University Medical Center, Inc.

UofL Health Care

Operations Assessment

Ad Hoc Operations Committee

April 5, 2012

DIXON HUGHES GOODMAN

Meeting Agenda

I. Project Status Update

II. AMC Reform Readiness

III. Interview Themes / Observations

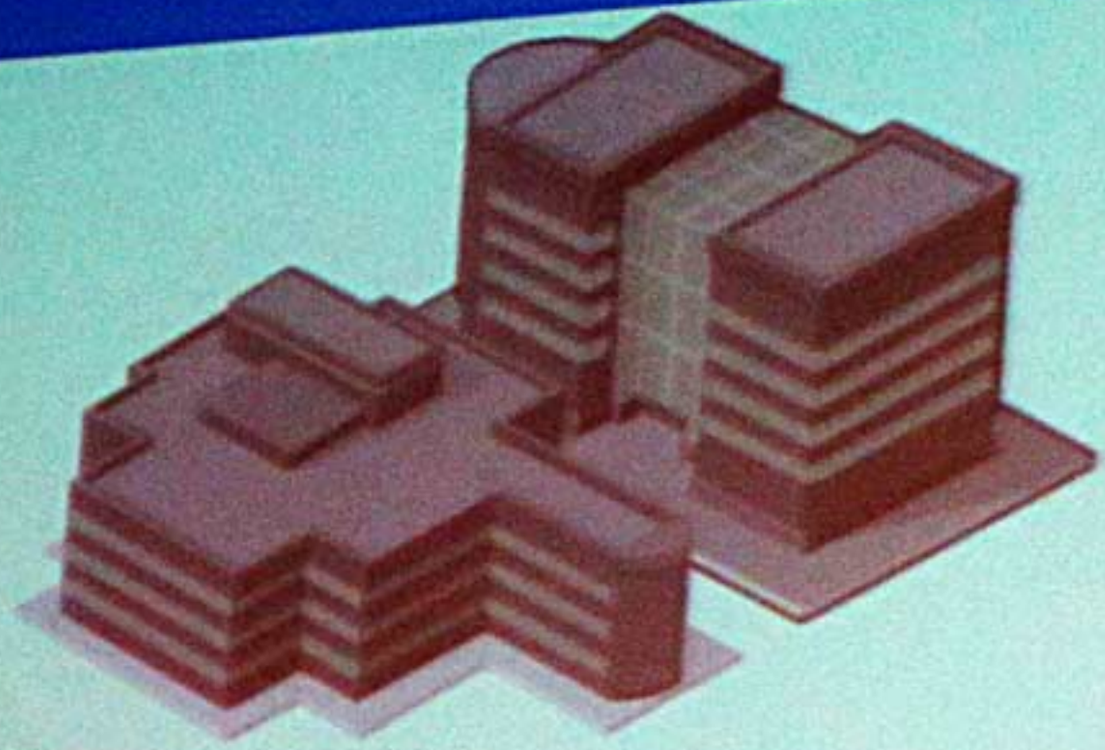
IV. Hypotheses Testing
1. Lack of Physician Alignment
2. Clinical Quality and Operations are Perceived Strong
3. Payer Environment Challenges Organizational Mission
4. Facility Constraints Inhibit Growth

V. Next Steps / Action Items

Project Status Update

Work Streams	Percent Complete
I. Benchmark Institution Assessment	65%
II. Key Stakeholder Interviews	80%
III. Financial / Debt Capacity Analysis	10%
IV. Growth Strategy	75%
V. Operational Excellence	60%
VI. Clinical Excellence	50%
VII. Organizational Costs	50%
VIII. Revenue Cycle	0%
IX. Organizational Recommendations	0%

AMCs Today



AMC 2011

- AMC is a success!!
- AMC is growing & profitable
- Faculty physicians are happy & in control
- Key program in top US News & World Report rankings
- Weaker aspects of performance do not affect market or financial results

