

**Minutes of the University of Kentucky Board of Trustees**  
**University Health Care Committee**  
**May 1, 2017**

**I. Call to Order**

The University of Kentucky Board of Trustees University Health Care Committee met on May 1, 2017, in conference room 127 of the Charles T. Wethington, Jr. Building. The meeting was called to order by Robert Vance, Chair of the University Health Care Committee (“Committee”) at 3:30 p.m.

**II. Roll Call**

Committee members present included Chair Vance, James Booth, Kelly Craft, Cammie Grant and Barbara Young.

Committee Community Advisory members present included Mira Ball, Robert Clay, and Missy Scanlon.

University Health Care ex officio members present included President Eli Capilouto, Phillip Chang, MD, Robert DiPaola, MD, Robert (Bo) Cofield, DrPH, Colleen Swartz, DNO, MSN, RN, and Michael Karpf, MD.

Trustees Mark Bryant, David Hawpe, Kelly Holland, Michael Christian, Robert Grossman, Lee Blonder, William Britton, and Dave Melanson were also present.

**III. Approval of Minutes**

Minutes from the February 16, 2017, meeting were presented for approval by Chair Vance. Motion was made by Ms. Grant to accept the minutes and seconded by Mr. Booth. With no further discussion, the motion carried unanimously.

**IV. Sports Medicine Research Institute**

Scott Lephart, PhD, Dean, College of Health Sciences, University of Kentucky, provided the Committee an update on the Sports Medicine Research Institute.

The Sports Medicine Research Institute (SMRI) will be a multidisciplinary research institute with involvement from seven different colleges throughout the campus, UK Athletics, and UK HealthCare. Set to open on June 14, 2017, the 10,000 square-foot space will help position UK as a global leader for sports medicine research in the areas of musculoskeletal, neurobehavioral, and physiological/metabolic health. The likenesses between Special Operators and elite athletes calls for systematic approach to study in the areas of injury mitigation and performance optimization. Dean Lephart noted he has over a decade of experience in the area of injury mitigation research with U.S. Conventional and Special Forces.

Dean Lephart reviewed his Special Operations research and funding models, which have generated more than \$40 million in funding over the last 10 years. The new budget agreement will have around \$4.5 million in additional funding to target for the ongoing research with the United States Marine Corps Forces Special Operations Command (MARSOC). The four key domains of research priorities are: prevention, performance, treatment, and rehabilitation. Dean Lephart detailed the E. J. Nutter Training Facility and its importance as a building that houses

both academic and laboratory space to enhance research. SMRI worked with leadership from campus, athletics, and healthcare on the design of the space and SMRI will occupy about one-third of the space of Nutter.

Dean Lephart reviewed each of the four key research domains and what constitutes each domain's efforts and accomplishments. As an example of some early research in the musculoskeletal domain, he cited a study that showed that female athletes were eight times more likely than males to suffer ACL injuries in doing certain physical activities. Dean Lephart also cited a rider and jockey safety initiative being rolled out that will have a simulator and will explore the effects of concussions and other wear-and-tear on the body. The Institute also offers testing services to assess important performance and wellness metrics necessary to optimize physical performance and improve quality of life. With philanthropic support, he noted, SMRI will improve health by easing the burden of musculoskeletal conditions and concussions, and enhancing occupational, sport, and wellness capacity.

Trustee Hawpe asked a question about changes to sports practice techniques and how those are being evaluated. Dean Lephart noted that the changes are still very new and with the research being in its infancy, there is not yet a great deal of compelling data to evaluate. Many of the rule changes were made without significant research driving the policy decision, and he wants UK and SMRI to take a leadership role in that evaluation process.

Trustee Grossman asked about the performance and wellness services equipment, which Dean Lephart explained was very state-of-the-art. The air plethysmography machine allows researchers to capture an individual's body composition within five minutes.

President Capilouto asked a question about the higher incidence of ACL injuries for some activities among female athletes. Dean Lephart discussed his team's early research which hypothesized and then demonstrated that there was latency in the way the female muscles fired compared to male athletes during certain physical exertions. His research team developed a program to help counteract this and is now used by many women's basketball teams; the incidence rate is now much lower than 8:1, but still disproportionately affects female athletes.

Dr. Karpf noted that the Dean is working with UK's Department of Orthopaedics and Department of Rehabilitation to develop day-to-day applications for their research.

## **V. FY 2017 Year to Date Operating Results**

Craig Collins, Vice President and Chief Financial Officer, UK HealthCare, provided the Committee an update on the FY2017 year to date (YTD) operating results.

