to meeting the needs of patients who require more complex or comprehensive care than can be accommodated in the outpatient clinic setting, yet do not require an inpatient admission. The Center will integrate, coordinate, and enhance all of the current activities of the Masonic Day Hospital, Same Day Admission Program, and Ambulatory Surgery Center. The facility will be highly visible and accessible to patients and families and the design will reflect the unique needs of the outpatient population.

Background

Nationally, hospital CEO's predict that by the year 2000, outpatient services will account for nearly half of hospitals' net revenues. Although the impact on large teaching hospitals may be somewhat less dramatic, because they rely heavily on inpatient tertiary care, they too are seeing a steady rise, and continued outpatient growth is inevitable.[1]

Several factors have contributed to the increase in outpatient care provided by hospitals. First, the current Health Care Reform legislation, Medicare prospective payment and an increasing reliance on managed care plans create incentives to substitute outpatient care for inpatient care. Second, changes in technology allow an increasing amount of care to be provided on an outpatient basis. Third, the aging population demands additional outpatient services.[2] Finally, patients often prefer the nature of services provided at Short Stay Centers.

Although cost containment is a significant driving force, advances in technology provide the capability to deliver services on an outpatient basis. Many surgeries, procedures and treatments have safely shifted to the outpatient setting as a result of new and improved equipment, drugs, and techniques. For example: endoscopic and laser equipment allow for minimally invasive surgery; new anesthetic agents and techniques allow for quicker recovery from anesthesia with fewer side effects; and new techniques for the management of post-operative pain allow for early discharge.

Ambulatory surgery is one example of this tremendous change experienced in the past decade. Initially, ambulatory surgery included only selected, "simple" procedures on healthy adults. Now, patients of all ages successfully undergo complex procedures, such as laproscopic cholecystectomy, on an outpatient basis.

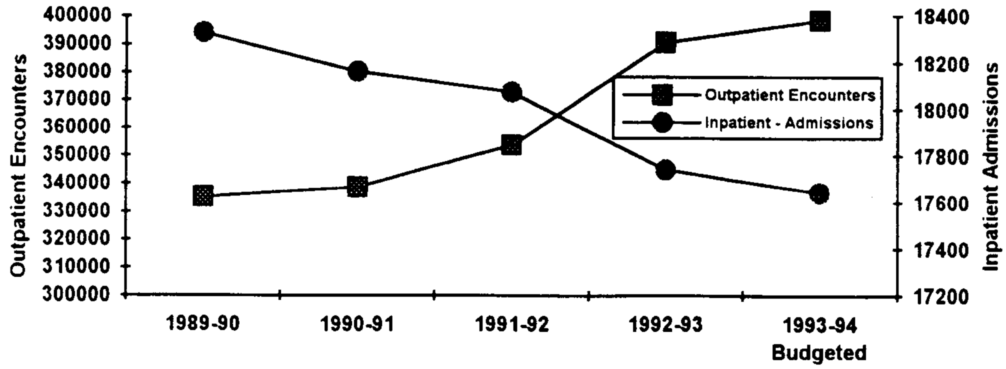
Over the past several years ambulatory care growth has been about 5-10% per year both nationally and at UMHC, while inpatient growth has been flat or declining. A review of the literature and a telephone survey of selected national and local hospitals revealed various approaches to management of this new alternate level of care, but a specific management approach did not emerge. The graphs on the following pages illustrate these National trends, while clearly showing the impact of our own experience.

---

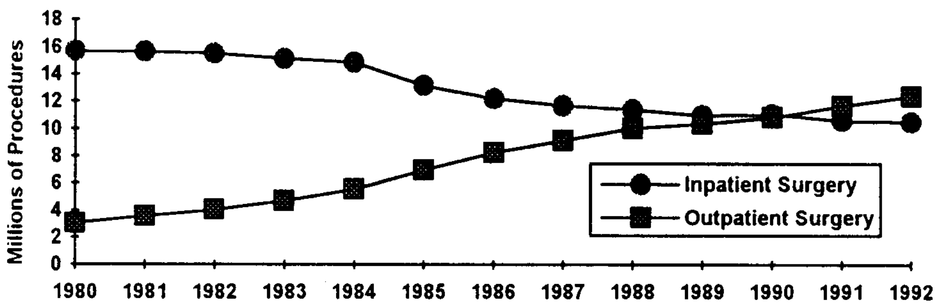
[1]"Is your hospital prepared for continued growth in ambulatory care?" Hospitals, June 20, 1991, p.32, p36.

[2]"National and regional trends in outpatient hospital care, 1980-1990." American Hospital Association Ambulatory Care Trendlines 1992, Vol. 1, No. 1: March 1992, p1.

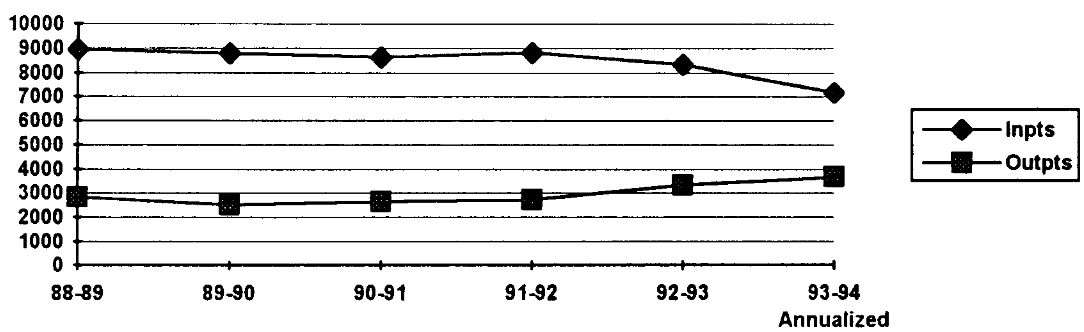
Graph 1. UMHC Inpatient and Outpatient Census Trends. Comparison of UMHC inpatient admissions and outpatient encounters.



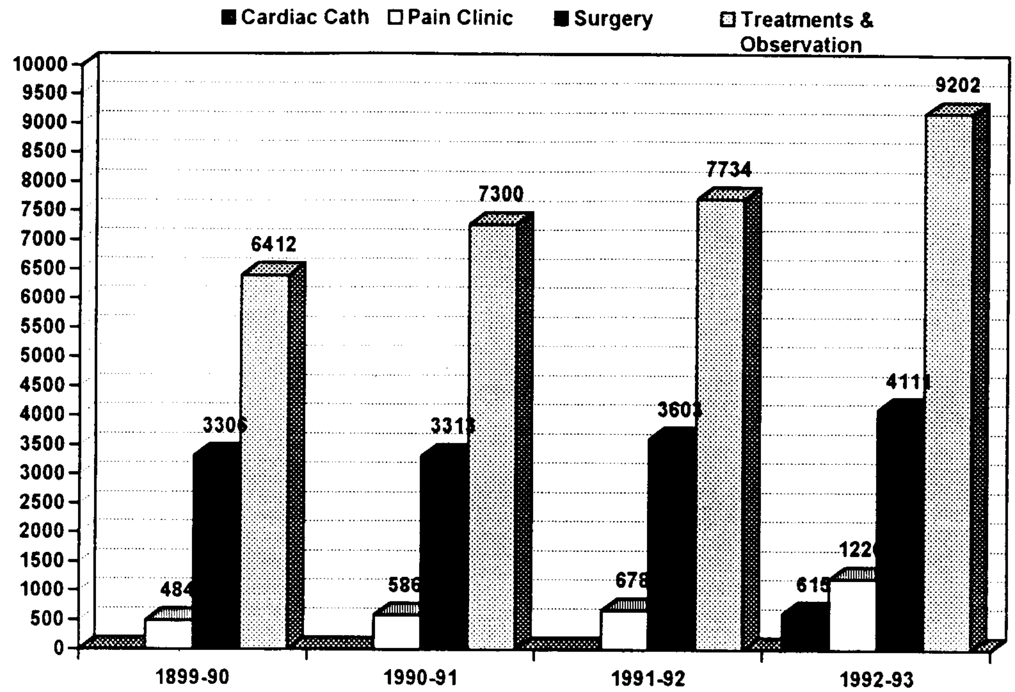
Graph 2. National Surgery Trends. Comparison of national inpatient and outpatient surgery volumes. Source: AHA Annual Survey of Hospitals, 1993.



Graph 3. UMHC Surgery Trends. Comparison of UMHC inpatient and outpatient surgery volumes. (Includes surgery performed in the hospital operating room and in the Ambulatory Surgery Center.)



Graph 4. UMHC <u>Outpatient</u> Encounters Which Would Comprise the Basis of the Short Stay Center.



Proposal

Description of Short Stay Center Program

The Short Stay Center will provide periods of high intensity nursing care in a relatively brief period of time, generally less than 24 hours. The Center will provide a significant positive impact on service to patients and families, referring physicians, and each other within the medical center through development of systems that promote coordinated patient care delivery, ease of access to Center services, and a framework to support transition of patient populations from the inpatient to the outpatient setting.

The Short Stay Center will coordinate activities prior to and on the day of surgery, procedure or treatment. Prior to the day of service, Center staff will schedule the admission; coordinate the arrival time; review preadmission evaluation information and admission orders (to ensure that the Center is ready to meet the special needs of each patient); and initiate a preadmission courtesy call (for selected patients) to answer questions and confirm the procedure plans. On the day of surgery, procedure or treatment, Center staff will provide reception, admission registration, and nursing care. Nursing care includes assessment and preparation of the patient for their test or procedure; patient and family teaching; post procedure observation and recovery; delivery of treatments; coordination of activities and nursing care for patients needing multiple tests, procedures or services; discharge teaching; and, for selected patients, a follow-up phone call the day after discharge.

The types of patients the Short Stay Center will care for includes:

Inpatients

MORNING ADMISSION

Patients are admitted to the hospital via the Short Stay Center the day of their procedure. The patient is transferred to an inpatient care unit following the procedure. Coordination of activities prior to admission and patient preparation the day of admission are consistent with the type of care provided in the Center (we consider these patients ambulatory patients until they undergo their procedure). Morning admission patients currently represent approximately 22% of the total patient volume.