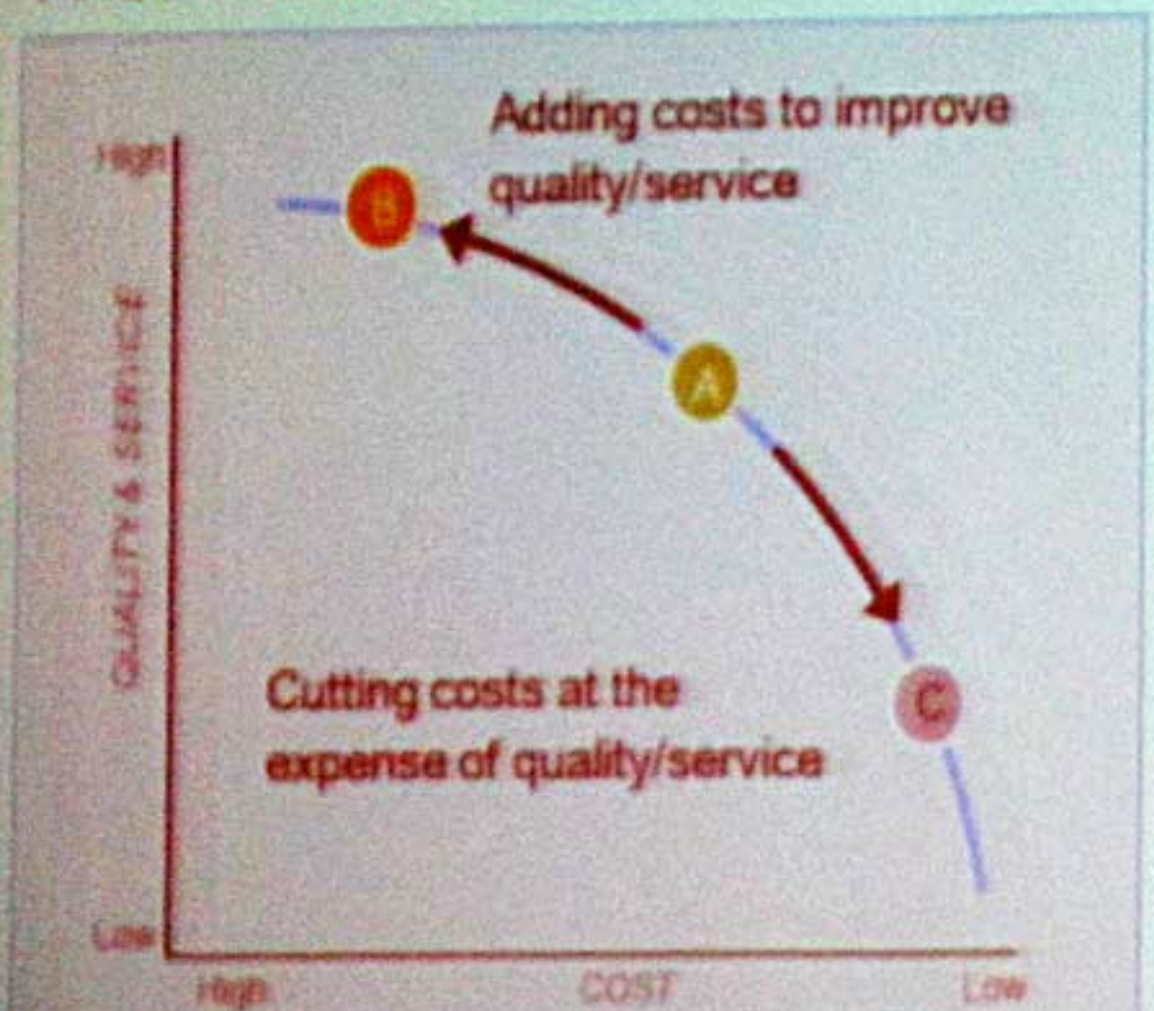
AMC 2016

- CMS docks AMC 5% of revenues for PAAs, readmissions
- AMC is excluded from private payers' preferred tier networks
- Patients shop to manage their out-of-pocket liability
- Community PCPs redirect cases away to maximize their incentives/reduce penalty exposure
- Profitability and market share erode

Optimizing value by focusing on quality, service and costs

$$\text{Value (V)} = \frac{\text{Quality (Q)} * \text{Service (S)}}{\text{Cost (C)}}$$

