



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

UCLA Hospital System Construction Update

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

UCLA Hospital System FY 2004 Performance Summary

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

UCLA Hospital System FY 2004 Performance Summary

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

UCLA Hospital System FY05 YTD Month Ended October 2004 Performance Summary

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

UCLA Hospital System Fiscal Year 2005 Financial Outlook and Issues to be Addressed

✓ 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:

- | | |
|---|---|
| <input type="checkbox"/> Payor Mix | <input type="checkbox"/> Supply Costs |
| <input type="checkbox"/> Length of Stay (LOS) | <input type="checkbox"/> Personnel Costs |
| <input type="checkbox"/> Revenue Cycle | <input type="checkbox"/> Outside Provider Costs |
| <input type="checkbox"/> Service Volume | <input type="checkbox"/> 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*)