Outpatients

SURGERY AND ANESTHESIA

Patients are scheduled for surgery in the hospital operating room; or for a procedure or examination that requires general anesthesia or monitored anesthesia care.

ANESTHESIA PAIN CLINIC

Patients are scheduled for a non-surgical invasive procedure for management of chronic and acute pain. The procedures will occur on the unit, and require readily available access to hospital anesthesia services. More than 50% of the population receives repeat services.

CARDIAC CATHETERIZATION

Patients are scheduled for an outpatient cardiac catheterization in the cardiac cath lab. Patients are discharged following a minimum 6 hour post-procedure observation.

TREATMENTS AND OBSERVATION

Patients receive treatments that are more complex than can be accommodated in the clinic setting, such as intravenous administration of blood products, antibiotics, chemotherapy and administration of conscious sedation. Also includes patients who require observation and recovery following non-surgical procedures such as liver biopsy, kidney biopsy or arteriogram.

PRE-TRANSPLANT EVALUATION

Includes coordination and care for patients undergoing the multiple tests and procedures that are part of the pre-transplant evaluation.

OVERNIGHT OBSERVATION

Short Stay Center patients who require additional nursing care due to procedural complications, but do not require an inpatient admission.

Description of Current Program

UMHC has responded in a variety of ways to the demand for complex, comprehensive outpatient services. Currently, the majority of patients are managed by three separate programs: Masonic Day Hospital, Same Day Admission Unit and the Ambulatory Surgery Center. Each of these programs not only functions independently but is located in separate buildings. This geographical isolation poses several problems.

First, efforts to establish common support systems for ancillary services, billing, scheduling and documentation are made incredibly more difficult when the sites of care are spread across the medical center. Similarly, staffing efficiencies are greatly compromised when full complements of staff are needed for each site.

A second problem in trying to run a program from three locations is the difficulty in developing a coordinated, quality patient service. Currently, personnel responsible for the three separate programs strive to deliver that level of product - and they usually do. But the end result is not what it would be if the program, resources, leadership structure and site were integrated.

A third reason underscoring the need for this program is that the local market demands it. The patient population which will use this Center represents one of the fastest growing areas within health care. While the particular programs may vary, almost all medical centers surveyed either have developed or are developing some form of Short Stay Center.

While the above issues relate to the need for a coordinated program, another important issue involves the specific site of the program. From a marketing perspective, an acute care setting such as Unit J does <u>not</u> coincide with patient preferences and expectations regarding this level of care. Patients require easy access and more home-like environment.

Finally, to accommodate other medical center priorities, the space currently used by some of the patient populations must be vacated. Specifically, this refers to the relocation of psychiatry and rehab to Unit J, as well as the relocation of urology to the space currently occupied by Ambulatory Surgery.

Proposed Facility

It is proposed that the Short Stay Center be located in the Masonic Building. The Center will occupy the entire first floor and a portion of the second floor. The Masonic Building is ideal, as it is highly visible, and is next to the main entrance of the University Hospital and Variety Club Children's Hospital. The building has tunnel access to the patient and visitors parking ramp and a direct link between the second floor of the Masonic building and the third floor of the hospital, which is adjacent to the operating room. The building will accommodate a new entry on Harvard street with drive through access and a covered patient drop off and pick up site. Reception, registration, adult and pediatric waiting areas, and amenities will be immediately accessible when entering the building via the Harvard Street entry, and when entering the building via the walkway/elevator link from the Hospital.

Financial Information

Project Cost Estimates

Smiley Glotter Nyberg Architects were engaged to provide professional architectural and engineering services for a pre-design study and construction cost estimate for the Short Stay Center in the Masonic Building. The project includes remodeling of existing space, new construction and aesthetic upgrade. The Short Stay Center will occupy approximately 20,400 gross square feet in the Masonic Building, which includes the entire first floor and a portion of the second floor. The preliminary design and construction schedules indicate a Summer 1994 occupancy date.

Estimate of Cost

Construction, Remodeling and Code Upgrade	$1,787,855
Equipment and Furnishings	$365,484
Total Estimated Project Cost	**$2,153,339**

Salary Assumptions

The Center staff will provide significant additional services without an overall increase in FTE's: we will staff the reception/information desk for 12-16 hours per day; provide staff for on site patient registration and admission activities; provide for a 4% increase in census without additional direct care staff and allocate new FTE's for information systems development. In addition there will be savings in the leadership group, with a 32% decrease in FTE's and $48,269 savings in salary dollars.

Financial Projections

The new Short Stay Center will have a positive financial performance including all overhead costs. The improved financial outcome is a result of the consolidation of four cost/service centers and five patient populations to a single unit that eliminates duplicative services. The financial performance is also enhanced by accommodation of increased volume. The following three tables illustrate the projections.

Table 1 is the four year financial projection. The current budget year would be a construction year with year 1 reflecting the first year of operation in the new unit. Table 1 illustrates that a $2,150,000 investment in remodeling and equipment costs results in revenue in excess of expenses in the first year of operation of approximately $200,000. Future year margins increase to in excess of $400,000.

Table 2 is an illustration of the financial outcomes if we do not invest in this project.

Reflected in Table 3 is an outline of the cumulative change in the cash flow financial position of these programs. As illustrated in Table 3 the investment is repaid in less than two years.

Table 1. Short Stay Center Five Year Financial Projections.

	92 - 93	Budget * Year 93 - 94	Year 1 94 - 95	Year 2 95 - 96	Year 3 96 - 97	Year 4 97 - 98
Ancillary Revenue						
Inpatient	536,774	540,696	541,328	559,021	579,339	602,543
Outpatient	12,700,511	13,195,015	17,843,582	19,423,688	21,070,740	22,324,166
Total Revenue	**13,237,285**	**13,735,711**	**18,384,910**	**19,982,709**	**21,650,079**	**22,926,709**
Contractual Adjustment	3,163,806	3,286,956	4,397,670	4,775,867	5,180,864	5,486,361
Billing Adjustments	354,759	368,117	492,716	535,537	580,222	614,436
Net Revenue	**9,718,720**	**10,080,638**	**13,494,524**	**14,671,305**	**15,888,993**	**16,825,912**
Expenses						
Direct	7,462,217	7,241,665	9,267,450	10,041,996	10,827,912	11,450,157
Indirect	3,721,854	3,661,778	3,911,991	4,230,930	4,578,368	4,831,578
Depreciation of New	———	———	121,984	121,984	121,984	121,984
Total Expenses	**11,184,071**	**10,903,443**	**13,301,425**	**14,394,910**	**15,528,264**	**16,403,719**
Gain / (Loss)	**(1,465,351)**	**(822,805)**	**193,099**	**276,395**	**360,729**	**422,193**
Projected Average Daily Encounters	77.8	78.1	91.4	94.9	98.5	99.8

* The Day Hospital component of the Short Stay Center is operating with a large favorable variance from budget. Taking the variance into account, 93/94 Ancillary Revenue is projected to be 17,029,761.

Table 2. Five Year Projection Without Reorganization to Short Stay Center Concept.

	92 - 93	93 - 94	Year 1 * 94 - 95	Year 2 95 - 96	Year 3 96 - 97	Year 4 97 - 98
Ancillary Revenue						
Inpatient	536,774	540,696	562,324	584,817	608,210	632,538
Outpatient	12,700,511	13,195,015	17,148,629	17,834,574	18,547,957	19,289,875
Total Revenue	**13,237,285**	**13,735,711**	**17,710,953**	**18,419,391**	**19,156,167**	**19,922,413**
Contractual Adjustment	3,163,806	3,286,956	4,236,460	4,402,234	4,584,071	4,767,433
Billing Adjustments	354,759	368,117	474,654	493,640	513,385	533,921
Net Revenue	**9,718,720**	**10,080,638**	**12,999,839**	**13,523,517**	**14,058,711**	**14,621,059**
Expenses						
Direct	7,462,217	7,241,665	9,337,214	9,710,703	10,099,131	10,503,096
Indirect	3,721,854	3,661,778	4,721,740	4,910,610	5,107,034	5,311,315
Total Expenses	**11,184,071**	**10,903,443**	**14,058,954**	**14,621,313**	**15,206,165**	**15,814,411**
Gain / (Loss)	**(1,465,351)**	**(822,805)**	**(1,059,115)**	**(1,097,796)**	**(1,147,454)**	**(1,193,352)**

* The Day Hospital component of the Short Stay Center is operating with a large favorable variance from budget. Taking the variance into account, 93/94 Ancillary Revenue is projected to be 17,029,761.

Table 3. Cash Flow Comparison Between Current Status and Short Stay Center Capital Project.

		Year 1 94 - 95	Year 2 95 - 96	Year 3 96 - 97	Year 4 97 - 98
1.	Proposed Short Stay Center Gain/(Loss)	193,099	276,395	360,729	422,193
2.	Short Stay Center Plant & Equipment Depreciation	121,984	121,984	121,984	121,984
3.	Proposed Short Stay Center Cash Contribution	315,083	398,379	482,713	544,177
4.	Change in Cash Position	1,374,198	1,496,175	1,630,167	1,737,529
5.	Cumulative Change in Cash Position	1,374,198	2,870,373	4,500,540	6,238,069

Summary

The Short Stay Center program will provide a framework for a creative, responsive, proactive approach to meeting the unique needs of outpatient surgery, procedure and treatment patients who require care that is more complex or comprehensive than can be accommodated in the outpatient clinic setting, yet do not require an inpatient admission.

The program represents an overall systems approach to a patient population that has experienced tremendous growth in the past decade and is expected to continue to grow. The benefits to UMHC include:

- Enhanced service to patients, families and UMHC staff through development of systems that promote coordinated patient care delivery, and development of a framework to support the transition of patient populations from the inpatient to the outpatient setting.
- Design features that reflect the unique needs of outpatients, promote patient safety, are flexible to accommodate peak census activities, meet the needs of a variety of patient populations, and will accommodate growth for the next 3-4 years.
- Cost savings as a result of improved efficiencies, economies of scale, and elimination of duplication of services.
- Marketing opportunities resulting from development of well defined and identifiable program within a highly visible and accessible facility.
- Enhanced access to the facility and to hospital services, and to systems that support this new level care.

