VII. STANDING COMMITTEES

A. Academic and Student Affairs Committee

In Joint Session with

B. Finance, Audit and Facilities Committee

UW Medicine Annual Operations and Governance Report – Strategic Plan Overview

INFORMATION:

The UW Medicine health care system has made a number of important steps this year in implementing the strategic plan adopted last summer. The fundamental goal of the UW Medicine strategic plan is to achieve a fully integrated, balanced, and accountable health care delivery system. The strategies articulated in the plan are focused on building key clinical programs through direct investment and the development of core systems and organizational capabilities that provide the infrastructure for those services in support of our mission to improve health.

This report is for information only.

Attachments
1. UW Medicine Operations Report to the UW Board of Regents, June 10, 2010
2. UW Medicine Fact Sheet

UW Medicine Operations Report to the UW Board of Regents — June 10, 2010

Strategic plan overview

The UW Medicine health care system has made a number of important steps this year in implementing the strategic plan adopted last summer. The fundamental goal of the UW Medicine strategic plan is to achieve a fully integrated, balanced, and accountable health care delivery system. The strategies articulated in the plan are focused on building key clinical programs through direct investment and the development of core systems and organizational capabilities that provide the infrastructure for those services in support of our mission to improve health. More details on the UW Medicine strategic plan can be found at http://depts.washington.edu/uwmsp/.

Strategic priorities

Building key clinical programs will be accomplished by:

- Investing in the development of new centers of excellence in eye, pain, vascular, diabetes/obesity, and digestive disorders;
- Growing and defending our market position in established programs of cardiac, oncology, neurosciences, obstetrics/neonatology, musculoskeletal, and transplantation; and
- Ensuring continued public and community support for our core services of trauma, burn, behavioral health, and care for the uninsured and underinsured.

Building core systems and organizational capabilities will be accomplished by:

- Expanding UW Medicine's ambulatory and secondary care capabilities;
- Expanding strategic outreach and marketing throughout the WWAMI region to defend volumes in tertiary care and expand reach for quaternary care using Airlift Northwest and 24/7 Transfer Center.
- Consolidating patient access services (call center, transfer center) and expanding the scope to cover all UW Medicine clinical care entities;
- Engaging in a system-wide initiative to enhance service, quality and safety; and
- Investing in priority information technology systems to support our patient care, quality & safety, administrative and financial activities.

Advancing UW Medicine's educational and research programs through the planning and execution of appropriate strategic initiatives.

- Focused development of services, centers, and institutes that advance and expand the core services of UW Medicine through the translation of research to the bedside.

- Developing more robust training sites in ambulatory and secondary care settings.

Strategic initiatives

The actions we have taken to implement the strategic plan fall into three categories:

- Investment in programs, facilities, and systems;
- Organizational change; and
- Reallocation of resources.

As we have continued to implement the strategic plan for the UW Medicine health system we have modified elements to best position us for National Health Reform. Specific examples that I want to call your attention to today include adjustments to the UW Medicine IT strategic plan, adjustments to the sequencing of patient care units in the UW Medical Center expansion to meet new demands for strategic growth in oncology patients, Airlift Northwest (ALNW) 501C3 changes for optimum efficiency and financial improvement, and the plan for improvement of payer mix erosion that has been influenced by the economy this past year at Harborview Medical Center.

UW Medicine IT-Computerized Physician Order Entry (CPOE) – Regent's Action Item

We have accelerated the design and development of the final element of our Online Record of Clinical Activity (ORCA) project – Computerized Physician Order Entry (CPOE). In 2002, UW Medicine embarked on the selection and implementation of an electronic medical record (EMR) to unify patient data residing in various paper and electronic sources and to provide tools for documenting care, viewing results of diagnostic tests, monitoring patient status, and ordering of patient care interventions, supplies and services. While many of these objectives have been achieved through the investment to date in ORCA, transition of clinicians' order management processes to the EMR has not yet been undertaken. This proposed CPOE Project is the primary component of the fourth phase of the ORCA project. CPOE has the potential to decrease medical errors, facilitate best medical practices, strengthen regulatory compliance, and optimize business objectives. Specifically, the CPOE Project is intended to solve clinical/business issues associated with the current paper-based patient orders management processes.

