ANNUAL UPDATE

Presented to the Regents of the University of California

January 2005
Agenda

- Introduction of New Senior Management Team
- Construction Update
- Financial Update
  - FY 2004 Review
  - FY 2005 Budget and Outlook
- Financial Improvement Plan
New Senior Management

✓ **New Key Recruits:**

**David Callender, M.D.**
Associate Vice Chancellor, UCLA Hospital System

**Mitch Creem**
Associate Vice Chancellor, UCLA Medical Sciences CFO

**Tom Sibert, M.D.**
Associate Vice Chancellor, UCLA Faculty Practice Group

**Jay Kasey (Navigant)**
Interim Chief Operating Officer, UCLAMC Westwood and Interim Chief Administrative Officer Santa Monica UCLAMC

✓ **Recruitment in Process:**

Chief Administrative Officer, Santa Monica - UCLAMC

Chief Operating Officer, UCLAMC - Westwood
Ronald Reagan UCLA Medical Center
- Expected Occupancy: Summer 2006

Santa Monica – UCLA Medical Center and Orthopaedic Hospital
- Expected Occupancy
  - Emergency Room/South Tower: Fall 2005/Spring 2006
  - Main Hospital: Spring 2007
  - Final Demolition (Old facility): Spring 2008
**BOTTOM LINE** = $11.7 million ($18.3 million worse than Budget)

Total Operating Revenue = $929.5 million ($14.5 million better than Budget)

- Net Patient Revenue
  - ↑ Unbudgeted AB915 funding, Medicare settlements
  - ↓ Adverse payor mix change; partial cap contract conversion to per diem

- Other Operating Revenue
  - ↓ Reductions in state CTS funding; other reimbursement sources for patient care
Total Operating Expense = $ 912.3 million ($ 43.5 million worse than Budget)

- Salaries & Benefits, and Supplies
  - Patient day volume and acuity
  - Costly surgical implants and pharmaceuticals
  - FTE “creep”

- Professional, and Purchased Services, and Outside Provider Costs
  - Unbudgeted interim management
  - Medical purchased services
  - Unbudgeted outside provider costs

Non-operating Expense = - $ 5.5 million ($ 10.7 million better than Budget)

- Unbudgeted transition gifts
- Unbudgeted Tiverton House settlement
NET LOSS = -$ 5.3 million ($ 2.7 million worse than Budget)

Total Operating Revenue = $ 313.8 million ($ 1.0 million better than Budget)

- Net Patient Revenue
  - Adverse payor mix change
- Other Operating Revenue
UCLA Hospital System
FY05 YTD Month Ended October 2004
Performance Summary

Total Operating Expense = $315.4 million ($5.7 million worse than Budget)

- Salaries & Benefits, and Supplies
  - Nurse orientation costs
  - Union-negotiated retroactive salary expense
  - Temporary staffing

- Professional and Outside Provider Costs
  - Medical purchased services
  - Interim management fees, consulting services
  - Outside provider costs

Non-operating Expense = -$3.7 million ($2.0 million better than Budget)

- Transition costs
Fiscal Year 2005 Year-end Outlook:
- Breakeven probable if current performance continues
- $10 million net income if revenue enhancement and cost-savings interventions fully implemented
- Cash projected at $32 million for breakeven; $52 million if $10 million net income achieved

Issues to be Addressed:
- Payor Mix
- Length of Stay (LOS)
- Revenue Cycle
- Service Volume
- Supply Costs
- Personnel Costs
- Outside Provider Costs
- Purchased Services
## Financial Improvement Plan

### ✅ Phase I: Performance Improvement *(First Six Months)*

#### New Management Tools and Controls

| 1. Salary/FTE | ▪ Position Control  
                    ▪ Benchmarking |
|---------------|-------------------|
| 2. Supplies   | ▪ Supply Chain Management  
                    ▪ Value Management |
| 3. Capital Expenditures | ▪ Resource Allocation Committee  
                                   ▪ “Spending within our means” |
| 4. Revenue Cycle | ▪ Denial Management Tools  
                            ▪ Coding  
                            ▪ Contract Management  
                            ▪ Charge Capture |
| 5. Ambulatory Model | ▪ Reorganize and streamline  
                                  Outpatient Business Model |
Financial Improvement Plan

Phase II: Performance Improvement (Second Six Months)

1. Business Planning and Development
   -- Formalize Departmental Processes
   -- Clinical Program Evaluation: contribution margin analysis

2. FY06 Budget Development
   -- Zero-based approach
   -- Market-driven profitability targets

3. Service Line Development
   -- Focus on profitability of clinical services
   -- Clinical Departments accountability and responsibility

4. Review of Contracting Strategy and Performance

Phase III: Long Range Strategic Planning and Market Assessment (End of FY06)