At this time we are recommending that the Board authorize the project based upon the projection and assumptions as outlined. Specifically, authorization of relocation of the programs and expenditure of the capital funds for the project in the amounts of $2,153,339 is recommended.

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Hospital Administration
Clinical Services

Box 707
420 Delaware Street S.E.
Minneapolis, MN 55455

Office Location:
B-380 Mayo Memorial Building

612-626-6222
Fax: 612-626-3910

TO: The Board of Governors

FROM: R. Carter McComb R Carter McComb

DATE: 1400.06.01.1994

RE: CT Scanner Replacement: $1,820,000.00; Request for Approval

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Last month I brought for your information a request to replace two CT scanners in the Radiology Department. This equipment was originally purchased in 1985 and installed in 1986. The need to replace these CT scanners is documented by the continued growth in the number of requests for service. Also, the current length of procedures has caused severe scheduling difficulties as well as patient and physician dissatisfactions because of long scanning times. Inpatients requiring CT examinations, particularly ICU patients, are required to stay longer in the Radiology Department than optimally necessary because of this older technology. Updating this equipment will affect this positively, due to a major reduction in the length of time required to produce these images. Image quality will also be enhanced, further simplifying the procedure and increasing physician as well as patient satisfaction.

Replacement of the two CT scanners, priced at $1,820,000.00 including installation, will allow for full utilization of three CT scanner rooms from 6:30am to 11:00pm five days a week if necessary as well as full-service operation on Saturdays.

REPLACEMENT OF TWO CT SCANNERS Purchase Price: $1,820,000					
	Year 1	Year 2	Year 3	Year 4	Year 5
Increase in Net Revenue	409,644	409,644	409,644	409,644	409,644
Reduction in Contrast Expenses	150,000	150,000	150,000	150,000	150,000
Reduction in Maintenance Expense	250,000	50,000	50,000	50,000	50,000
Total additional Cash Generated	809,644	609,644	609,644	609,644	609,644
Cumulative Additional Cash	809,644	1,419,288	2,028,932	2,638,576	3,248,220
Payback = 2.66 Years					

The return on investment for the replacement of the two CT scanners, with a very conservative incremental growth projection including cost reductions for contrast media and maintenance agreements, would suggest a payback of approximately 2.66 years. Additional cash over a 5-year period is projected to be $3,248,220.00.

In conclusion, we have established UMHS as a center of excellence in both neurovascular and orthopedic disciplines. Both of these disciplines add greatly to the incremental volume outlined above. Equally as important, as we continue to market our imaging services and attract further volume, it is evermore important that the replacement of this equipment add to patient comfort and satisfaction, as well as referring physician satisfaction and confidence. Our continued growth in outpatient CT exams of the head and body indicates evidence of the wisdom of this replacement investment. The replacement of this equipment allows us to solidify and enhance our market position with the diagnostic services offered by the Radiology Department. We therefore ask for approval of this expenditure and as always, I will be happy to answer any questions or address any concerns that you might have regarding this issue.

The replacement amount of $1,820,000.00 is included in the long range capitol budget.

Thank you.

RCM:mlw/ct2

MAJOR CAPITAL EXPENDITURE REPORT

EQUIPMENT: Material Distribution System Upgrade

PURCHASE PRICE: $330,000

DESCRIPTION:

The Hospital and Clinics currently utilize a mechanical Material Distribution System (MDS) for transportation of supplies, drugs, lab test requests and samples and other small items. This system requires an equipment upgrade at an estimated cost of $330,000.

This system consists of a series of breadbox size 'cars' that move horizontally and vertically throughout the hospital and clinics on a track that energizes the motorized cars. The cars travel to the appropriate destination by sending magnetic messages to various track switching devices.

The system consist of 43 physical stations, 54 remote annunciators, 80 switch points and 131 cars. The first portion of the system was installed in the Phillips Wangensteen building during construction (1976) . The system was expanded into Unit J and Mayo in 1985. The total system cost was approximately three million dollars.

The system, despite its age, continues to function fairly well within the constraint of its technology. Lacking computer control, no verification of a car arriving at its destination is given to the sender. In addition, a car sent to an unmanned or full station will 'roam' throughout the system until its destination is available, possibly all weekend. Further, no indication is given of the location of a 'lost' car within the system. Since the trackage is over 1.3 miles long and is inaccessible in many places, retrieving a lost car takes at least an hour. Finally, movement of the car magnets or overfilling the car causes failure of the magnetic reed sensors to correctly route the car. In order to increase system utilization and reliability, these system design issues must be addressed.

Cognizant of these shortcomings, UMHC administration, through its MDS/PTS group, began addressing options in 1987. After assuring appropriate technical support for twenty four hour operation of the system, the group began addressing intrinsic barriers to wider system acceptance. In 1989, with the assistance of Oberfest, a consultant, the following decisions were made:

1) The MDS or similar system was necessary to UMHC. Estimates of FTE's replaced by the system varied from 15 to 25.
2) Significant upgrades were necessary to utilize the full potential of the MDS.
3) Completely replacing the MDS would be prohibitively expensive.

A study of robotic carrier systems was completed in 1991. No systems were found suitable for UMHC.

Most of the Oberfest recommendations have been implemented. This investment will replace the magnetic-reed switch-plate technology by more modern, less position sensitive technology such as optical character recognition (e.g. bar code). In addition, a computerized tracking system will monitor the position of each car and inform the sender of its arrival. Sending of cars to unmanned or full stations will be blocked. Thus, the problems outlined above will be substantially mitigated. The Oberfest report estimated the cost at $740,000; the present cost is $330,000.

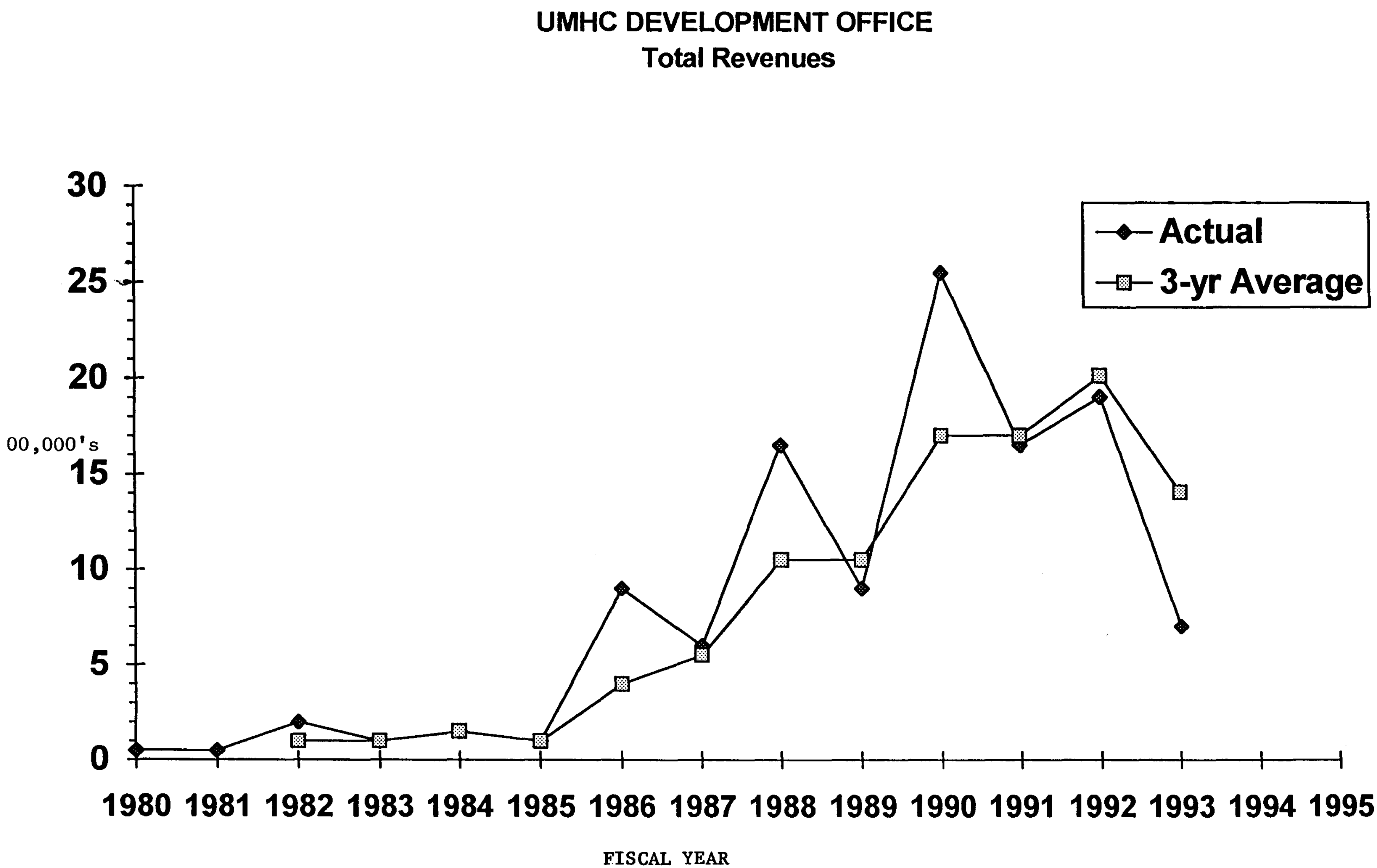
It is anticipated that greater system reliability and 'user friendliness' will increase utilization and further decrease the need for manual transportation. This translates to an estimated savings of 5 FTE's or $120,000. Without this investment, system reliability will decay to a level unacceptable to all high volume and critical users. At least 15 FTE's would need to be added as 'transporters'.