UW Medicine health professionals at the University of Washington Medical Center (UWMC) and Harborview Medical Center (HMC) currently write patient orders on the paper chart. These orders are then transcribed by a clerk onto a paper requisition which is then transported to the appropriate essential service department (e.g., Radiology, Laboratory, Pharmacy, etc) where the order goes through additional processing before the request is fulfilled. In the case of medications, imaging, lab and nutrition orders, the orders are then entered into a separate electronic departmental system. The current processes related to order management are inefficient and provide caregivers limited information about the type and status of previous orders. Implementation of CPOE will provide:

<u>Enhancement to Patient Safety & Quality</u> – Multiple quality assurance processes are currently required to mitigate the occurrence of errors. These are manual processes that are resource intensive and do not provide the level of safeguards that CPOE provides. Examples include:

- Hand-written orders are not always legible and details are prone to misinterpretation.
- Hand-written transcription of order details to requisition forms by staff is resource intensive and an additional point of error introduction.
- Orders entered for medications can have significant interactions with other medications or allergies.
- There is no process for continuous review using electronic decision support advancements
- Paper-based orders are occasionally lost in the multiple hand-offs within the ordering location, between ordering and ordered service location and within the servicing location.

System Efficiencies – The current hand written order management mega-process is comprised of a complex series of batch and serial processes. While component sub-processes may be effective, the resulting system has a number of efficiencies to be gained. Examples include:

- Multiple hands-offs and interim processing steps result in an extended period of time to get an authenticated request into an order fulfillment queue.
- Ordering health professionals must spend time collecting relevant patient data points from paper and systems to inform their ordering decisions.
- Patient care unit staff spend time transcribing orders from order sheets to requisition forms.
- Fulfilling department staff manage work queues with paper-based processes.
- Orders with incomplete or inappropriate order specifications result in phone calls to units or practicing health professionals for clarification.

These universally understood clinical/business challenges related to paper-based orders have received a great deal of national exposure over the past decade. This scrutiny ultimately resulted in federal government action as part of the American Recovery and Reinvestment Act of 2009 (ARRA). Among its criteria, ARRA requires the use of CPOE and sets specific targets for use between 2011 and 2015 including mandates, financial incentives and penalties. ARRA anticipates health professional and physician use of CPOE to begin in 2011. The guidelines state that in order to receive incentive payments, hospitals are required to enter 10% of their orders using CPOE in 2011, and must be at 100% CPOE by 2015, with substantial penalties starting in 2015 if CPOE is not in full use. For UW Medicine, estimates of incentive payment opportunities range from $10-18 million over the initial four years. Correspondingly, penalty payments start at $3 million per year and could exceed $24 million by 2017.

A significant amount of effort to implement CPOE will go towards re-design of operational processes such as care delivery, order authorization workflow and service department delivery, and inpatient transfer and discharge processes. Because of the impact of CPOE on clinical practice throughout UW Medicine, the project steering committee includes the medical directors and chief nursing officers, the president of UW Physicians, director of pharmacy, and director of IT clinical applications. The steering committee will utilize standing clinical practice and quality committees to assist in guiding the project and ensuring input. UW Medicine has been working on the detail planning for CPOE in order to prepare a project investment plan for approval. Total project budget investment costs include:

Project staffing – internal salaries/benefits		$ 14,218,700
Service contract with Cerner		4,898,700
Service contracts – other external providers		3,240,700
Staffing / labor contingency		5,959,300
External contract vendor travel/expenses		783,800
Software license and maintenance		62,000
	Total	$ 29,163,200

In addition to project investment costs, five year operating costs for software licensing and maintenance and operations staff will total approximately $13,700,880. The project implementation plan is based on a 27 month schedule, with an additional six months for contingency. Project initiation is contingent on approval of the project investment plan by the Washington State Department of Information Services and the Information Services Board, which has oversight for information technology acquisitions by state agencies and institutions.

UW Medical Center (UWMC) Expansion Project - Regent's Information Item

We are planning a modification to the first phase of the UWMC expansion project to complete the eighth floor in lieu of the fifth floor. Over the past year, UWMC has experienced significant growth in medical oncology, hematologic malignancy, and Blood and Marrow Transplant (BMT) volumes. An additional inpatient hematology/oncology team has been added to support the increased hematologic malignancy/acute leukemia demand from the Seattle Cancer Center Alliance (SCCA). Additionally, the SCCA expanded its BMT service to a fifth outpatient team to be able to accommodate an additional 100 stem cell transplants per year by 2014. Additional bed capacity is needed for these patients and to support this clinical program. The strategic plan that has been jointly developed with the SCCA for oncology services was updated in April 2010. The updated plan anticipates continued significant growth in BMT and hematologic malignancy patient volumes beyond what has been experienced this past year. A total of 50 additional beds for oncology patients are forecast to be needed by 2014, 26 of which are specifically needed for BMT and hematologic malignancy.

