Minutes of the University of Kentucky Board of Trustees
University Health Care Committee
December 12, 2016

I. Call to Order

The University of Kentucky Board of Trustees University Health Care Committee met on December 12, 2016, 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 4:00 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 Robert Clay, Luther Deaton, Mira Ball, and Missy Scanlon.

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

Trustees C.B. Akins, Sr., William Britton, Jennifer Yue Barber, David Hawpe, Kelly Holland, Michael Christian, Robert Grossman, and Lee Blonder were also present.

III. Approval of Minutes

Minutes from the September 8, 2016, meeting were presented for approval by Chair Vance. Motion was made by Ms. Grant to accept the minutes and seconded by Ms. Young. With no further discussion, the motion carried unanimously.

IV. Compliance Reports and Audits

Chair Vance briefed the Committee that he had met with Brett Short, UK HealthCare's Chief Compliance Officer, to review compliance reports and audits for the periods of January-March 2016 and April-June 2016 and that it was important to show Board oversight of UK HealthCare compliance. He detailed many aspects of how the Compliance process works. The three risk profiles Compliance identifies are legal, financial, and reputational, with the frequency of audits based upon the level of risk. Reports and audits reviewed indicated an increased focus on outpatient clinics, potential privacy breaches and conflicts of interest.

Chair Vance noted he and Mr. Short had reviewed these focuses, including monitoring capabilities and inappropriate access to medical records, communication during a potential disease outbreak on campus, civil rights investigations, handling language barriers, and more. Chair Vance stated that processes are in place so that every complaint is monitored and addressed. He will continue to review with Mr. Short as future audits are completed, and will keep the Committee posted in the future.

V. Clinical Update: Markey Cancer Center

B. Mark Evers, MD, and Director, Markey Cancer Center ("Markey"), provided the Committee an update on Markey's recent accomplishments and future goals and plans.

Markey became a National Cancer Institute (NCI) Designated Cancer Center in 2013, and today is still the only one in the Commonwealth. Markey's mission is to reduce cancer mortality in the state and region through a comprehensive program of cancer research, treatment, education, and community engagement with a particular focus on the underserved population of Appalachian Kentucky.

Dr. Evers noted the poor statistics regarding cancer incidence and mortality in Kentucky, particularly in the Appalachian region. This has been and will continue to be a key focus for Markey in the months and years ahead. Representatives of Markey recently visited the NCI and talked about Markey's catchment area. Dr. Evers reported that NCI leaders wanted UK to be the signature cancer center for the entire state – not only eastern and central Kentucky.

UK is one of the few schools in the nation with undergraduate and graduate medical education programs and an academic medical center. Markey has 163 cancer center members, including faculty from 11 colleges and 34 departments. Clinical volume has increased steadily since 2009, with a 44% increase in analytic cancer cases and 52% increase in outpatient cancer visits. Cancer research funding has increased from $28.8 million in 2012 to around $42 million this year, due in large part to receiving the NCI designation.

The Markey Cancer Center Affiliate Network (MCCAN) has affiliates throughout Kentucky, and now has 15 affiliates in the state. Dr. Evers noted some of the high visibility Markey has received in media coverage, including a PBS NewsHour broadcast and Newsweek article in 2016. He also highlighted the MCC Neuroendocrine Tumor Program, which is helping establish Markey as a national and international destination site for these tumors.

Along with the UK institutional recruitments of Robert DiPaola, MD (Dean, College of Medicine) and R. Kiplin Guy, PhD (Dean, College of Pharmacy), Markey has also successfully recruited several new leaders and researchers.

Dr. Evers previewed the process and criteria required for progressing to obtain the NCI's Comprehensive Cancer Center designation – the highest designation it currently gives. Achieving this will require the recruitment of more clinical and research faculty; additional clinical and research space over next five years; enhanced cancer screening, education, and clinical trials; and more focus on precision cancer treatments.

Markey's programmatic goals are to: position the center at the forefront of cancer research and treatment nationally; improved effective translation of Markey science from bench to bedside; offer more options to cancer patients seeking novel treatment; and ensure cancer patients do not have to leave Kentucky to receiving cutting-edge cancer treatments.