PAST THINKING



NEW PARADIGM

Source: 7 can Hospitals, Graban, CRC Press, p10

Shifting the

Today | Transition | ACO

- Referral Source
- Extension of Mission
- Expansion of Market
- Development of Brand

- Care Coordination
- Chronic Care Management
- Access Expansion

- Population Health Management

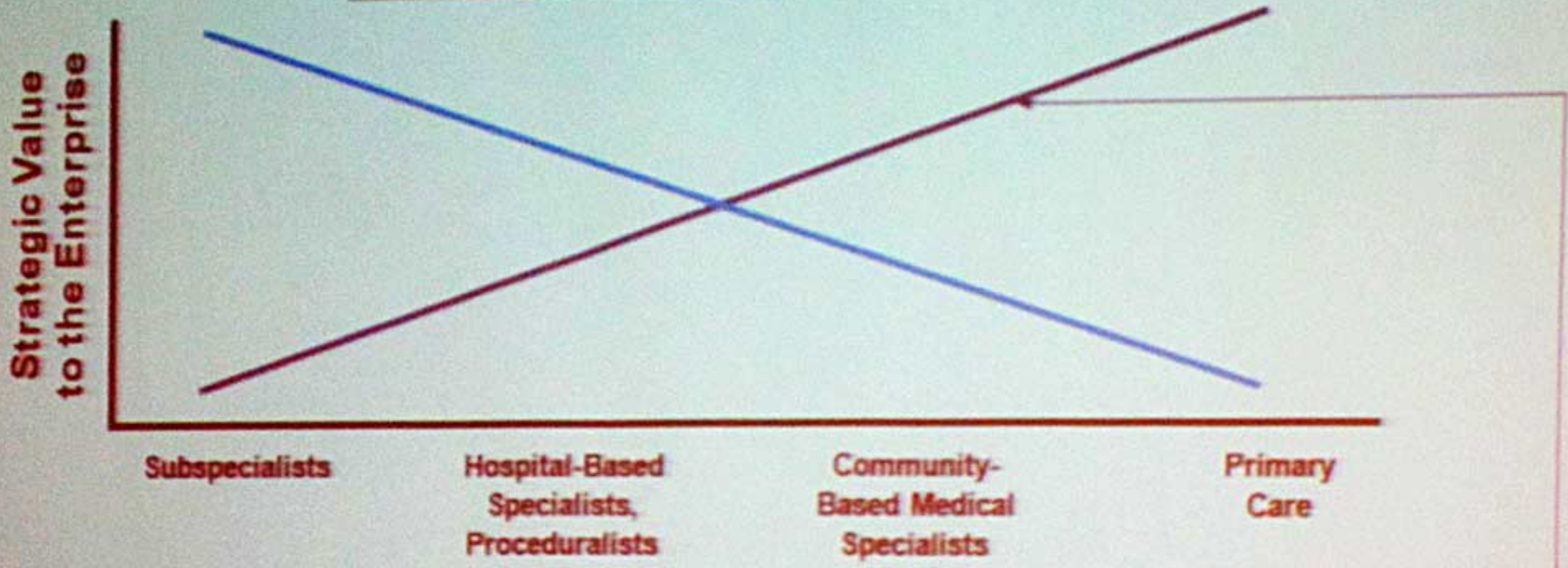
Downstream Referrals

Shifting Definition of Market Share

Lives Under Management

Shifting Mission, Shifting Need

—Traditional Academic Mission —— ACO Mission



AMCs traditionally strong in specialty care; expansion will need to focus on primary care