Overall, the enterprise financial performance is healthy but below budget projections. Year-to-date, operating margin is at \$115.6 million, which is (\$11.1 million) below a budget target of \$126.7 million. Operating margin year-to-date is 10.4%, slightly below plan (11.3%) but much healthier than the median academic medical center's typical margin. Operating income for hospital operations is \$19.4 million below budget year-to-date, but operating income for retail, contract, and specialty pharmacy is around \$8.2 million positive to plan. In March, UK HealthCare saw an 8.7% operating margin, below budget target of 12.3%. The March high targets for operating income and margin represent the fact this is an aspirational budget with very strong target numbers.

Many factors contributed to the operating revenues being \$17.3 million under budget year-to-date, including payer mix and outlier payments, patient volume and mix of services, and bad debt

and administrative adjustments for transplant. Mr. Collins noted that UK HealthCare saw a \$16.3 million positive variance from revenue cycle collection process improvements. Trustee Young asked how reimbursement could be this much lower than budget if the patient census was so strong. Mr. Collins noted that the mix of Medicare and Medicaid patients rather than commercial insurance patients was skewed differently than projected, and that outlier payments were more significant than projected.

Chair Vance said that it was important to note that UK HealthCare actually loses money on many of the observation cases if it is a Medicare reimbursement case. Dr. Karpf noted that around 50 percent of the observation cases change classifications after discharge and it is difficult to control for that. Mr. Cofield noted that UK HealthCare has made significant efforts on improving length of stay, which has had a positive correlation with the outlier payments and enabled the acceptance of more transfers into the hospital than ever. Dr. Chang cited the treatment plans for neonatal abstinence syndrome (NAS) babies as an example; UK has developed a process to get the babies and mothers home and closer to home more quickly. This process has a negative financial impact but is the right thing to do for patients.

Personnel expenses are \$20.2 million over budget year-to-date. Discharges are below budget by 202 patients but there has been a significant change in bed type mix between Intensive Care Unit (ICU), intermediate and routine days. Contract and outsourced employees are greater than budget, largely in support of expanded facilities and dietary services. Total paid full time equivalents (FTE) have reduced by 55 between the second and third quarters of FY2017.

Variable expenses are \$11 million over budget year-to-date, primarily due to increased surgical volume, retail pharmacy sales, and outpatient growth. Fixed expenses have a positive variance to budget of \$28.1 million year-to-date, due to reductions in consulting and contracting services. Positive variances year-to-date in Enterprise Investment Requests (EIRs) and depreciation of \$9.1 million are due to the timing of expenditures.

Year-to-date, average daily census, average length-of-stay, patient days, and case mix index are all above budget, while discharges are below budget. Observation cases are up from budget, outpatient cases are at budget, and short stays are below budget.

Since the fourth quarter of FY2016, UK HealthCare has added 924 FTEs; however, Mr. Collins noted, approximately 675 of these were transfers from the College of Medicine in a change of accounting procedure. Between the second and third quarters of FY2017, number of enterprise FTEs has dropped by 55, though there may be some increases during the fourth quarter as volume projects to increase and staffing needs increase. Mr. Cofield mentioned that many of the new beds are for ICU patients, which cost much more to staff than routine beds (around \$375 per hour). The increases in pool FTEs, coupled with decrease in contract FTEs is a positive and provides more flexibility to better staff the hospital. The contract FTEs also cost approximately three times more than pool FTEs. In summary, UK HealthCare is continuing to be diligent in managing the FTE process, but always with the goal of providing quality, uncompromising patient care.

UK HealthCare has 166.4 days (\$352 million) cash on hand, and maintaining strong cash on hand totals is always a priority for the enterprise. Operating cash in February and March 2017 are the two highest months for cash collection ever.

Mr. Collins summarized some key takeaways from the financial performance overall:

- Overall operating income of \$115.6 million is around \$11.2 million under a very aggressive budget.
- Discharges per day continued to increase during the third quarter, with a year-to-date average of 105.52/day and total of 28,912 which is slightly under budget but greater than last year through the third quarter.
- Operating margin from retail, contract, and specialty pharmacy make up approximately 50% of the overall operating margin. Year-to-date, volume of prescriptions dispensed has increased 11% from prior year and March 2017 was the first month with more than 44,000 prescriptions dispensed.
- Operating revenues from retail, contract, and specialty pharmacy make up approximately 50% of the overall operating margin, providing close to 40,000 prescriptions per month to patients across the Commonwealth.
- The acuity of patients continues to increase year over year and to budget; CMI is at 2.0173 and has been above 2.0 for 14 of the last 21 months, driving increases in census and patient days, as well as FTE growth.
- Management continues to focus on expense reduction activities by monitoring FTE requests, implementing supply and drug standardization, and focusing on Hospital Acquired Conditions (HAC) and Length of Stay (LOS) process improvements.
- An external consultant has been engaged to provide an assessment of value-based opportunities, and the results of the assessment will be shared with leadership at all levels to evaluate an implementation strategy.