Trustee Blonder asked if Markey was involved in any cancer prevention programs across the states. Dr. Evers noted Markey has many screening sites throughout the state and many partnerships, such as the lung cancer screening partnership with Bristol-Myers Squibb and the University of Louisville.

Trustee Blonder asked if there was any thought of expanding the integrative medicine program. Dr. Karpf responded that UK HealthCare has put substantial resources into it already, including with the art therapy and music therapy programs. These programs require as significant amount of resources that UK HealthCare has already invested and the enterprise is very proud of the program.

Trustee Hawpe asked whether there was any existing affiliations or opportunities for affiliation with Pikeville Medical Center or facilities in the South Williamston area. Dr. Karpf responded that UK HealthCare has reached out and shown interest that has not been reciprocated others in the area. In time, there may be more interest in working together, he noted.

VI. Clinical Update: Interstitial Re-Irradiation

Jonathan Feddock, MD, Department of Internal Medicine, was introduced by Marcus Randall, MD, Chair, Department of Radiation Medicine, and provided the Committee an update on interstitial re-irradiation, an innovative treatment for gynecological cancers.

Kentucky ranks in the top 10 nationally for new cases of and deaths from cervical cancer and is 26th in new cases and 18th in deaths from uterine cancer. Dr. Feddock provided an overview of the two types of radiation options for gynecologic cancers – external beam radiation and interstitial radiation. Despite these initial treatments, local recurrences of gynecologic cancer can be common.

Dr. Feddock described how interstitial implants are a promising and unique treatment option for these cancers in several ways. Implants are permanent; are a very low dose rate that provides the lowest risk for long-term side effects; outpatients procedure with minimal sedation requirements; are able to treat small volumes; minimal requirements for procedural space and equipment; and have a relatively low treatment cost.

He traced the history of the procedure, first performing it with a gold-198 isotope and now with a Cesium-131 isotope. He described the procedure, treatment, and results of a sample patient case in which he had performed the implant. Dr. Feddock recently presented his research at the World Congress of Brachytherapy about the positive results he has seen at UK.

UK is an international leader in this particular treatment, Dr. Feddock noted. There have only been 75 interstitial implants performed in the U.S. for gynecological cancers using the Cesium-131 isotope. Of these, UK has performed 69. In four of the other six, Dr. Feddock directly assisted or consulted with the operating physician. Outside physicians are now seeking training in performing these Cs-131 permanent implants – Dr. Feddock recently assisted Dr. Akila Viswanathan at Brigham & Women's Hospital with the procedure, and UK also hosted internationally renowned Dr. DN Sharma in August who was on a fellowship for observation. Additionally, Dr. Feddock and Marcus Randall, MD, recently performed the first two equine cases for Cs-131 interstitial radiation.

Ms. Young asked when Dr. Feddock began performing these treatments and Dr. Feddock clarified he began them in 2011; Dr. Randall, who he trained under, started them in 1986 but with a different chemical isotope than Dr. Feddock currently uses. Ms. Grant asked how early must a cancer be detected to employ this treatment method and Dr. Feddock responded as early as possible, but that treatment viability varied from patient to patient.

Dr. Karpf noted that Dr. Feddock's work is an example of the national and international standards that UK is helping set.

VII. Quality Update: 2016 Quality and Accountability Study Performance

Robert "Bo" Cofield, DrPH, Vice President and Chief Clinical Operations Officer, UK HealthCare, provided the Committee an update on the enterprise performance in the 2016 Quality and Accountability Study conducted by Vizient.

Vizient's study measures more than 100 academic medical centers that submit data for the annual study, with the goal of driving qualify, efficiency, and cost performance across the care continuum. In 2016, UK received an overall ranking of 21st, up significantly from last year's ranking of 40th and the 2006 rating of 77th. With an overall score of 64.01%, UK was just 2.16% outside the top 10 in the study and is striving to reach the top ten in years ahead.

The study measures six different domains: mortality, efficiency, safety, effectiveness, patient centeredness, and equity. In five of these six, UK showed significant improvement from last year. However, in the safety domain, UK was ranked 45th, which was worse than the 31st ranking from 2015. Mr. Cofield detailed some of the safety metrics that led to this ranking and noted areas for improvement. Mr. Cofield's team recently completed a safety summit, and is SWARMing the pressure ulcer cases to ensure quality of care.