To address the BMT and hematologic malignancy specialized bed needs, UWMC will build out the 8th floor of the inpatient tower rather than the 5th floor in the current phase of the expansion. While the 5th floor met the need for general oncology beds, the 8th floor location is required for BMT and hematologic malignancy patients due to the need to treat these patients in rooms with special HVAC systems that are most easily accommodated on the top floor of the wing. The cost of the phase 1 would increase by about $11 million (5%). The total project cost (phase 1 and 2) would increase by about $4 million or 1% since the estimated cost of phase 2 would decline by about $7 million. UWMC will use cash to fund the change. Doing so will not materially impact UWMC's cash position nor ILP covenant on days cash on hand. The amount of debt issued for the whole project does not change. This change has been reviewed with the Treasurer's Office and they are in agreement.

Airlift Northwest (ALNW) 501C3 Dissolution - Regent's Information Item

In July 2009, the ALNW Board asked for an evaluation of the implications of dissolving the 501 (c) (3) status of ALNW in order to achieve further cost savings and improve financial viability. This evaluation was supported by all three founding partners-Harborview Medical Center, UW Medical Center and Seattle Children's Hospital. After thorough review and consultation with UW Assistant Attorney General, UW Human Resources, UW Risk Management and review of the potential process improvement and cost savings opportunities associated with UW Medicine Management of Airlift Northwest (ALNW), management is prepared to propose a process to the ALNW Board to dissolve the 501 (c) (3) status and structure ALNW as a distinct operating unit of the University of Washington. The summary is being brought forward now to the Board of Regent's as an information item.

Airlift Northwest (ALNW) was created in 1982 by an Inter-hospital Agreement between Children's Hospital and Regional Medical Center (now renamed Seattle Children's Hospital), Harborview Medical Center, University of Washington Medical Center and Providence Seattle Medical Center for the purpose of providing quality medical air transport services for critically ill and seriously injured patients within

the Pacific Northwest and Alaska. ALNW grew to include eight bases in Washington and Alaska. Subsequently, ALNW closed bases in Ketchikan, Alaska and Wenatchee, Washington in 2008 and 2007 respectively. Currently, Airlift Northwest responds from one of six bases located strategically throughout the Pacific Northwest and Alaska. With helicopters based in Bellingham, Arlington, Seattle and Olympia, ALNW teams arrive within minutes to sites throughout Washington. Airplanes based in Juneau and Seattle enable ALNW to provide timely air medical transport services to a much broader region, including any location in the continental United States, Canada or Mexico. ALNW contracts for aviation services, including pilots and aircraft maintenance, with Air Methods, Inc. (rotary wing) and Executive Flight, Inc. (fixed wing). The aircraft are leased by the respective vendors with the exception of one Agusta helicopter that is owned by ALNW.

From 1982 until 2002, Airlift Northwest operated as a contractual consortium through an Executive Committee comprising leaders from HMC, UWMC, Children's, and Providence as well as the President and Medical Director of ALNW. This committee developed Airlift Northwest's mission statement; approved the annual budgets; reviewed quarterly financial statements and set policy direction. In 2002, the decision was made to reorganize ALNW as a 501(c) (3) nonprofit corporation with HMC, UWMC and Children's as the members of the corporation. Each member appoints one trustee to the ALNW Board.

The decision to restructure Airlift Northwest to a 501 (c) (3) nonprofit corporation was based on an impending change in the requirements of the Center for Medicare and Medicaid Services (CMS) Medicare rules governing provider-based services. Effective October 1, 2002, the new Medicare provider-based rules would have prevented the hospitals from billing for services provided by Airlift Northwest because the services were based outside the physical plant of the hospitals. The consortium members would benefit from ALNW becoming a separate organization billing and collecting directly for air ambulance services.

Subsequent to the reorganization of ALNW, but prior to the implementation of these new rules CMS published a clarification in the Federal Register stating that the new provider-based rules would not apply to ambulance services.