Trustee Britton asked about expectations for the fourth quarter and where finances might project in relation to budget and FTEs. Mr. Collins believes the enterprise will meet budget but will come very close. He anticipates positive margins each month rather than a loss like last year. Dr. Karpf noted that FTEs are under control, even as UK has seen increased volume and case mix index. There were some unanticipated expenses that were not programmed into the budget, which UK is now monitoring and tracking.

Trustee Britton asked about the retail pharmacy operations and how that accounts for a great deal of the operating margin. Dr. Karpf detailed how the retail pharmacy process works. He highlighted the effectiveness of the Meds-to-Beds program and that the specialty pharmacy works to anticipate a patient's need and making sure that need is met as expeditiously as possible. Transfers and discharges have gone up, even while they are going down at other hospitals around the state, due in large part to the specialty services UK provides. UK has created a significant number of jobs to keep up with the growth in volume and has become an essential entity for Kentuckians.

Trustee Christian asked about the contract pharmacy services and Mr. Cofield said that around 90 percent of the services provided are related to provision of drugs. Trustee Christian asked about any relationships or work done with between UK's pharmacy and other extended care facilities in the region. Dr. Karpf answered that many of these extended care facilities don't use drugs the way UK does for patients, and that there is some difficulty from a compliance perspective in doing more. UK recently worked with St. Claire Regional Medical Center to launch their Meds- to-Beds program, but that these extended care organizations can

get better drug pricing from other sources than us. Colleen Swartz, UK HealthCare's Chief Administrative and Chief Nursing Officer, noted that when a patient is moving to another facility like Cardinal Hill Rehabilitation, UK works with the patient to ensure he/she maintains access to a particular drug.

Mr. Clay asked a question about how UK HealthCare is modeling for the future given the recent discussion of repealing and replacing the Affordable Care Act. Mark Birdwhistell, UK HealthCare's Vice President for Administration and External Affairs, emphasized that his team is continuing to monitor the legislative process and evaluate potential impact to UK HealthCare, but that a lot was still up in the air. There will be some changes coming next year that were already going to affect Medicaid reimbursement before the Trump administration took office but that reimbursement would never be better than it currently is. Dr. Karpf noted this is an important reason to be involved in the Kentucky Health Collaborative to work to anticipate these changes and be more efficient in the provision of care.

Trustee Young acknowledged Dr. Karpf's leadership and how UK HealthCare has now become essential in the state of Kentucky by focusing on quality of care, efficiency, costs, and patient safety. Dr. Karpf reminded the Committee that UK HealthCare will present its budget at the upcoming June retreat. Trustee Grossman asked if it would be Dr. Karpf's final retreat, and Dr. Karpf confirmed it should be his final one.

## **VI. Compliance Update**

Chair Vance noted that compliance activity is more important now than ever before. The Office of the Inspector General has recently issued some new guidance and he would like for each committee member to receive a copy of that guidance. He introduced R. Brett Short, UK HealthCare's Chief Compliance Officer, to provide the Committee an update on the corporate compliance program and process.

The objectives of the corporate compliance program are: to promote a culture of ethics and compliance that is central to all of the institution's operations and activities; to understand the nature of risks and potential risks; and to manage risks that lead to financial, legal, and reputational loss. UK HealthCare launched its first compliance program in 1997 with the primary focus on managing risks that lead to financial, legal, and reputational loss. Mr. Short outlined a three-step process for compliance activity. The first step is to identify and understand the activity, which could pertain to the delivery of health care, billing of services, research, education, or contractual relationships. The second step is to identify and understand the rules, standards, and regulations related to the activity. The third step is to develop and execute a compliance plan via a risk assessment. This third step is where a majority of the significant work in compliance is devoted.

Mr. Short reviewed the significant pieces of legislation that provide the regulatory framework for compliance departments. The False Claims Act, passed in 1863, still is a seminal guiding piece of legislation today, with a majority of health care claims cases going back to this law as a baseline. Corporate compliance works collaboratively with a number of individuals and departments at UK and UK HealthCare.

He detailed some key elements of an effective compliance program. Mr. Short noted three recent developments in the compliance field. The U.S. Department of Justice hired a "Compliance Expert" in 2016 and issued its new evaluation guidance in February 2017, and the Office of Inspector General (OIG) issued new guidance on effective compliance programs in March 2017. Mr. Short reviewed the 11 key areas of the DOJ's evaluation guidance. In

conclusion, compliance is a collaboration among departments, including Legal, Internal Audit, Quality and Safety, Clinical Risk Management, Enterprise Risk Management, Operations, Finance, and the Enterprise as a whole. He provided contact information for himself and the 24/7 Compliance Hotline.