Trustee Hawpe asked if there was any indication why West Virginia was ranked in the top 10. Mr. Cofield noted that many of these institutions may be ahead of where UK is in regards to data and reporting. Dr. Karpf noted that West Virginia doesn't have a great deal of referrals but is focused on serving a very defined community and catchment area. Their outpatient population is not as sick as UK's, and the sicker the population, the more difficult it is to score highly using Vizient's metrics.

Mr. Cofield also informed the board on the status of the existing hospital-based contracts, which have not changed significantly from last year.

VIII. UHCC 1: UK HealthCare FY2017 Quality, Safety, and Patient Experience Plan

Mr. Cofield presented UK HealthCare's FY 2017 Quality, Safety, and Patient Experience Plan to the Committee. Four minor modifications have been made to the FY 2016 plan. First, a Diversity and Inclusion domain was added to the FY2017 Enterprise Goals. Second, language was changed from "patient centered care" to "patient and family centered care." Third, Vizient will be used as the primary source of comparison for performance metrics and benchmarks; it was formerly known as University Healthsystem Consortium. Fourth, UK HealthCare OptimalCare is now referenced as part of the Office for Value in Healthcare Delivery (OVIHD).

At this time, Mr. Cofield asked for a recommendation of approval on UHCC 1. A motion was made by Ms. Young to approve UHCC 1 as presented and seconded by Ms. Grant. With no further discussion, the motion carried unanimously.

IX. Financial Update

A. October FY2017 Results

Mr. Craig Collins, Vice President & Chief Financial Officer, UK HealthCare, provided the Committee an update on the FY2017 October operating results.

Overall, the enterprise financial performance is on track with budget projections. Year-to-date (YTD) operating income is at 10.92%, which is slightly above plan (10.4%) but well below this point in time last year. He previewed the assumptions built into the budget for the upcoming months, which include an additional 150 discharges beginning in January, an observed/expected length of stay reduction (around 5,000 days), system position vacancy adjustment, and reductions in supply chain expenses and Hospital Acquired Conditions.

Total discharges YTD are below budget, while length of stay, patient days, case mix index (CMI), and the daily census were all above budget and the prior year. He noted that in 10 of the past 16 months, the CMI exceeded 2.0, which indicates just how sick UK HealthCare's patient population is. Observation cases were above budget, while short stays, ED cases, and outpatient cases were below budget. Operating room cases were at budget. Operating cash is currently at $297 million, up from $253 million at this point last year, and UK HealthCare has 157 days cash on hand, with the goal of getting to 170 days cash on hand.

Mr. Collins reviewed the operational work teams formed to address some of the financial concerns. Dedicated work team areas to address these concerns include: supply and drug costs, administrative expenses, length of stay, radiology/laboratory utilization, Hospital Acquired Conditions, and diversion.

In conclusion, income from operations is at $53.2 million, which is within plan but significantly less ($28.3 million) than last YTD. Discharges are 370 below plan TYD, with a daily average of 101.74 versus a year-end target of 107.9. Patient days, CMI and average LOS continue to be greater than budget while other indicators (OR cases, outpatient cases, and ER cases) are flat to plan. Total net patient revenue is less than plan by $6.7 million, and operating expenses are $9.7 million less than plan. Of these operating expenses, personnel expenses exceeded plan by $5.5 million; variable expenses were below plan due to volume and patient mix; and fixed expenses were below plan due to timing and management of consultants. Operational leaders are engaging work teams to meet the budget assumptions upcoming in the next quarter. Floor ten is opening in January and will help accommodate the budget assumption of an additional 150 discharges.

Trustee Britton initiated a dialogue with a question about what UK HealthCare can do to curb personnel expenses, which he noted have increased dramatically despite the number discharges being down and length of stay being high. Mr. Collins indicated that some of the gap can be explained by a change in the way some things are accounted for in the operating budget (i.e. housestaff and Medical Directors are now accounted for in plan, which are offset by enterprise transfers) but that a lot of it was due to having staffing up to meet a projected volume increase that did not materialize. Mr. Collins noted again that just 19 FTEs were approved in FY2017 October as part of the process of being even more vigilant.