Stakeholder Interviews

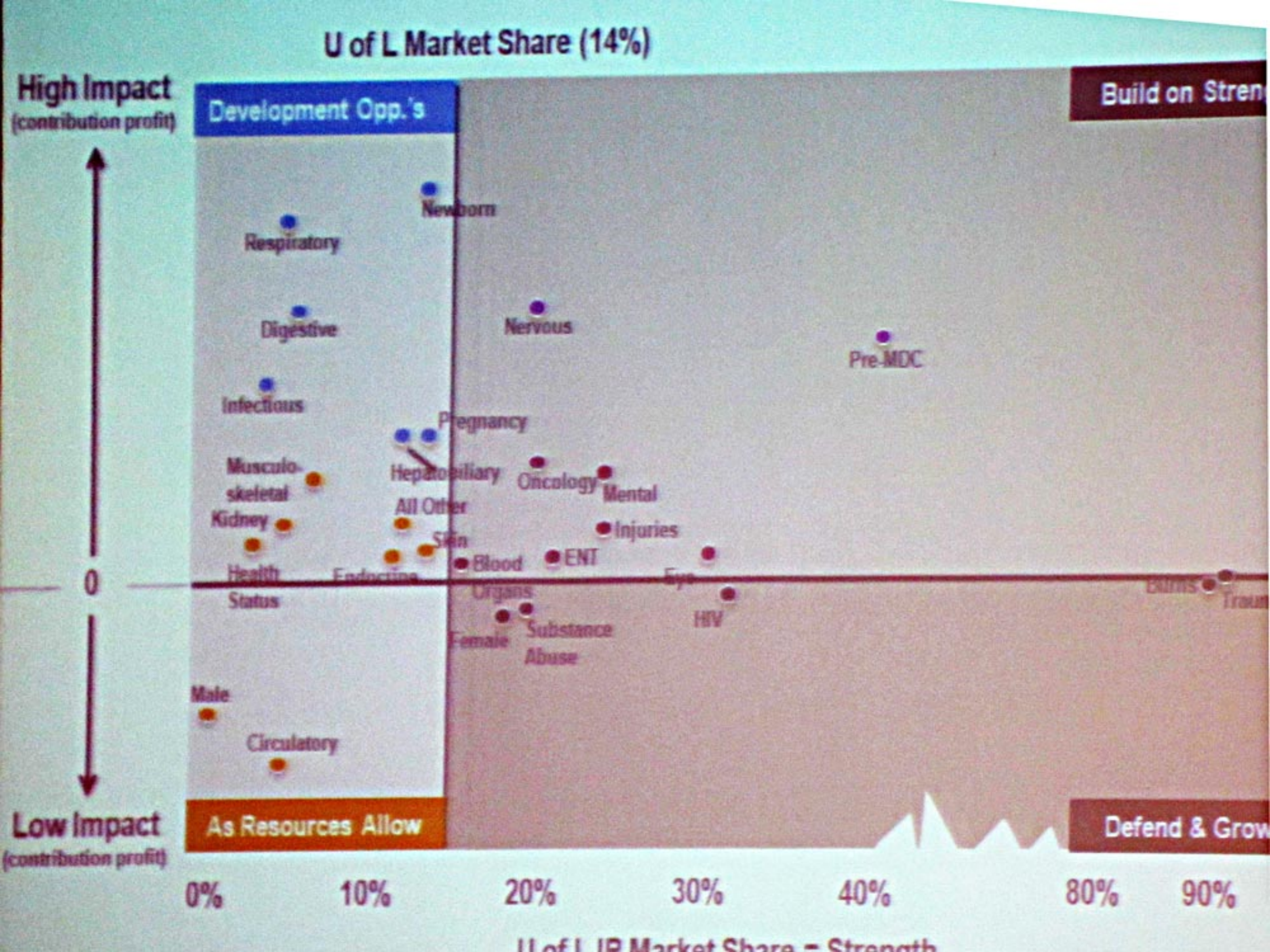
Internal Interviews	Status
Jim Taylor	Complete
Bob Barbier	Complete
Bob Rounsavall	Complete
Ken Marshall	Complete
Mary Jane Adams	Complete
Mark Pfeifer	Complete
Trauma Department (1)	Complete
ER Department (3)	Complete
IP / OP Surgery Department (1)	Complete
Stroke Department (1)	Complete
Cardiac Department (2)	Complete
Oncology Department (2)	Complete
Imaging Department (1)	Complete
Supply Chain & Mgt Engineer (2)	Complete