This capital expenditure report is provided for your information.

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
DEVELOPMENT OFFICE
DONOR PROFILE

[redacted]

FY	[redacted]	$1 - 999	[redacted]	$1,000+	[redacted]	$1,000+	[redacted]	Amount	[redacted]	3 Yr. Avg.	Amount
80	[redacted]	18,789	[redacted]	8,025	[redacted]	24,797	[redacted]		[redacted]		51,611
81	[redacted]	16,050	[redacted]	6,039	[redacted]	4,200	[redacted]		[redacted]		26,289
82	[redacted]	17,352	[redacted]	196,989	[redacted]	2,600	[redacted]		[redacted]	98,280	216,941
83	[redacted]	31,888	[redacted]	30,671	[redacted]	11,355	[redacted]		[redacted]	105,715	73,914
84	[redacted]	58,726	[redacted]	55,966	[redacted]	39,781	[redacted]		[redacted]	148,442	154,472
85	[redacted]	61,097	[redacted]	55,147	[redacted]	5,250	[redacted]		[redacted]	116,627	121,494
86	[redacted]	59,926	[redacted]	766,751	[redacted]	82,972	[redacted]		[redacted]	395,205	909,649
87	[redacted]	66,872	[redacted]	213,331	[redacted]	323,639	[redacted]		[redacted]	544,995	603,841
88	[redacted]	76,567	[redacted]	1,481,815	[redacted]	76,848	[redacted]		[redacted]	1,049,513	1,635,229
89	[redacted]	50,009	[redacted]	784,615	[redacted]	69,120	[redacted]	1,000	[redacted]	1,047,938	904,744
90	[redacted]	60,582	[redacted]	776,159	[redacted]	929,197	[redacted]	771,419	[redacted]	1,692,443	2,537,358
91	[redacted]	60,399	[redacted]	496,331	[redacted]	639,440	[redacted]	464,981	[redacted]	1,701,084	1,661,153
92	[redacted]	84,335	[redacted]	468,991	[redacted]	153,759	[redacted]	1,200,000	[redacted]	2,035,198	1,907,085
93	[redacted]	66,354	[redacted]	271,509	[redacted]	115,945	[redacted]	250,000	[redacted]	1,424,015	703,808


UMHC DEVELOPMENT OFFICE
Total Revenues
30
25
20
15
10
5
0
00,000's
Actual
3-yr Average
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995
FISCAL YEAR

THE UNIVERSITY OF MINNESOTA
BOARD OF GOVERNORS
FINANCE,
PLANNING AND DEVELOPMENT COMMITTEE

Wednesday, February 23, 1994
12:30 - 2:00 p.m.*
University Hospital Board Room, 8-106

AGENDA

I.	Opening of Meeting and Approval of Minutes of Finance, Planning and Development Committee Meeting held 1/26/94 (Approval) pp. 9 - 11	Nellie Johnson
II.	January Year-to-Date Financial Statements (Consent) pp. 12 - 15	Clifford Fearing
III.	Radiation Therapy Facility - Hibbing, Minnesota (Information) pp. 18 - 23	Clifford Fearing
IV.	Budget Overview - Operations - Capital (To Be Distributed at Meeting)	Clifford Fearing
V.	Cost Reduction Status Report (Information) pp. 24 - 28	Joanne Disch
VI.	Appointment of Board Member to Interstate Medical Center Board (Information) pp. 29	Clifford Fearing
VII.	Audit Committee (Information)	Arthur Kydd
VIII.	Resolution to Conduct Non-Public Meeting to Discuss: 1. Specific Marketing and Contracting Matters	

* Lunch at 12:00 Noon with Committee Meeting to follow.

DECEMBER 31, 1994 FINANCIAL STATEMENTS (CONT.):

totaled 1,421, which were 49 greater than budgeted admissions; average length of stay was 7.0 days; patient days totaled 10,391 and were 118 days below budget.

Outpatient encounters through December 31, 1993 totaled 32,591, which was 6.9% above budgeted volumes.

Mr. Fearing indicated that the Hospital's Statement of Operations show revenues being greater than expenses by $6,010,000 and a favorable variance of $3,554,000. Operating expenditures through December totaled $147,156,000 and were 3.2% below budgeted levels of $152,091,000.

SECOND QUARTER CAPITAL EXPENDITURE REPORT:

Mr. Nels Larson reported to the Committee, for information, the second quarter capital expenditure report from July 1, 1993 through December 31, 1993. UMHC spent $3,539,969 out of a budgeted $8,485,395 for the six month period and six month rollforward.

SECOND QUARTER 1993-94 BAD DEBT REPORT:

Mr. Cliff Fearing reported the bad debts for the second quarter 1993-94 totaled $685,338 represented by 1,456 accounts. Recoveries amounted to $12,208 leaving a net charge-off of $673,130. This represents 0.73% of gross charges and compares to a budgeted level of 0.80%.

The Finance, Planning & Development Committee seconded and passed a motion to endorse the Second Quarter 1993-94 Bad Debt Report as submitted.

QUARTERLY PURCHASING REPORT:

Mr. Mark Koenig presented the Quarterly Purchasing Report for approval. A motion was seconded and passed to approve the Quarterly Purchasing Report.

SHORT STAY CENTER:

Ms. Joanne Disch presented the Short Stay Center Proposal to the Committee for approval of the program and requested funding. Action on this item does not indicate approval of a particular site. If final site selection requires a significant revision to the financial projections, a revised proposal will be brought forward to the Committee at a future date.

A motion was seconded and passed to approve the Short Stay Center with a $2,153,339 total estimated project cost.

CAPITAL - CT SCANNER REPLACEMENT:

Mr. Carter McComb and Dr. William Thompson presented the Radiology CT Scanner Replacement request. This item was presented for information in December and is being brought back for approval this month. The Committee seconded and passed a motion to approve $1,820,000 for the CT Scanner Replacement.

CAPITAL - MATERIALS DISTRIBUTION SYSTEM:

Mr. Mark Koenig presented the Materials Distribution System to the Committee for information. He stated that an equipment upgrade is needed at an estimated cost of $330,000 in order to increase reliability of the system and 'user friendliness' which will increase utilization and further decrease the need for manual transportation.

CAPITAL - RED WING LAND ACQUISITION:

Mr. Clifford Fearing presented to the Committee for information the Interstate Medical Center Joint Land Purchase with River Region Health Services. The first parcel of land was acquired by River Region Health Services on December 31, 1993. The second parcel of land is being acquired by River Region without our participation at this time.

DEVELOPMENT OFFICE UPDATE:

Mr. Fred Bertschinger presented to the Committee the Development Office revenues for information.

AUDIT COMMITTEE MINUTES:

This item was passed over by the Committee. The Audit Committee did not meet in January, but will be scheduled sometime in February before the next Committee meeting.

There being no further discussion, the January 26, 1994 meeting was adjourned at 1:25 p.m. A motion was seconded and passed to convene a non-public session of the Finance, Planning and Development Committee. A non-public session of the Finance, Planning & Development was called at 1:27 p.m. to discuss specific marketing and labor contract matters.

Respectfully submitted,

Vaman Pai
Management Fellow

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

Harvard Street at East River Parkway
Minneapolis, MN 55455

February 23, 1994

TO: Board of Governors

FROM: Clifford P. Fearing

SUBJECT: Report of Operations for the Period
July 1, 1993 through January 31, 1994

The Hospital's operations for the month of January reflect both inpatient and outpatient census levels that were less than anticipated. Average length of stay was slightly greater than budget, however, patient days were less than anticipated due to the lower admission levels

INPATIENT CENSUS: For the month of January, inpatient admissions totaled 1,474 which were 36 less than budgeted admissions of 1,510. Our overall average length of stay for the month was 7.6 days. Patient days for January totaled 10,873 and were 415 days below budget. Admissions were less than budgeted levels this month in the nearly all areas. The exceptions to this were in the areas of Clinical Research, Orthopedics, Pediatrics, and Surgery.

OUTPATIENT CENSUS: Ambulatory care encounters (including CUHCC and Home Health) for the month of January totaled 30,671 which was 2,200, or 6.7%, below budgeted volumes of 32,871. Encounters were over budgeted levels in the Ambulatory Surgery, Endoscopy, Masonic Day Hospital, Psychiatry, Radiation Therapy, and Surgery clinical areas this month. Encounters were under budgeted levels in the nearly all other clinical areas during January.

To recap our census:

Monthly Data						YTD Data				
92/93 Actual	93/94 Budget	93/94 Actual	Variance	% Var		92/93 Actual	93/94 Budget	93/94 Actual	Variance	% Var
1,456	1,510	1,474	(36)	(2.4)	Admissions	10,386	10,319	10,278	(41)	(0.4)
11,357	11,288	10,873	(415)	(3.7)	Patient Days	77,890	77,648	74,777	(2,871)	(3.7)
8.1	7.5	7.6	0.1	1.3	Avg Length of Stay	7.5	7.5	7.3	(0.2)	(2.7)
366.4	364.1	350.7	(13.4)	(3.7)	Avg Daily Census	362.3	361.1	347.8	(13.3)	(3.7)
65.2	64.8	62.2	(2.6)	(4.0)	Percent Occupancy	64.5	64.3	61.9	(2.4)	(3.7)
30,255	32,871	30,671	(2,200)	(6.7)	Amb Care Encounters	223,816	227,209	228,753	1,544	0.7

FINANCIAL OPERATIONS: The Hospital's Statement of Operations shows year to date revenues being greater than expenses, before the extraordinary loss, by $6,160,000. This is a favorable variance of $2,116,000. After the extraordinary loss of $442,000 revenues exceed expenses by $5,718,000.

Patient care charges through January totaled $217,878,000, which was 2.7% less than budget. Ancillary revenue was $3,822,000 (2.4%) under budget and routine revenue was $2,335,000 (3.8%) under budget. Inpatient revenue averaged $16,069 per admission compared to the budgeted average of $16,353. Outpatient revenue averaged $230 per encounter compared to the budgeted average of $243.