Trustee Britton expressed further concerns about cost control, noting that even though a process has been put in place, it doesn't appear to be having a major effect on the operating budget numbers yet. It will be paramount in the years ahead, he said. Dr. Karpf acknowledged there were some challenges from the operations aspect, but said that to catch up to the all-time high in volume last year, more nurses and personnel were hired to meet that increased patient need. Mr. Cofield highlighted that UK HealthCare is at the same rate as last

year when it comes to hours worked per CMI, and that the enterprise is benchmarking itself in the top 20th percentile this year rather than 35th percentile.

Dr. Karpf pointed out that at a 10.9% margin, UK HealthCare was still significantly higher than competitors. While volume is down across Kentucky, it is actually up at UK HealthCare, based on the FY2017 November and December statistics the enterprise is seeing. UK's strategy over the past 10 years has focused on growth. Trustee Britton pointed out that at this time last year, the operating margin was around 16%, as opposed to 10.9% this year, which raises a red flag. Dr. Karpf stated that we can expect to see all hospitals' operating margin shrink in the years ahead and that the 16% margin is unsustainable for any hospital. The enterprise needs to be focusing on how to generate a cash flow of $200 million dollars.

Mr. Deaton asked whether part of controlling the personnel costs would come through attrition or layoffs. Dr. Karpf responded that there are no current plans for reductions in workforce and that UK HealthCare is not far off from the operating targets it has right now.

Mr. Deaton asked what affect federal and state healthcare reform will have on the financial bottom line. Dr. Karpf believes there will eventually be a repeal and replacement with a system but that it is too early to tell. Part of ensuring this financial stability will be increasing discharges to 20,000 or more and protecting the referrals that we are currently getting, Dr. Karpf said.

Chair Vance stated that some of the disappointing financial numbers are a result of a failure to accrue some things in the fourth quarter of FY2016. He said those actions made the fourth quarter look worse, and the first quarter of FY2017 look better than they actually were. Dr. Karpf noted that UK HealthCare will be $3 million ahead for November but that he takes the Committee's admonition very seriously.

Trustee Hawpe asked about UK HealthCare's approach to Governor Bevin's proposed changes to Medicaid. Dr. Karpf answered that it's still difficult to determine what, if any, changes will be coming to Kentucky, but that the most important key for Kentucky is to get utilization of services now. No matter how the system changes, people will still need hospital care and complex care. Trustee Hawpe asked if changes will have a significant impact on the hospital revenue. Dr. Karpf responded that revenues may drop not necessarily because Medicaid changes, but because utilization decreases. With federal changes, some hospitals will be challenged and may be forced to close; the ones that stay open may actually pick up more cases, he noted. He identified narrow networks as a trend that may emerge, which could potentially put hospitals like UK in a position for fiscal success. He stated that given the regulatory uncertainty surrounding the recent Presidential election results and transition, UK HealthCare may reach out to external resources to monitor and review proposed changes as they emerge.

B. Business Items

i. FCR 11, Acquire/Renovate The University Inn

The University of Kentucky and the University Inn have held intermittent discussions regarding the purchase of property for several months. The property will provide essential space for the growth of UK HealthCare. Internal space planning indicates a shortage of up to 80,000 square feet. This shortage is largely due to significant growth in education programs and planned expansion of clinical facilities. Due to the current competitive real

estate environment as well as the limitation of other buildings and structures adjacent to the University's property, it is in the best interest of the University to acquire this property to provide needed clinical, administrative, and support space for UK HealthCare.

This acquisition and renovation is not expected exceed $9 million and $7.5 million, respectively. It will be funded with agency funds and have been authorized by the 2016 Session of the Kentucky General Assembly as part of the Implement Land Use Plan – UKHC and Improve UK HealthCare Facilities – Chandler Hospital pool projects.

A motion was made by Ms. Young to recommend approval to the Finance Committee and seconded by Mr. Booth.