External Interviews	Status
Dr. David Dunn	Complete
Dr. Greg Postal	Complete
Mark Carter	Complete
David Jones	Complete
Dr. LaQuandra Nesbitt	Complete
Dr. Jim Ramsey	April 10
Dr. Kelly McMasters	April 11
Dr. Don Miller	April 11
Dr. Gerard Rabablais	April 12
Deb Moessner	April 12
Mike Lorch	April 12
Dr. Toni Ganzel	April 19
Dr. Shaio Woo (+1)	TBD
The Governor	TBD

Future State Opinions

*Because of the "**Value**" of U of L and in order to maintain its "**Viability**" as a safety net hospital and academic medical center, it was thought by interviewees that a partnership and/or merger was essential.*

Value	Unsustainable Status Quo
• Community Mission / Need	• Payer Environment
• Academic Mission / Need	• Competition
• Quality	• Physician Alignment
• Perception • Community, Physician, & Leadership	• Facility Challenges
• Operations	• Operations


U of L Market Share (14%)
High Impact
(contribution profit)
Development Opp.'s
Build on Stren
Newborn
Respiratory
Digestive
Nervous
Pre-MDC
Infectious
Pregnancy
Musculo-
skeletal
Hepatobiliary
Oncology
Mental
All Other
Kidney
Injuries
Skin
Blood
ENT
Health
Status
Endocrine
Eye
Burns
Trau
Organs
HIV
Female
Substance
Abuse
0
Male
Circulatory
Low Impact
(contribution profit)
As Resources Allow
Defend & Grow
0%
10%
20%
30%
40%
80%
90%
U of L I/P Market Share = Strength

Clinical Quality is Perceived Strong

Imperatives for Quality		July - September 2011 (Q3)		October 2010 - September 2011		Comparison
		Observed	Relative Performance	Observed	Relative Performance	
Reducing Variation in Care						
CMS Appropriate Care Measures (Current)	Rate %	85.5	◊	81	◊	Better
HQA AMI Composite	Rate %	94.6	◊	88.9	◊	Better
HQA HF Composite	Rate %	93.5	◊	83.8	◊	Better
HQA PN Composite	Rate %	93.3	◊	87.5	◊	Better
HAQ SCIP Composite	Rate %	72.8	•	73.2	•	Worse
Improving Patient Survival						
Quality and Accountability Aggregate	O/E Ratio	0.98	◊	1.3	•	Better
Percent of Cases with Admit Risk of Mortality 3 and 4	%	16.3	◊	15.6	◊	Better
Sepsis Mortality Index	O/E Ratio	2.04	•	2.1	•	Better
Stroke Mortality Index	O/E Ratio	0.74	◊	1.1	◊	Better
Transfer Deaths (%)	%	8.1	•	7.4	•	Worse
Coordinating Care/Patient Flow						
LOS O/E Ration (all cases)	O/E Ratio	1.07	◊	1.1	◊	Better
ED LOS	Hrs/pt		×		×	N/A
30 Day Readmission Rate (all cases)	%	10.1	◊	9.5	◊	Worse
Improving Patient Experience						
Palliative Care Proportion of Selected MS-DRGs	%	10.9	◊◊	10.3	◊◊	GREAT
HCAHPS Hospital Rating of 9 or 10	%	66.7	◊	69.2	◊	Worse
HCAPS Would Recommend	%	70.8	◊	72.7	◊	Worse

Legend

- • - Substantially Worse than Target Range
- ○ - Worse than Target Range
- ◊ - Within Target Range
- ◊◊ - Substantially Better Than Target Range
- × - No Data From Your Institution

Note: Information collected and measured against UHC members (between 97 and 138 reporting). Above information shows the most recent four quarters – October of 2010 to September of 2011 – compared against the most recent quarter – July – September 2011.