Community Advisory Member Robert Clay asked a question about risk assessments and what is the top issue or concern that he sees from his perspective. Mr. Short stated that the continued growth is his office's biggest challenge. Looking at how UK partners and contracts with others is challenging as the enterprise continues to grow. He noted leadership's Outreach Advisory process which was rolled out in the last couple of years, which helps to put these potential partnerships in perspective and helps ensure that compliance is looped into the outreach process and ensuring that activities are fully compliant at each stage of outreach.

## **VII. Privileges and Appointments**

Dr. Cofield initiated a presentation for the Board's approval of the current list of privileges and credentials. A motion was made by Ms. Young to accept the privileges and credentials as presented and seconded by Ms. Grant. With no further discussion, the motion carried unanimously.

## **VIII. Informational Items**

### **A. FCR 3, A Resolution Providing for the Authorization, Issuance and Sale of Approximately \$171,000,000 General Receipts Obligations of the University of Kentucky, Pursuant to the Trust Agreements dated as of November 1, 2005**

Mr. Collins provided an informational update on FCR 3, which will be reviewed at Tuesday's Finance Committee meeting. This FCR calls for the Board of Trustees to approve a Resolution authorizing the issuance, in one or more installments, of approximately \$171,000,000 of University of Kentucky General Receipts Obligations, to be designated as "University of Kentucky General Receipts Bonds" with such series designation or designations that are appropriate to the order of issuance thereof.

The Resolution also approves the offering for sale of the UK HealthCare Facilities and Law Building Obligations in one or more installments, on a date or dates to be determined by the Treasurer of the University, upon the advice of the Financial Advisor to the University. The Resolution further authorizes the acceptance of the bid or bids for the sale of the UK HealthCare Facilities and Law Building Obligations by the Treasurer. The exact principal amount of UK HealthCare Facilities and Law Building Obligations to be sold will be determined on the date or dates of sale as the amount required to (i) pay the budgeted costs of the UK HealthCare Facilities and Law Building Project, (ii) fund any capitalized interest determined to be appropriate by the Treasurer of the University and (iii) pay the costs of issuing the UK HealthCare Facilities and Law Building Obligations.

The General Assembly, at its 2014 Regular Session, authorized the issuance of agency bonds to finance the "Expand/Renovate/Upgrade Law Building" project, and, at its 2016 Regular Session, authorized the issuance of agency bonds to finance the "Renovate/Upgrade Healthcare Facilities" project. The Board of Trustees, at its May 2016 meeting, approved the initiation of the Expand/Renovate/Upgrade Law Building Capital Project, and, at its June 2016 meeting, approved the initiation of the Renovate/Upgrade UK HealthCare Facilities (Phase I-I) Capital Project (Fit-up 12th Floor and Other Improvements).

Pursuant to the income tax regulations of the Internal Revenue Service, in order for expenditures made for a public project prior to the issuance of revenue bonds to be reimbursed upon the issuance of such bonds, it is necessary that the issuer express its official intent to issue such bonds or to have such bonds issued on its behalf and to reimburse such expenditures made prior to the issuance of such bonds.

**B. FCR 8, Approval of Lease (College of Medicine-Bowling Green Campus)**

Mr. Collins provided an informational update on FCR 8, which will be reviewed at Tuesday's Finance Committee meeting. This FCR calls for the Board of Trustees to authorize the Executive Vice President for Finance and Administration to negotiate and execute a lease between the University of Kentucky and Bowling Green Warren County Community Hospital Corporation (dba The Medical Center) for space located at 399 US31W ByPass, Bowling Green, Kentucky.

The leased space will support the UK College of Medicine-Bowling Green Campus initiative and house the delivery of didactic educational components and primary clinical training activities. The 24,000 square feet of leased space will provide both administrative and academic space, classrooms, multi-purpose rooms, a patient exam room suite with observation room, simulation lab that includes an observation room, and lounge/locker room area. The \$696,000 of annual rent will be funded with agency funds.

**IX. Other Business**

Dr. Karpf provided a brief overview of plans for the evening's board dinner to be held in Pavilion A. He will be showing some of the art in the hospital and the trustees will experience a teaching kitchen exhibition before dinner. These activities are some follow-ups to the integrated medicine programs and healing environment offerings discussed at the February University Health Care Committee meeting.

**X. Adjournment**

Seeing no other business, Chair Vance adjourned the meeting at 5:12 p.m.