Deductions from revenue totaled $58,278,000 which was $5,537,000 (8.7%) under budgeted deductions of $63,815,000. Deductions from revenue continue to be below budget, primarily due to the overall average charge utilization being below expected levels. The decline in average charges per patient had the effect of reducing the contractual allowances and discounts, given our current payment levels. Current payment levels include approximately $400,000 of prior year adjustments for the rebasing of Medical Assistance (MA) and General Assistance Medical Care (GAMC) claims. We also budgeted for some residual write-offs associated with the accounts receivable project that was initiated and largely completed last fiscal year. However, we have not seen significant actual write-offs for the further clean up of accounts receivable.

Operating expenditures through January totaled $173,613,000 and were $3,932,000 (2.2%) below budgeted levels of $177,545,000. The overall favorable variance was due to reduced spending levels in almost all categories of expenses, as a result of lower than anticipated patient volumes. The favorable variance also includes the savings being realized in interest expense as a result of the restructuring of debt.

ACCOUNTS RECEIVABLE: The balance in patient accounts receivable as of January 31, 1994, totaled $48,883,000 and represents 67.7 days of revenue outstanding.

CONCLUSION: Our operating position through the end of January is positive and above budgeted levels. While our overall census levels, and net patient service revenues are close to budget, our expenses are nearly $4 million below budget year-to-date.

Our operating position for the month of January reflects two rather significant expense variances. One relates to a retroactive settlement of a contract with Laboratory Medicine and Pathology. This resulted in having to recognize in January, nearly $400,000 that related to the 1992-93 fiscal year. The second significant variance, of nearly $250,000, relates to salary expense and the impact of "Bonus Days" on our operations. Aside from these two factors, January's operations were close to our targeted outcomes.

UNIVERSITY OF MINNESOTA HOSPITAL & CLINIC
SUMMARY STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 1, 1993 TO JANUARY 31, 1994

January Budgeted	January Actual	Variance Over/(Under) Budget	Variance %		1993-94 Budgeted	1993-94 Actual	Variance Over/(Under) Budget	Variance %
$32,861,000	$31,741,000	($1,120,000)	-3.4%	Gross Patient Revenue	$224,036,000	$217,878,000	($6,158,000)	-2.7%
9,352,000	8,190,000	(1,162,000)	-12.4%	Deductions From Revenue	63,815,000	58,278,000	(5,537,000)	-8.7%
23,509,000	23,551,000	42,000	0.2%	Net Patient Service Revenue	160,221,000	159,600,000	(621,000)	-0.4%
				Other Operating Revenue				
1,280,000	1,282,000	2,000	0.2%	Appropriation & Support	8,962,000	8,976,000	14,000	0.2%
1,054,000	1,233,000	179,000	17.0%	Other Revenue	7,115,000	8,375,000	1,260,000	17.7%
2,334,000	2,515,000	181,000	7.8%	Total Other Revenue	16,077,000	17,351,000	1,274,000	7.9%
25,843,000	26,066,000	223,000	0.9%	Total Revenue From Operations	176,298,000	176,951,000	653,000	0.4%
				Operating Expenses:				
10,085,000	10,548,000	463,000	4.6%	Salaries	71,978,000	71,524,000	(454,000)	-0.6%
2,386,000	2,310,000	(76,000)	-3.2%	Fringe Benefits	16,050,000	15,479,000	(571,000)	-3.6%
1,631,000	2,505,000	874,000	53.6%	Contract Compensation	11,416,000	12,541,000	1,125,000	9.9%
5,666,000	5,959,000	293,000	5.2%	Supplies And Services	39,280,000	38,846,000	(434,000)	-1.1%
1,108,000	1,094,000	(14,000)	-1.3%	Utilities And Maintenance	7,686,000	7,185,000	(501,000)	-6.5%
1,494,000	1,308,000	(186,000)	-12.4%	General Supplies & Expense	10,375,000	8,966,000	(1,409,000)	-13.6%
14,000	4,000	(10,000)	-71.4%	Insurance	96,000	152,000	56,000	58.3%
1,700,000	1,582,000	(118,000)	-6.9%	Depreciation & Amortization	11,109,000	10,898,000	(211,000)	-1.9%
805,000	617,000	(188,000)	-23.4%	Interest	5,657,000	3,968,000	(1,689,000)	-29.9%
300,000	283,000	(17,000)	-5.7%	Minnesota Care Tax	2,100,000	2,319,000	219,000	10.4%
264,000	247,000	(17,000)	-6.4%	Provision For Uncollectibles	1,798,000	1,735,000	(63,000)	-3.5%
25,453,000	26,457,000	1,004,000	3.9%	Total Operating Expenses	177,545,000	173,613,000	(3,932,000)	-2.2%
390,000	(391,000)	(781,000)		Net Revenue From Operations	(1,247,000)	3,338,000	4,585,000	
756,000	100,000	(656,000)	-86.8%	Nonoperating Gains: Investment Income	5,291,000	2,822,000	(2,469,000)	-46.7%
1,146,000	(291,000)	(1,437,000)		Revenue And Gains In Excess Of Expense Before Extraordinary Item	4,044,000	6,160,000	2,116,000	
0	0	0		Extraordinary Gain (Loss)	0	(442,000)	(442,000)	
1,146,000	(291,000)	(1,437,000)		Revenue And Gains In Excess Of Expense	4,044,000	5,718,000	1,674,000	

January Budgeted	January Actual	Variance Over/(Under) Budget	Variance %		1993-94 Budgeted	1993-94 Actual	Variance Over/(Under) Budget	Variance %
1,510	1,474	(36)	-2.4%	Admissions	10,319	10,278	(41)	-0.4%
11,288	10,873	(415)	-3.7%	Patient Days	77,648	74,777	(2,871)	-3.7%
7.5	7.6	0.1	1.3%	Average Length Of Stay	7.5	7.3	(0.2)	-2.7%
364.1	350.7	(13.4)	-3.7%	Average Daily Census	361.1	347.8	(13.3)	-3.7%
64.8	62.2	(2.6)	-4.0%	Percentage Occupancy	64.3	61.9	(2.4)	-3.7%
32,871	30,671	(2,200)	-6.7%	Ambulatory Care Encounters	227,209	228,753	1,544	0.7%

UNIVERSITY OF MINNESOTA HOSPITAL AND CLINIC
BALANCE SHEETS
JANUARY 31, 1994 AND JUNE 30, 1993

ASSETS	1/31/94	6/30/93
General Funds		
Current assets:		
Cash and cash equivalents	$46,812,000	$28,798,000
Receivables:		
Patient services, net of allowances and uncollectible accounts of $30,736,000 at Jan. '94 and $27,841,000 at June '93	48,883,000	50,424,000
State appropriations	2,564,000	1,293,000
Other	2,834,000	3,321,000
Inventories	5,254,000	5,250,000
Prepaid expenses and other	853,000	748,000
Total current assets	107,200,000	89,834,000
Assets whose use is limited:		
By board for property and equipment replacement and expansion	157,977,000	85,306,000
Under bond indenture agreement held by trustee	10,799,000	11,616,000
Total assets whose use is limited	168,776,000	96,922,000
Property and Equipment, net	148,329,000	151,281,000
Other Assets:		
Long-term portion - promissory note	4,825,000	4,373,000
Deferred third-party reimbursement	4,016,000	5,071,000
Deferred financing costs	890,000	252,000
Other	4,708,000	5,140,000
Total other assets	14,439,000	14,836,000
TOTAL ASSETS	$438,744,000	$352,873,000
Restricted Funds		
Investments	$8,620,000	$8,234,000

LIABILITIES AND FUND BALANCES	1/31/94	6/30/93
General Funds		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$8,509,000	$20,352,000
Accounts payable	28,211,000	22,958,000
Due to third-party payors	15,825,000	10,545,000
Accrued liabilities:		
Salaries, wages and employee benefits	26,780,000	25,139,000
Interest	1,991,000	1,725,000
Total current liabilities	81,316,000	80,719,000
Long-term debt and capital lease obligations, less current maturities	152,708,000	73,649,000
Fund Balance	204,720,000	198,505,000
TOTAL LIABILITIES AND FUND BALANCE	$438,744,000	$352,873,000
Fund Balances:		
Endowment funds	$2,996,000	$2,917,000
Specific purpose funds	5,624,000	5,317,000
	$8,620,000	$8,234,000

University of Minnesota Health System

Radiation Therapy Center

Board of Governors Proposal
February 1994

Introduction

The purpose of this document is to describe the concept of a Radiation Therapy Center, to outline the development of the Center and to seek approval and funding to accomplish this goal.

The University of Minnesota Health System ("UMHS") provides consultative visits via the Medical Outreach Program to communities throughout Minnesota. These visits are made at the request of referring physicians and allow the patients to remain in their own communities. Currently, a number of medical subspecialists, including Medical Oncologists, see patients in the Hibbing area. The Medical Oncologists see patients, on an outpatient basis, at the Mesabi Regional Medical Center in Hibbing. The development of a Radiation therapy Center at this site would be a natural outgrowth of services provided in Oncology. The staff of the UMHS Radiation Therapy Center would work in concert with physicians from the area communities and UMHS Medical Oncologists to provide cancer treatment services.

The Radiation Therapy Center would provide care and service to patients of all age groups with cancer where radiation therapy can provide local/regional control of the tumor or serve as a pain relief agent. Treatment would be delivered via external beam radiation therapy.

Background

An analysis was performed to determine the viability of placing a Radiation Therapy Center in the Hibbing area. This review included examining the incidence of cancer for the region, estimating patient volume and discussion of the number of patients required for a successful program.

The incidence of cancer consistent with Radiation Therapy treatment for males and females for the region is 683 cases per year.

The total regional universe of treatable cancer patients (683) was compared with the estimated number of patients under radiation therapy treatment for the State of Minnesota. This data indicates that approximately 40% of cancer cases will receive radiation therapy. We therefore can extrapolate that, for the Hibbing region, potentially 273 patients per year would need to undergo radiation therapy treatment.