Clinical Quality is Perceived Strong

Value-Based Payment Calculator

U of L Score
28
Out of 100

Performance Period: Q2 2010 – Q1 2011 Payback Factor: 2.1

Baseline Period: Q2 2009 – Q1 2010

Financial Impact

Medicare Revenue:	$54,960,800
Withheld:	$549,608
Maximum Payment:	$1,154,177
Expected Payment:	$323,170
Lost Revenue:	**$831,007**

Clinical Operations is Perceived Strong

Key Performance Indicators - Supply Chain

positively unique DIXON HUGHES GOODMAN LLP

Health Organization Name:	University Louisville Medical Center	Location:	Louisville, KY
Key Statistics		**Annualized**	**Comment**
Total Supplies and Services		$ 98,000,000	*Estimated Purchased Services $7 million*
Total Group Purchasing Supplies and Services Spend		$ 50,552,852	*Sourced from Premier's Reconciliation 2011*
Supply Chain Operating Expenses		$ 521,585	*Sourced from Departmental Budget*
Cash Return from Group Purchasing		$ 942,241	*Sourced from Premier's Reconciliation 2011*
Total Adjusted Discharges (ADJ = 1.71)		29,919	*Sourced from Summary Statistics 2011*
Hospital Case Mix Index		1.49	*Self-reported Premier Operational Benchmarking*
Total Net Operating Revenue		$ 452,000,000	*Sourced from Summary Statements 2011*
Total Operating Expense		$ 442,000,000	*Sourced from Summary Statements 2011*
Facility-Wide Drug Expense		$ 29,224,000	*Estimated $12 million Oncology*
Facility-Wide Supply Expense (W/O Drug Expense)		$ 61,809,000	*Sourced from Summary Statements 2011*

		Comparative		
Key Measures & Data Validation	**Computed**	**25th Percentile**	**50th Percentile**	**75th Percentile**
Percent Group Purchasing Supplies and Services Spend	69.3%	> 75%	65%	< 55%
Percent Cash Return and Rebates to Supply Chain Operating Expense	180.6%	> 100%	0%	< 100%
Supply Expense as a Percent of Operating Revenue	20.1%	16.6%	19.3%	21.2%
Supply Expense as a Percent of Operating Expense	20.6%	17.3%	20.1%	22.5%
Facility-wide Drug Expense per CMI Adjusted Discharge (IS = 2.87)	$ 340	$ 208	$ 349	$ 418
Supply Expense per CMI Adjusted Discharge (IS = 2.03)	$ 2,042	$ 1,884	$ 2,095	$ 2,250

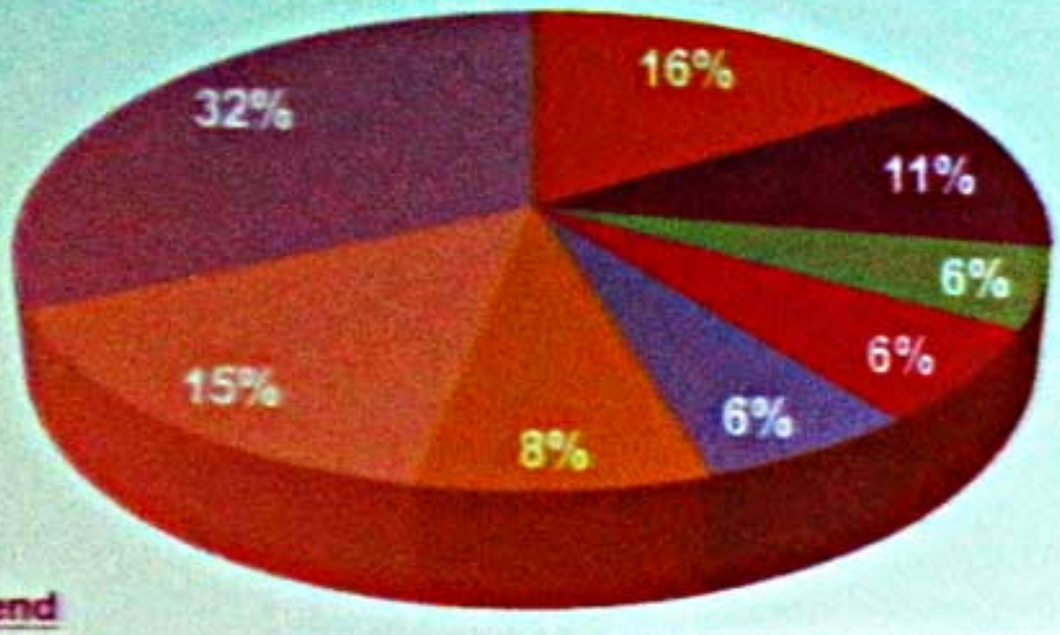
Notes: Supply intensity scores (IS) are based on DRG's and mix and are defined by Action OI, IS = 2.03 for all supply and 2.87 for drugs.