There are three key factors supporting the decision to bring ALNW into the University. First, there are added costs of doing business as a separate corporation, including Business and Occupational tax liability and the cost of outside counsel. Second, currently ALNW already substantively functions as a unit of the University. The management and the majority of the staff of ALNW are University employees, ALNW assets are invested through the UW Investment Pool, and ALNW participates in the professional liability program of the UW. Third, Harborview currently records a 70% interest in ALNW on an equity method basis. As a result, the assets, liabilities, and operating results of ALNW are not rolled up into the UW financial results.

The following tables summarize the financial status of ALNW, based on the audited financial statements for the fiscal year ending June 30, 2009:

ALNW Balance Sheet FY 2009

Current assets	**$12,950,791**	**Current liabilities**	**$ 4,460,025**
Equipment and leasehold improvements (net)	**$ 5,059,348**	**Long term debt**	**$ 2,373,321**
		Unrestricted net assets	**$11,176,793**
Total assets	**$18,010,139**	**Liabilities and net assets**	**$18,010,139**

ALNW Income statement FY 2009

Patient service revenues (net)	**$32,235,706**
Other revenue	**$ 554,650**
Total revenue	**$34,790,356**
Operating expense	**$34,144,658**
Operating income	**$ 645,698**
Non-operating income	**$ 268,589**
Total income	**$ 914,287**

The draft transition agreement calls for all of the assets of ALNW to be distributed to the University for the purpose of continuing the operation of ALNW. Children's has waived its rights to any assets provided that ALNW's assets are not subsequently transferred to a third party.

The draft transition agreement also ensures that Children's remains an integral part of the oversight and planning activities for ALNW, including membership on the Advisory Board, provision of pediatric medical direction, oversight and provision of pediatric-related training, and participation in the Quality Improvement program. Current Children's nursing staff assigned to ALNW will either transition to UW employment or remain as Children's employees and be leased to ALNW.

ALNW will continue to operate as a distinct business unit within UW Medicine, maintaining its own financial accounting and reporting system and will continue to be audited annually as a distinct business unit. ALNW will contract for air ambulance services with third party payers as part of UW Medicine and will bill and collect for services provided. In consultation with UW Accounting and Tax management, it has been decided that ALNW will retain a unique tax ID number to facilitate contracting with and billing to third party payers. As noted earlier, the financial results of ALNW will roll up into the UW financial statements at the end of each fiscal year. UW Medicine will provide for additional legal support from the UW's Attorney General's Office.

Management recommended support of the recommendation of the ALNW Board to approve the transition of ALNW from a 501(c) (3) corporation to an organizational unit of the UW, under the aegis of UW Medicine. The ALNW Board voted to approve this recommendation at their May 2010 meeting.

The recommendation was reviewed and supported by the Harborview Board of Trustees, the UW Medicine Board and the Seattle Children's Board.

Over the past two years, ALNW under new leadership has made a remarkable financial turnaround from losses sustained in FY 07 & FY08 through diligent process improvements. ALNW has also improved the overall quality and safety of the air medical service through key investments in aircraft upgrades and the implementation of a state-of-the-art safety program. Financial performance YTD April is $1.6M ahead of budget for a total income of $2.0M. In fiscal year 2010 cash on hand rose to $9.1M which allowed for the retiring of $2.6M in long term debt in March for the one Agusta helicopter owned. Current cash on hand YTD through April is now $6.5M.

Harborview Medical Center – FY 10 Financial Status - Regent's Information Item

Harborview has recorded a loss of $14.3 million through March of this year. Based on patient volumes and payer mix in April, this loss may increase. The loss figures do not include $15.7 million in positive adjustments that are likely to be recognized in FY10, primarily resulting from settlements with the state under the certified public expenditure (CPE) program, implementation of the Professional Services Supplemental Payment program, and process improvements. These adjustments frequently occur between the fiscal year end close (June 30, 2010) and the completion of the independent audit (October/November 2010). It is possible that we will see an improvement in volumes and payer mix in May and June as the trauma volumes generally pick up as the weather improves and travel and recreational activities increase. However even on the optimistic side, we are not projecting to end the year at better than a break even position, which was the approved budget.