Of the 273 patients requiring treatment, 20 patients per year have traditionally been referred to the University for treatment. We assume that these patients would continue to be seen at UMHC. As a conservative measure, we have forecasted that 253 patients per year (presently being seen in the Duluth and in the Twin Cities area) would be referred to the Hibbing-based Radiation Therapy Center. The financial data presented within this report would indicate that 253 patients per year would generate sufficient volume to make the program financially viable.

Proposed Facility

The University of Minnesota Health System retained Ryan Companies as its consultant to assist in assessing the individual space needs and priorities of the Mesabi Regional Medical Center, the Adams Clinic, local independent practitioners and the University of Minnesota Radiation Therapy Center. Ryan Companies also assisted in identifying the most appropriate site for the placement of the new Radiation Therapy Center on the hospital campus, in providing cost estimates for the overall development, design and construction as well as any required modifications to the hospital.

There are several key components surrounding the location of the Radiation Therapy Center at the hospital in Hibbing. They are:

- *Preferably the building should be owned and operated by UMHS*
- *The building be integrated as part of the entire new building project, yet be financed and constructed independently if at all possible.*
- *The building have its own identity on the hospital site*
- *The building be connected to the hospital*
- *The building have its own special exterior design including separate patient parking and separate patient entrance*
- *The building should be designed from the start to accommodate a future linear accelerator unit and support space (approximately 1,975 square feet of shelled out space).*

Ryan's Space Needs Summary suggests that the Radiation Therapy Center be 8,818 gross square feet; 6,843 square feet of finished space and 1,975 square feet of shelled out space. While the Ryan Companies report calls for shelled out space for potential growth, the need for this additional space is still under discussion. If it is decided to be unnecessary, the project space requirement and construction budget will be reduced accordingly.

Finished Space	5,474
Grossing Factor (25%)	1,369
Total	6,843
FUTURE	
Shelled out expansion space	1,795
Grossing Factor (25%)	180
Total	1,975
Grand Total	8,818

Financial Information

Project Cost Estimates

Ryan Companies enlisted the assistance of Korunsky, Krank, Erickson Architects, Inc. to define the space needs and the architectural schematics of the proposed facilities and, specifically, the Radiation Therapy Center. The Radiation Therapy Center construction cost and equipment estimates are as follows:

Construction Costs	$1,093,348
Architectural, Engineering and General Contractor	348,887
Other Allowances and Fees	183,619
Linear Accelerator	950,000
Simulator	450,000
Furnishings	100,000
Total Estimated Costs	$3,025,854

Financial Projections

Forecasted financial statements for the technical component of the Radiation Therapy Center (Table 1) and the Professional component (Table 2) are provided below for your review. As both sets of financial statements indicate, positive cash flow will occur beginning in the first full year of operation.

In preparing the forecasted financial statements, UMHS management has made the following assumptions:

Volume Constant volume over the forecast period; 253 patients per year with 70% of the patients requiring "complex" treatment and 30% requiring "simple" treatment.

Patient Charge Levels Assumes existing UMHC hospital-based average hospital and professional fee charges for "complex" and "simple" procedures. Charges have been price level adjusted by 4% per year over the forecast period.

Contractual Adjustments A write-off rate of 30% has been assumed for the hospital and professional fee charges in the first year of the forecast period; over the remaining years, the write-off rate has been increased by 1% point per year.

Other Income The forecasted financial statements assume that UMHC will provide billing and collection services for the Therapeutic Radiology Professional Group. The Billing and Collection fees represent UMHC's standard percentage billing fee applied to net professional fee recoveries less estimated incremental billing and collection costs. Partnership Income represents fees paid to UMHC by the physician's group for equipment costs and building related costs (see corresponding physician group expenditures on Table 2).

Salaries and Benefits On the technical side, the following positions have been projected as necessary for the size of the enterprise:

Position Type	FTE
Radiation Physicist	.50
Dosimetrist	1.00
RTT Supervisor	1.00
Rad Ther Tech	2.00
Nurse	1.00
Engineer	1.00
Receptionist/Sec	1.50
	8.00

On the professional side, one Radiation Oncologist will be added.
All salaries and fringe benefits have been increased by 4% per year over the forecast period.

Supplies Volume adjusted supply expense has been established based upon UMHC experience. All supply expenses have been increased by 4% per year over the forecast period.

Building Depreciation Capitalized building value depreciated, on a straight line basis, over 30 years.

Building Interest To build an opportunity cost into the cash flow projections, UMHS management has assumed that the construction of the facility would be financed over a 30 year period at a Tax-exempt interest rate level of 5%.

Equipment Depreciation Linear Accelerator, Simulator and Furnishings ($1,500,000) depreciated, on a straight line basis, over 7 years.

Equipment Interest To build an opportunity cost into the cash flow projections, UMHS management has assumed that the equipment purchases would be financed over a 7 year period at a Tax-exempt interest rate level of 5%.

Building Costs Estimated at $6.00 per square foot to include utilities, maintenance and janitorial services.

UMHS is currently exploring the possibility of a joint venture for the Radiation Therapy Center with Miller-Dwan Medical Center in Duluth.

Table 1. Radiation Therapy Center Five Year Financial Forecast (Technical Component)

University of Minnesota Health System - Therapeutic Radiology Center
Forecasted Statement of Operations

	Year 1	Year 2	Year 3	Year 4	Year 5
Gross Patient Charges	1,632,332	1,697,625	1,765,530	1,836,152	1,909,598
Contractual Adjustments	(489,700)	(526,264)	(564,970)	(605,930)	(649,263)
Net Patient Revenue	1,142,632	1,171,361	1,200,561	1,230,222	1,260,334
Other Income:					
Billing and Collection Fees	51,902	52,464	52,988	53,471	53,906
Partnership Income	168,347	165,925	163,374	160,687	157,856
Total Other Income	220,249	218,389	216,362	214,157	211,762
Expenditures:					
Salaries and Benefits	371,338	386,192	401,639	417,705	434,413
Supplies	118,000	122,720	127,629	132,734	138,043
Building Interest	81,293	80,069	78,784	77,435	76,019
Building Depreciation	54,195	54,195	54,195	54,195	54,195
Equipment Interest	75,000	67,517	59,659	51,409	42,746
Equipment Depreciation	185,714	185,714	185,714	185,714	185,714
Building Costs	55,296	57,508	59,808	62,200	64,688
Total Expense	940,836	953,915	967,429	981,393	995,819
Net Gain/(Loss)	422,045	435,836	449,494	462,986	476,277
Cash Flow:					
Gain/(Loss) from Operations	422,045	435,836	449,494	462,986	476,277
Building Depreciation	54,195	54,195	54,195	54,195	54,195
Equipment Depreciation	185,714	185,714	185,714	185,714	185,714
Principal - Building	(24,471)	(25,695)	(26,980)	(28,329)	(29,745)
Principal - Equipment	(149,666)	(157,149)	(165,007)	(173,257)	(181,920)
Net Cash from Operations	487,817	492,901	497,417	501,309	504,522

Table 2. Radiation Therapy Center Five Year Financial Forecast (Professional Component)

Therapeutic Radiology Associates - Therapeutic Radiology Center
Forecasted Statement of Operations

	Year 1	Year 2	Year 3	Year 4	Year 5
Gross Professional Fee Charges	970,497	1,009,317	1,049,690	1,091,677	1,135,344
Contractual Adjustments	(291,149)	(312,888)	(335,901)	(360,253)	(386,017)
Net Patient Revenue	679,348	696,429	713,789	731,424	749,327
Expenditures:					
Billing and Collection Fees	101,902	104,464	107,068	109,714	112,399
Physician Salary and Benefits	300,000	312,000	324,480	337,459	350,958
Equipment Costs:					
Equipment Depreciation	69,246	69,246	69,246	69,246	69,246
Equipment Interest Expense	27,965	25,174	22,245	19,168	15,938
Space Costs:					
Building Depreciation	20,207	20,207	20,207	20,207	20,207
Building Interest Expense	30,311	29,855	29,376	28,873	28,345
Building Upkeep	20,618	21,443	22,300	23,192	24,120
Total Expense	570,249	582,389	594,922	607,859	621,213
Net Gain / (loss)	109,099	114,039	118,867	123,564	128,114

UNIVERSITY OF MINNESOTA

The University of Minnesota Hospital and Clinic

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

Date: February 23, 1994

To: Members, Board of Governors

From: Clifford P. Fearing

Re: 1994-95 Budget Overview

Enclosed for your review is material relating to our 1994-95 operating budget. We have developed financial projections for the 1994-95 budget year on the basis of assumptions outlined for you within the attachments. These projections are intended to give you an indication of the relative financial impact of these assumptions, and in particular, the impact of various pay plan assumptions and the impact of potential new programs. The schedule of new program costs distinguish between programs for which we have already made commitments and programs for which support has been requested but not yet committed

On the basis of today's discussions, a formal budget will be presented in March for information, and the presented in April for approval.

Financial Model Assumptions

1. **Census**

   Admissions are assumed to be at the original 93/94 budgeted admissions of **17,640**. A 2% anticipated reduction in admissions in 94/95 results in expected admissions of **17,310**. A continuing trend of declining admissions of 2% is assumed through 97/98. The assumption for the average length of stay for the current year is 7.2 and reduced to 7.1 for years 94/95 through 97/98. Outpatient encounters are assumed to be **394,326** in 93/94, which is slightly less than the original 93/94 budget. A slight increase of .4% is assumed for a total of **396,600** encounters for 94/95 and then increasing **1.0%** annually from 95/96 through 97/88.

2. **Payor Mix**

   We are projecting a **.5%** increase in admissions each year in the Medicare, Medical Assistance, and HMO populations with a resulting **1.5%** decline in commercial insurer populations.

3. **Rate Increases**

   Revenue rate increases are assumed at **3.0%** each year from 94/95 through 97/98.