Annualized statistics from summary statements and statistics 2011, UofL Medical Center.

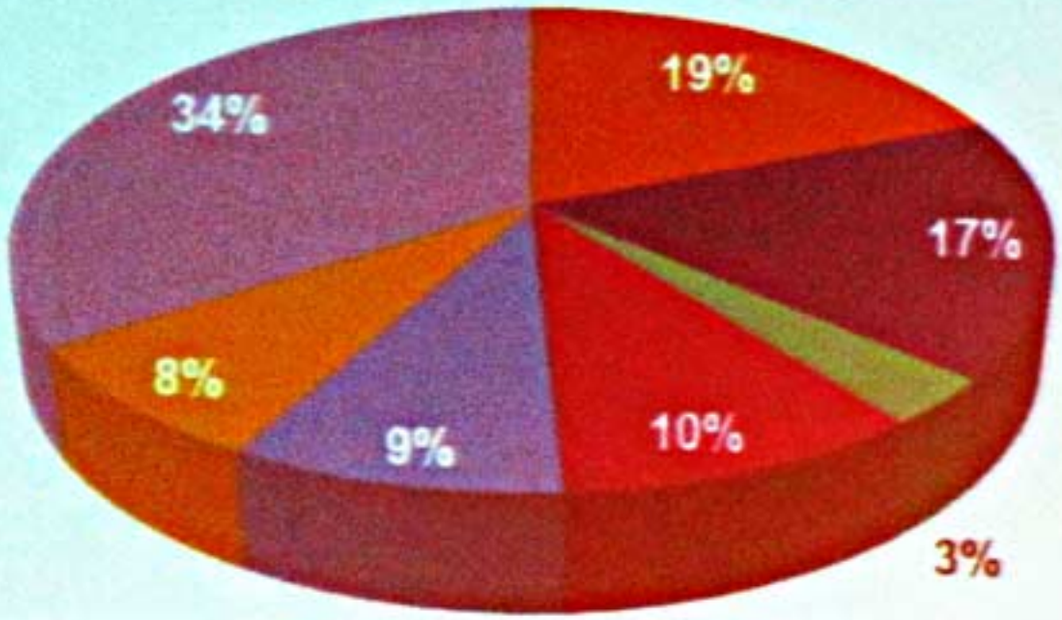
Comparative data extracted from Action OI summaries, UHC sampling of submissions as peer group.

Payer Environment Challenges
Organizational Mission

2009 Volume-based Payer Mix



2011 Volume-based Payer Mix



Legend

- Medicare
- Medicaid
- Humana
- Anthem BCBS
- Commercial
- Other
- Reference Lab*
- Charity/Self Pay

Payer Mix Shift

Payer	2009	2011
Medicare:	16%	19%
Medicaid:	11%	17%
Charity/Self Pay:	32%	34%
Total:	**59%**	**71%**

Payer Environment Challenges
Organizational Mission

Current State	2010	2011	Budget 2012
QCCT Payments	$31,998,204	$31,818,497	$31,711,635
Medicaid DSH	$36,996,196	$36,034,016	$36,000,306
Ky Medicaid UPL	$10,047,209	$10,338,293	$10,175,621
Passport Urban Trauma Payments	$14,974,362	$19,847,467	$26,708,976
Ky Meicaid/Passport GME	$20,855,565	$13,597,582	$5,320,000
Passport Charity Grant*	$0	($2,660,000)	$0