Harborview has $175 million of available cash reserves. These reserves were built over the past number of years from the positive operating results at Harborview. Even though there is an operating loss, the cash flow margin (i.e., excluding depreciation) will be a positive $26 million based on current estimates. Thus, Harborview is in a position to weather the operating losses without substantial erosion of its balance sheet. This is not a sustainable position in the long run, however, as it would not permit Harborview to maintain a reasonable capital investment plan. In the near term, it does provide us with an opportunity to address the erosion of payer mix, which is the fundamental issue driving the losses.

The key factor affecting Harborview's financial position has been the deterioration of the commercial payer mix and an increase in unsponsored patients. Payer mix is partially driven by the deterioration in the economy. As the employment numbers improve, the payer mix should benefit, but this is difficult to forecast.

The team is closely evaluating options for strengthening payer mix. They are also working to continue to consolidate services, as appropriate across the health system, to reduce cost and improve productivity and access for patients. Reducing duplication allows us to serve patients from all walks of life in the highest quality and lowest cost manner. These options are being carefully discussed and addressed in our UW Medicine Strategic Plan and are reviewed with the Harborview Board of Trustees to ensure that

HMC maintains its commitment to serve the mission populations. This is a specific commitment spelled out in the UW/King County/Harborview management contract.

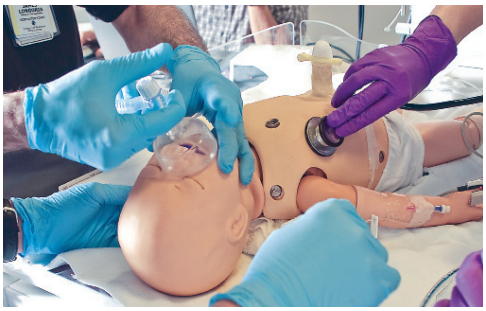
It is also important to note that for the last two years, Harborview has been in the process of bringing two large building additions on line. The Maleng inpatient building was opened in 2008, and the Ninth and Jefferson Building was opened in 2009. These additions provided the opportunity for new program development such as the UW Medicine Vascular Center and the UW Medicine Eye Institute as well as the expansion of existing programs as part of the strategic planning effort. These programs are in the process of ramping up now and Harborview is projecting an increase of 6% to 7% in surgical volume in FY 2011. These programs will have a regional draw, and should serve to diversify and strengthen the payer mix.

UW Medicine, as a comprehensive health system providing clinical care, teaching and research, will continue its efforts to evolve and implement key elements of the strategic plan and adjust the plan as needed to remain responsive to a rapidly changing and highly competitive health care environment. We look forward to providing updates to the Board of Regent on a periodic or as needed basis to keep informed of the progress and key issues.

UW Medicine

FACT SHEET

www.uwmedicine.org



UW Medicine's mission

To improve the health of the public by advancing medical knowledge, providing outstanding primary and specialty care to the people of the region, and preparing tomorrow's physicians, scientists and other health professionals.

Components of UW Medicine

UW Medicine owns or operates:

- Harborview Medical Center
- University of Washington Medical Center
- Northwest Hospital & Medical Center
- UW Medicine Neighborhood Clinics
- UW School of Medicine
- UW Physicians
- Airlift Northwest

UW Medicine shares in the ownership and governance of:

- Children's University Medical Group
- Seattle Cancer Care Alliance

People

- More than 18,300 employees contribute to the mission of UW Medicine.
- The School of Medicine has approximately 2,000 employed faculty members and more than 4,600 clinical faculty across the WWAMI program who teach medical students, residents and post-doctoral fellows.
- UW Medicine has approximately 4,500 students and trainees across a broad range of undergraduate, professional and post-graduate programs.

Patient care

- About 51,000 admissions each year to UW Medicine's two core academic medical centers, Harborview Medical Center and UW Medical Center, and Northwest Hospital & Medical Center
- About 1.4 million outpatient and emergency room visits to the hospitals and clinics annually

Faculty includes:

- Four Nobel Prize winners
- 33 Institute of Medicine members
- 32 National Academy of Sciences members
- 16 Howard Hughes Medical Institute investigators
- 10 Canada Gairdner International Award recipients
- Five National Academy of Engineering members

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UW MEDICINE HONORS & ACTIVITIES

WWW.UWMEDICINE.ORG

RESEARCH

UW Medicine is a leader in stem-cell research

The UW Institute for Stem Cell and Regenerative Medicine has one of the nation's largest concentrations of researchers studying human embryo cells. UW faculty members are conducting basic research in biology, engineering and medicine to find potential and innovative uses of stem cells to treat various medical conditions, including heart disease and blindness.