4. **Reimbursement Increases**

   Medicare reimbursement rates are assumed to increase an average of **2.8%** per year for the DRG payment. We are assuming at this time that the Indirect Medical Education (IME) factor will decline from the current 7.7% to 5.6% in fiscal 1996. HMO reimbursement rates increase **3.5%** annually. Medical Assistance rates have been rebased in the model. This results in a 82% recovery rate for the current year. Current state reductions of 10% for MA and 5% for GAMC have been incorporated in the 94/95 fiscal year. Commercial insurers' rates increase **3.0%** each year from 94/95 through 97/88.

5. **Staffing Levels**

   FTE levels for the 93/94 fiscal year are assumed to be **3,460**, which is at the original budget levels. In the 94/95 fiscal year, 68 FTE reductions were made that correspond to documented cost reduction ideas, resulting in **3,353** FTE's in 94/95. As volume declines in future fiscal years, we assume staffing levels will decline as follows: **3,321** FTE's in 95/96, **3,290** in 96/97, and **3,259** FTE's in 97/98.

6. **Nonlabor Costs**

   An additional $2,299,000 in expenses have been incorporated in the 93/94 fiscal year for program support for the Transplant Center, Bone Marrow Transplant Program, Solid Organ Transplant Program, Medical School Departmental support, and University of Minnesota Health System support. For the 94/95 fiscal year, additional new program costs of $2,850,000 are included. These costs are for ongoing and additional support for the University of Minnesota Health System, the Transplant Center, some physician support including retention support, and additional lease expense to accommodate clinical program expansion. Another $3,000,000 in nonoperating costs has been set aside to support new programs and research in conjunction with UMCA.

7. **Inflation Factors**

   Inflation factors for salary dollars are projected at an average 7.7% in the 94/95 fiscal year. This projected pay plan incorporates marketplace adjustments that would be necessary to bring our employee classifications in line with the market. A 3% inflation factor is assumed for each year after the 94/95 fiscal year. Nonlabor expense inflation factors are projected at approximately 4% each year.

8. **Appropriations Funding**
A reduction in centrally allocated funds of $400,000 has been assumed, however, this reduction is offset by an inflationary increase in funding levels of 2% in years 1995 through 1998.

9. **Interest Expense and Earnings Yields**
The impact of the bond defeasance and reissuance of debt was factored into the model. The interest rate on the remaining bonds are as follows: the 1986A fixed rate bonds is 7.1%, the interest rate on the new 1993A bonds is 4.8%, while the interest rate on the variable rate bonds is carried at the current average of 3.7%. Earnings on cash held in the Temporary Investment Pool (TIP) are averaging 2.0%. The earnings rate assumed on cash held in the Grouped Investment Pool (GIP) has been reduced to reflect the change in investment strategy by our cash manager. Current income on GIP is projected at 4.5%

10. **Capital Plan**
Projections for recurring equipment replacement and remodeling needs will be presented with the budget in March and April.

University of Minnesota Hospital and Clinic
New Program Costs

	1993-94	1994-95
Operating Costs		
One Time Only Costs		
Bone Marrow Transplant Program	$269,000	$0
Solid Organ Transplant Program	$500,000	$0
Pediatric Department Study	$35,000	$0
Medicine Department Study	$50,000	$0
Heart Lung Program	$160,000	$0
Ongoing Costs		
Transplant Center	$350,000	$600,000
University of Minnesota Health System Support	$250,000	$1,000,000
Operating Room Medical Director	$67,000	$245,000
Lab Medicine and Pathology Phys Comp Incentive	$600,000	$300,000
Pediatric Administrator	$18,000	$55,000
Relocation Lease Costs	$0	$300,000
Retention Support	$0	$350,000
Total New Program Cost from Operations	$2,299,000	$2,850,000
Non-Operating Costs		
New Program Development/Research Support	$0	$3,000,000
Total New Program Cost	**$2,299,000**	**$5,850,000**

	1990	1991	1992	1993	Budget 1994	PROJECTIONS 1994	1995	1996	1997	1998
STATEMENT OF REVENUE AND EXPENSES										
PATIENT REVENUE										
Inpatient Services	$255,023	$277,643	$291,095	$289,161	$288,821	$283,130	$284,548	$287,575	$290,632	$293,720
Outpatient Services	64,802	73,341	79,412	90,884	96,036	90,048	93,124	96,877	100,781	104,843
GROSS PATIENT REVENUE	319,825	350,984	370,507	380,045	384,857	373,178	377,672	384,452	391,413	398,563
DEDUCTIONS FROM PATIENT REVENUE										
Contractual Discounts	72,300	84,103	93,993	99,560	108,110	98,171	105,635	108,357	109,430	109,985
Provision for Charity	677	551	2,106	1,612	1,536	1,536	1,554	1,582	1,611	1,640
TOTAL DEDUCTIONS FROM REVENUE	72,977	84,654	96,099	101,172	109,646	99,707	107,190	109,939	111,041	111,625
NET PATIENT REVENUE	246,848	266,330	274,408	278,873	275,211	273,471	270,482	274,513	280,372	286,938
OTHER OPERATING REVENUE	26,969	27,545	25,212	27,748	27,670	30,215	30,198	30,393	30,643	30,945
TOTAL OPERATING REVENUE	273,817	293,875	299,620	306,621	302,881	303,686	300,680	304,906	311,015	317,882
OPERATING EXPENSES										
Salaries and Wages	115,225	120,762	123,184	123,260	121,540	121,734	125,855	128,312	130,832	133,415
Employee Benefits	27,310	27,867	29,669	31,421	27,782	26,295	26,429	26,945	27,475	28,017
Medical fees	3,058	8,513	9,357	9,718	8,520	10,834	9,347	9,627	9,916	10,214
Supplies	57,546	62,000	69,407	61,444	61,478	59,315	58,080	59,778	61,535	63,353
Purchased Services	9,754	6,630	7,691	16,653	13,696	13,069	12,976	13,483	13,945	14,424
Depreciation	17,740	18,266	20,043	18,622	19,844	18,628	18,646	19,783	20,397	21,086
Interest	12,611	12,186	11,852	9,427	9,568	6,704	6,702	6,446	5,834	5,582
Other	32,638	35,024	34,291	34,763	37,363	39,007	39,835	41,428	43,045	44,726
Bad Debt	3,905	2,843	1,422	2,936	3,090	2,975	2,942	2,995	3,049	3,105
NET OPERATING EXPENSES	279,787	294,091	306,916	308,244	302,881	298,561	300,811	308,798	316,028	323,922
EXCESS OF REVENUE OVER EXPENSES FROM OPERATIONS	(5,970)	(216)	(7,296)	(1,623)	0	5,125	(131)	(3,893)	(5,013)	(6,039)
NONOPERATING REVENUE										
Investment Income	10,523	11,592	9,017	9,680	9,205	5,226	5,844	5,645	5,479	5,193
Interest Expense	0	0	0	0	0	0	0	0	0	0
Other Investment Income	55	36	237	285	799	799	799	799	799	799
Other	1,965	655	0	1,506	(665)	(665)	(3,665)	(3,665)	(3,665)	(3,665)
NET NONOPERATING REVENUE	12,543	12,283	9,254	11,471	9,339	5,360	2,978	2,779	2,613	2,327
EXCESS OF REVENUE OVER EXPENSES BEFORE EXTRAORDINARY ITEMS	6,573	12,067	1,958	9,848	9,339	10,485	2,847	(1,114)	(2,400)	(3,712)
EXTRAORDINARY ITEMS	0	0	0	(7,227)	0	(442)	0	0	0	0
EXCESS OF REVENUE OVER EXPENSES	$6,573	$12,067	$1,958	$2,621	$9,339	$10,043	$2,847	($1,114)	($2,400)	($3,712)
	2.30%	3.94%	0.63%	0.82%	2.99%	3.25%	0.94%	-0.36%	-0.77%	-1.16%

02/16/94

RECENT COMMUNITY RATE INCREASES*

	HOSPITAL	1990	1991	1992	1993	1994	CUMULATIVE
1)	Abbott-Northwestern	8.0%	7.5%	3.6%	9.5%	9.0%	37.6%
2)	Fairview Southdale	15.0%	15.0%	12.5%	9.0%	11.0%	62.5%
3)	Hennepin County Medical Center	13.0%	15.0%	12.6%	10.0%	9.0%	59.6%
4)	Methodist	9.9%	9.9%	15.0%	11.9%	9.0%	55.7%
5)	Midway Hospital	12.0%	0.0%	9.9%	9.9%	9.9%	41.7%
6)	North Memorial Medical Center	9.0%	9.5%	8.1%	7.3%	9.0%	42.9%
7)	Riverside	10.0%	8.0%	9.5%	11.0%	8.6%	47.1%
8)	Rochester Methodist	8.5%	5.2%	6.0%	7.1%	5.0%	31.8%
9)	St. Mary's, Rochester	10.6%	5.3%	8.1%	7.5%	5.0%	36.5%
10)	St. Paul Ramsey Medical Center	14.0%	10.0%	8.9%	6.0%	6.0%	44.9%
11)	St. Paul United Hospital	16.5%	15.0%	13.2%	12.0%	7.6%	64.3%
12)	University of Minnesota Hospital and Clinic	7.5%	5.0%	5.9%	0.0%	3.0% **	21.4%

* All rate increases are effective on January 1 of each year with the exception of Midway, whose rate increases are implemented September 1. All information has been provided to UMHC by the Health Information Resources of Minnesota.

** The 3% increase for the University Hospital is the rate increase incorporated in the long range financial model.

COST REDUCTION IMPLEMENTATION
STATUS REPORT

February, 1994

Background

At the October 1992 retreat of the Board of Governors, the Cost Reduction component of the strategic plan was approved. During the first phase of this process ending December 31, 1992, ideas were identified that, when implemented, will result in a savings in operating expenses of more than $39.5 million. The original cost reduction deemed necessary to enable us to achieve our Performance Objectives was $30 to $45 million.

Current Status

The Performance Objectives to be achieved and an update as to the current status are presented here.