*Was paid back by State Attorney General mandate

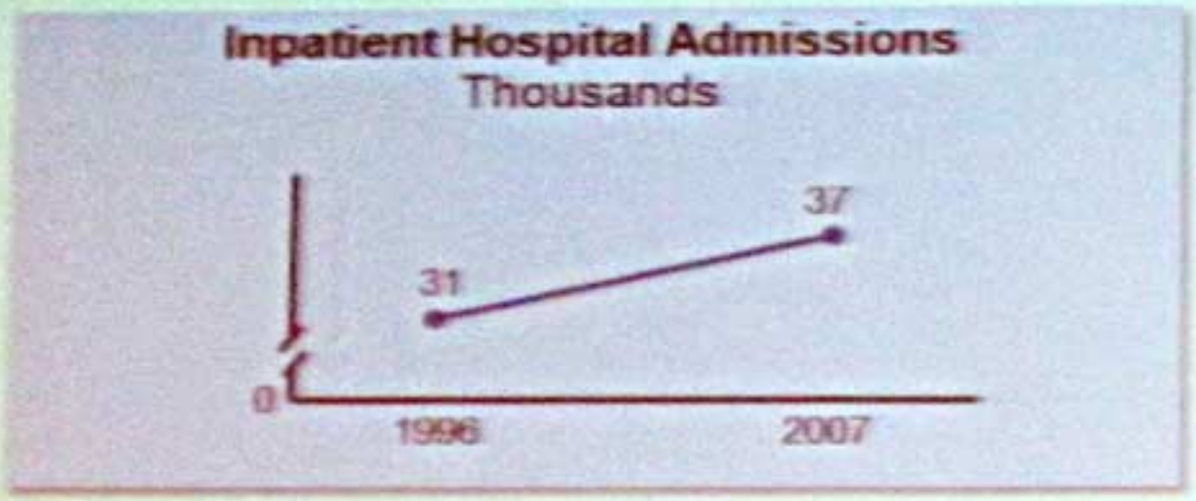
Payment Cuts

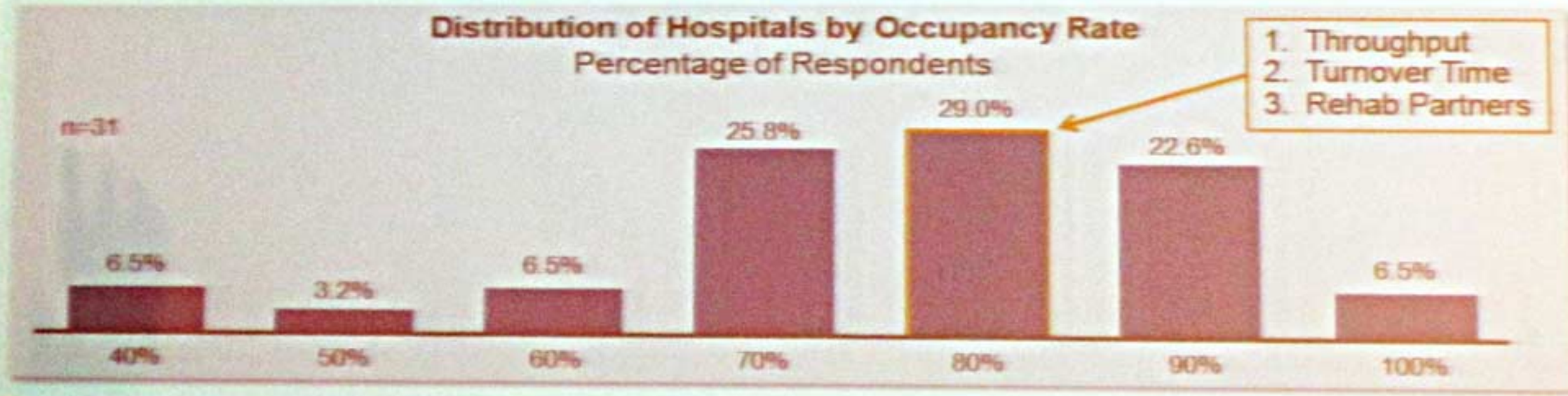
Passport:	10% Cut
Medicare DSH:	Cuts begin in 2014
Medicaid DSH:	Cuts begin in 2014
QCCT:	Pending Cuts / Elimination

Facility Constraints Inhibit Growth

Forced to Do More with Less

High Occupancy in the Face of Limited Bed Supply





Source: The Advisory Board

Next Steps / Action Items

- Set Remaining Ad Hoc Operations Committee Meetings
- Finalize Assessment Work Streams
- Assimilate Key Findings
- Prepare Preliminary Recommendations
- Prepare for Next Ad Hoc Report Out