Center for AIDS Research (CFAR)

The UW has been at the forefront of HIV/AIDS research since 1988 and is one of the first AIDS research centers in the United States.

Pancreatic cancer research

Teri Brentnall, UW professor of medicine in gastroenterology, led an international team of scientists that discovered the link between a genetic mutation and familial pancreatic cancer. The team also developed a screening protocol for the disease using endoscopic ultrasound.

Tumor Vaccine Group

The UW Tumor Vaccine Group is working on a cancer vaccine to prevent cancer relapse. Despite advances in surgery, chemotherapy and radiation, patients with cancer may ultimately relapse because of residual microscopic disease. Our cancer vaccine program targets that patient population whose disease has been optimally treated with standard therapies but who remain at risk for relapse.

The Institute for Health Metrics and Evaluation (IHME) at the UW is an independent research center that is rigorously measuring the effectiveness of responses to the world's most pressing health issues. The institute provides scientific evaluations of health system and health program performance in order to guide health policy and accelerate global health progress.

The UW School of Medicine is ranked consistently among the top three schools in receipt of National Institutes of Health grant funding in *U.S. News & World Report* surveys.

THE 2011 RANKINGS:

1. Harvard University
2. University of Washington
3. University of Pennsylvania

UW School of Medicine research provides a significant economic benefit to the community.

UW Medicine generated more than $800 million in research funds last year. A number of established and start-up biotechnology companies, including Zymogenetics and ICOS, have their roots in UW School of Medicine research.

EDUCATION

The five-state WWAMI regional medical educational network, serving Washington, Wyoming, Alaska, Montana and Idaho, is widely considered the best academic model for the training and placing of physicians in underserved communities.

The UW School of Medicine has been ranked as the No. 1 primary-care medical school in the country for 17 consecutive years. In addition, UW Medicine teaching programs are ranked among the best in the country in the 2011 rankings by *U.S. News & World Report*.

CLINICAL CARE

UW Medicine medical centers are ranked among the top medical centers.
Several UW Medicine programs were ranked highly by *U.S. News & World Report,* including rehabilitation medicine and cancer.

Harborview Medical Center is the only Level I adult and pediatric trauma and regional burn center serving Washington, Alaska, Montana and Idaho. Harborview was the 2007 recipient of the prestigious Foster G. McGaw prize, which honors excellence in community service and outreach in health care. Harborview is owned by King County and managed by the University of Washington. All staff are UW employees, and all physicians are UW faculty. Harborview and UW School of Medicine faculty physicians based there provide more than $150 million in charity care per year.

UW Medical Center ranked in the top 1 percent out of more than 5,000 major medical centers in the 2009 "Best Hospitals Honor Roll" by *U.S. News & World Report* and was the first medical center in the country to achieve Magnet Hospital certification, the highest honor awarded by the American Nurses Credentialing Center. It is also a leader in solid organ and stem cell transplantation, Regional Heart Center care and high-risk neonatal care.

Northwest Hospital & Medical Center is a full-service, nonprofit community hospital offering personalized, technologically advanced medical, surgical and therapeutic services. Its staff of health-care professionals is recognized for promoting wellness through early detection and prevention, minimally invasive interventions and innovative clinical practices. HealthGrades has recognized Northwest Hospital for excellence and has ranked it among the top 5 percent of hospitals in the nation for patient safety for four years.

UW Neighborhood Clinics is a network of primary care clinics with seven neighborhood locations throughout the greater Puget Sound area. The clinics offer a complete spectrum of primary-care services for the entire family, from pediatrics to geriatrics. They also offer ancillary services, including on-site laboratory and X-ray facilities and nutrition services.

Airlift Northwest, an air medical transport program, was founded by a consortium of hospitals in the Seattle area, including Harborview Medical Center, UW Medical Center and Seattle Children's. Airlift Northwest has provided air medical transport for more than 80,000 patients since 1982.

Medic One is an international model for emergency care. It was developed in a collaborative effort among Harborview, the Seattle Fire Department and the UW School of Medicine. The system, one of the first of its kind in the world, is the model most emulated by communities throughout the country.

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