Before the Chair called for a vote, Trustee Blonder asked what programs or clinical activities will be housed on the property. Dr. Karpf indicated that UK HealthCare is still in the planning phase for the space, but that a lot of it would be dedicated support space. Trustee Blonder noted that the University Inn is a popular place and families visiting campus would be affected. Dr. Karpf indicated that it is time to start looking for other places to help accommodate these families when visiting. Trustee Blonder noted that the FCR seemed like a big expenditure, given some of the financial discussion earlier in today's meeting. Dr. Karpf clarified that this purchase will likely go down as an asset and that it is not coming out of operational cash.

With no further discussion, the motion carried unanimously.

ii. FCR 12, Renovate / Improve UK HealthCare Facilities Capital Project (Simulation Center)

This project will renovate vacant space on the second floor of Pavilion H to create an expanded inter-professional state-of-the-art simulation center for the training of medical students, medical residents, faculty, and staff. The existing simulation center is currently confined to one room on the eighth floor of Pavilion H and no longer meets the training needs of the University.

The new UK HealthCare Simulation Center for Advanced Clinical Skills will include a multipurpose room for task simulation (learning discrete skills) and rooms designed to simulate care environments. Further, the Center will expand simulation opportunities with the inclusion of new high fidelity simulators, task simulators, and Advanced Cardiac Life Support (ACLS) manikins. Participants will be provided the opportunity to hone skills necessary to improve the safety and effectiveness of patient care, refine advanced techniques, and interact with other professionals.

The scope of this project is $5,500,000 and will be funded with agency funds. The project has been authorized by the 2016 Session of the Kentucky General Assembly as part of the Improve UK HealthCare Facilities - Chandler Hospital pool projects.

A motion was made by Ms. Grant to recommend approval to the Finance Committee and seconded by Mr. Booth. With no further discussion, the motion carried unanimously.

X. Privileges and Appointments

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

XI. Other Business

A. Facilities Update

Mr. Cofield provided the Committee a status update on Facilities, given the effects of the recent flooding that occurred in Pavilion A. The flooding affected the emergency department and central sterile operation. It did not affect care for any current patients, but forced the rescheduling of 47 operative cases for some time in December or January. He thanked campus, PPD, Information Services and all the healthcare parties for coming together to provide a quick and effective response.

B. FCR 9, Transfer of Real Property Received by Bequest from the Estate of Maquies Bentley

Mr. Collins provided the Committee with an update on the FCR to be presented at tomorrow's Finance Committee meeting. Ms. Maquies Bentley died on June 9, 2015, in Lexington, Kentucky. Ms. Bentley had been employed by UK HealthCare for 27 years as a Staff Support Associate in the Pathology/Clinical Lab Department and left her entire Estate to the University to benefit the Kentucky Children's Hospital. Assets received by the University include: a retirement account valued at $39,509.22; a life insurance policy death benefit valued at $159,814.21; the remainder of a bank account at Chase Bank with a current value of $80,064.26; and the Property with an appraised value of $17,000.

Mr. Collins noted that no action was required from the Committee at this time, but that he wanted to recognize Ms. Bentley's generous gift and outstanding service to the University.

Trustee Hawpe asked if the property left by Ms. Bentley had any mineral rights. Mr. Eric Monday, Executive Vice President for Finance & Administration, University of Kentucky, explained that the FCR was a transfer of real property, so it is a university request that runs through the Finance Committee and he promised to research this question more thoroughly in time for tomorrow's Finance Committee meeting.

C. Appointment/Reappointment to Board of Directors of the University of Kentucky Center on Aging Foundation, Inc.

Michael Karpf, MD, Executive Vice President for Health Affairs, University of Kentucky, presented to the Committee a list of recommendations for appointments and reappointments to the Board of Directors of the University of Kentucky Center on Aging Foundation. Under the Center's Articles of Incorporation, the UK Board of Trustees formally appoints members of the Board of Directors. The Foundation board members, the EVPHA, and President Capilouto support the nominations of: Ron Borkowski, Amber Lakin, Deirdre Lyons, Greg Mullins and Gale Reece.

Dr. Karpf noted that no action was required from the Committee at this time, but that it would be brought forward at tomorrow's meeting.

XII. Adjournment

Seeing no other business, Chair Vance adjourned the meeting at 5:53 p.m.