Internal Performance Objectives:
By July 1, 1993: To reduce annualized operating expenses such that the Board's mandate of a zero price increase is achieved and a 2% profit margin is realized. The cost reduction planned to achieve this goal is estimated at $15 million, as measured from the 1991-92 cost base.

By July 1, 1994: To institute operating changes which will result in a reduction of $30-45 million in annual operating expenses from the 1991-92 cost base. Adjusted for volume, case-mix and inflation, these actions should result in a 10-15% improvement in cost per admission and in our ability to achieve a competitive position.

Reduction in Operating Expenses
Using the 1991-92 cost base, we achieved a reduction in operating expenses of $16,000,000 in FY 1993. Through December 31, 1993, we have achieved a total reduction in operating expenses of $26 million from the base year. We project that we will have achieved a total reduction in annual operating expenses of at least $42,900,000 by FYE 95.

Examples of savings achieved from the base year (the $26 million) are as follows:

Labor:
- Changes in staffing patterns ($8,100,000)
- Other labor reductions ($835,500)
- Reduction in supervisory positions ($761,000)
- Changes in orientation and staff development ($68,000)

Non-labor:
- Changes in practice patterns for drug use ($1,201,400)
- Change outpatient billing for take home prescriptions and dispensing of self medications ($1,077,000)
- Change in the practice pattern for blood product usage ($653,000)
- Malpractice insurance costs offset by investment dividends ($852,000)
- Changes made to the method for which we pay for health, life and dental insurance, workers and unemployment compensation ($1,900,000)
- Restructuring of fixed and variable rate debt ($3,300,000)
- Reduction in supplies, equipment, contract changes ($2,798,828)

Zero Price Increase

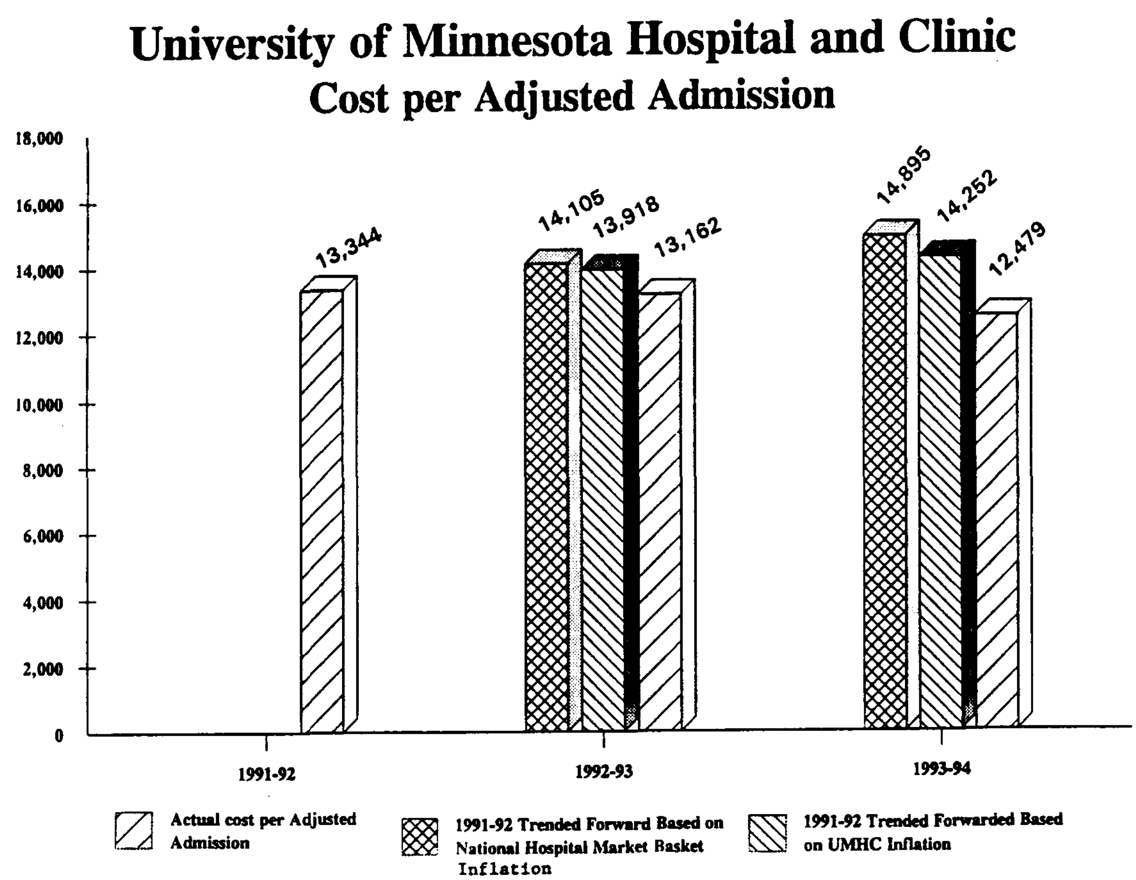
The FY 1993-94 budget incorporated a zero price increase. A price increase for FY 1994-95 is yet to be determined.

Two Percent Profit Margin

The two percent profit margin was modified to break even from operations and achieve a total margin of 3%. The 1993-94 budget incorporated this modification. We are exceeding these goals with our actual January year to date results.

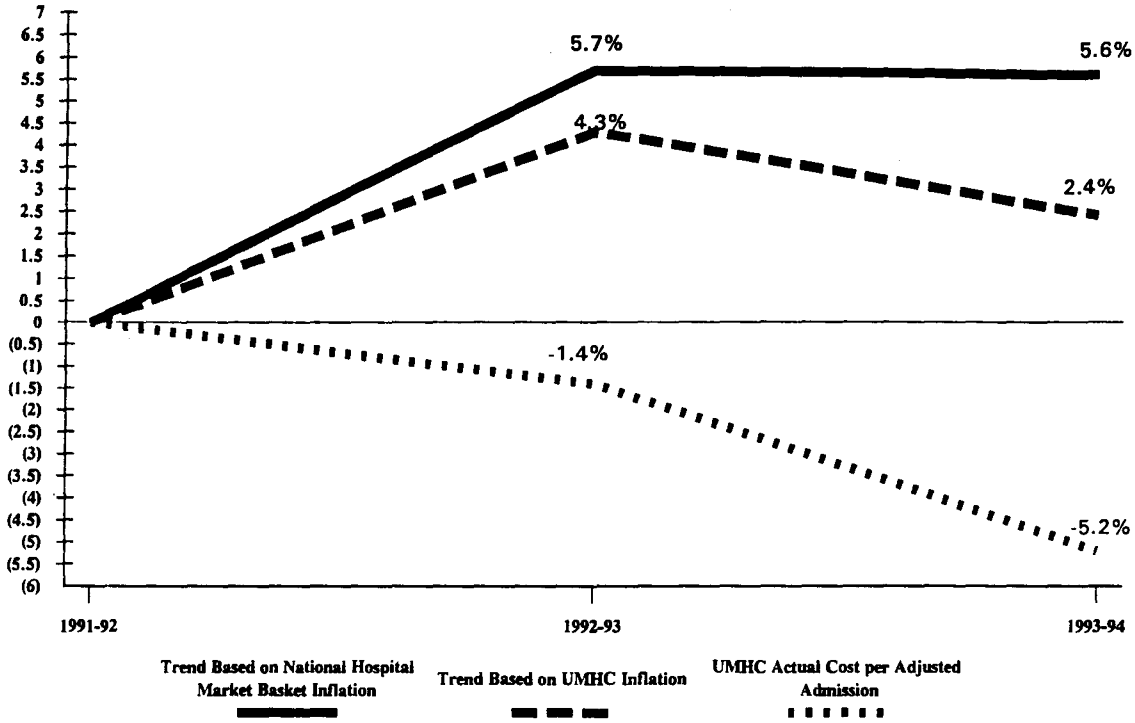
Cost per Admission

The graph below reflects UMHC actual costs per adjusted admission for the base year FY 1991-92, and for FY 1992-93 and December YTD 1993-94. It also compares the cost per adjusted admission adjusting for UMHC inflation and payments for Minnesota Care tax had no action been taken to impact the cost base. The result is a 12.4% decline in actual cost per adjusted admission which is in line with the goal to reduce our costs per admission by 10 to 15%. When using the national hospital market basket inflation rates, cost per adjusted admission would have been $14,105 in 1992-93 and $14,895 in 1993-94 when trending off the 1991-92 base year.



The graph below reflects the percentage change in cost per adjusted admission.

University of Minnesota Hospital and Clinic
Percentage Change In Cost Per Adjusted Admission



External Performance Objectives:
Reduce costs to a level sufficient to allow cumulative price increases for fiscal years beginning July 1, 1993, 1994 and 1995 to be at least 15% less than the community norm, while maintaining adequate margins.

<u>Price Increase</u>
Budgeted for FY 1993-94 is a zero price increase. The range for rate increases in the Twin Cities for FY 1993-94 was 6-12% with an average increase of 9.2%. The range for rate increases in the Twin Cities for FY 1994-95 is 5-11% with an average increase of 8.1%.

Reduce costs to a level sufficient to move UMHC's cost per admission to within 5% of the community norm, adjusted for changes in case-mix and severity, by 1994.

The 1992 data will be available May, 1994.

Perspectives on Realizing the Next Target

We continue to identify ideas to reach the $45,000,000 cost reduction target identified in our strategic plan. We have identified and incorporated into the budget process ideas which, when implemented, will result in a $42.9 million reduction in operating expenses.

We continue to focus on attainment of efficiency in key systems so that organizational goals are met. We have initiated Continuous Quality Improvement Teams that are focusing on five specific processes. The focus areas include the following:

- financial screening of transplant patients
- drug availability in OR/PAR
- availability of advanced directives
- hospital-wide employment process
- delayed/hold dietary tray service

Through the work of these teams, we are identifying specific opportunities for cost savings and service improvement as well as developing employees with expertise to expand the process.

For the remainder of the institution, extensive efforts continue to focus on physician practice changes impacting utilization of resources, work redesign and restructuring, costs associated with conducting research, and evaluation and restructuring of staff orientation and development.