

# UW Medicine

## **University of Washington Medical Center Proposed Expansion**

**Prepared by:**

UNIVERSITY OF WASHINGTON  
**MEDICAL CENTER**  
UW Medicine

**March 2006**

## **UWMC Profile**

- On-campus teaching hospital of the Schools of Medicine and Dentistry
- FY2006 YTD annualized:
  - 18,100 admissions
  - 330,000 clinic visits
  - Total gross revenue: \$950 million
- Key Service Lines:
  - Oncology
  - Cardiac Services
  - Solid Organ Transplantation
  - Orthopaedics
  - Otolaryngology
  - Neurosurgery
  - Perinatal Services

## **UWMC's Organization-Wide Strategies**

### **Basic Assumptions**

1. UWMC must remain a strong player in the region, with the right mix of patients to provide appropriate teaching experiences for students of the Schools of the Health Sciences and to assure continued accreditation of the Medical School residency programs to achieve our educational mission.
2. UWMC will continue to seek knowledge that leads to new cures and improved care, and make those discoveries available to its community. UWMC's clinical and translational research attracts an excellent faculty and serves as a unique strategic competitive advantage.
3. Organization support for programs or services will derive from three principles as follows:
  - Is the service or program supportive of UWMC mission and goals with respect to training and/or clinical research?
  - Does it have a service line administrative structure and/or essentially complement other existing UWMC programs and services?
  - Is it supported by a strong, financially viable business plan with broad multidisciplinary faculty and administrative support?

### **Organization-wide Strategies**

1. Focus on patient safety, an abiding commitment to service, and the quality of our care through the PASCO methodology and the Annual Operating Plan (including associated metrics and targeted goals), to drive operational and financial improvements and provide exemplary patient care regionally and nationally.
2. Continue to emphasize service line development as the catalyst for all programmatic growth, including related or complementary services.
  - Oncology
  - Solid Organ Transplantation
  - Regional Heart Center
  - Orthopaedics
  - Neurosurgery Otolaryngology/Head and Neck Surgery
  - Perinatal Services
3. Decrease average length of stay to maximize efficiency and utilization, achieve operating cost improvements, increase capacity for servicing new growth and avoid larger capital outlays than currently contemplated.

4. Realize increased productivity and market share growth in Diagnostic Imaging given market opportunities and trends in image-guided therapy that are supported by our recent major UWMC capital investments.
5. Improve financial stability by focusing on achievement of annual budget objectives and realizing improvements from implementation of a benchmarking database.

### **Why Was a Comprehensive Facility Planning Study Done?**

- Continued growth of services to the region, particularly in service lines
- Programmatic needs of the School of Medicine and Schools of the Health Sciences clinical and training programs
- Space shortages (teaching and clinical support)
- Changing technologies
- Facility obsolescence
- Requirements to maintain competitiveness
- Limited site availability
- Financial planning for UWMC

### **Financial Thresholds for Project Set by UW Medicine Board**

In October 2005, the UW Medicine Board approved moving ahead with hiring an architect to begin the design of the proposed expansion. At the same time, financial thresholds for the proposed project were set, based on preliminary financial projections that assumed a debt issuance in 2007, impacting FY08 projected values. To the extent that the timing of the debt issuance changes, financial thresholds will change, particularly related to days cash on hand.

<b>Indicator</b>	<b>Threshold</b>	<b>FY2006 YTD December Performance</b>
Operating Margin	2.7%	1.6% 4.1% Month of December 2.6% Month of January (3.5% FY07 Budget)
Excess Margin	2.7%, 1 <sup>st</sup> Quarter FY07 3.0% ,1 <sup>st</sup> Quarter FY08	2.7%
Days Cash on Hand	70 days, 1 <sup>st</sup> Quarter FY07 100 days, 1 <sup>st</sup> Quarter FY08	75 days
Debt Coverage Ratio	3.3, 1 <sup>st</sup> Quarter FY07 3.0, 1 <sup>st</sup> Quarter FY08	4.2

### **Practical Realities of Advancing UWMC's Mission**

- UWMC is a high volume, low margin business with high fixed costs.
- Core healthcare economics are challenging, e.g., the rate of annual cost increase outstrips the rate of annual payment increase from insurers.
  - In a typical year, salary (including steps) and benefits increase more than 4%, pharmaceutical expenses increase 8%, and other expenses increase 3%. On a weighted average basis, expenses increase 4+% annually.
  - In a typical year, Medicare and Medicaid increases are 2% or less and commercial payors are forecast to increase 4%. The composite rate of payment increase is usually under 3%.
- Every year, management embarks on initiatives to increase net revenue and decrease expenses through improved process efficiencies.

- Volume growth is the key to achievement of budgetary targets as it both increases net receipts and it also reduces the cost per unit.
- At some point without expansion, UWMC will use its facilities and equipment to the maximum extent and will no longer be able to grow. At that point, UWMC will not be able to sustain its mission.

### **Can UWMC afford this expansion?**

- Yes. UWMC has thoroughly analyzed the financial impacts.
- The risk is mitigated by the financial thresholds the UW Medicine Board has set for the project.

### **Long term impacts of not proceeding with expansion**

- Limited ability to continue to grow programs which are essential clinically and financially; difficult to turn program growth “on and off”.
  - Oncology
  - Solid Organ Transplantation
  - Cardiac
- Improvements in operating efficiencies currently in process, particularly shortening the average length of stay for inpatients, will provide much needed additional capacity for only a few years into the future. Without an addition, sufficient capacity to meet projected need will not be available.
- Without additional capacity, UWMC loses its ability to respond to market opportunities. Currently, capacity is constrained enough that response to a major market opportunity is not possible. In particular, UWMC would be particularly vulnerable to a shift in an even more undesirable payor mix as competitor hospitals in the region would be able to attract patients covered by commercial insurance, leaving UWMC to serve those who have less choice in where to receive their healthcare.
- Portions of the UWMC facility, such as inpatient nursing units and diagnostic imaging, would still not be competitive with other hospitals in the city and region. When a facility lags behind the competition for too long, it is usually difficult to catch up, causing market position to be compromised.
- Facility morale would suffer, as hope for critical program expansion would be dampened.
- Inability to meet needs for contemporary teaching spaces.

### **Short term impacts of not proceeding with expansion**

- The limited window of opportunity to build in the southeastern portion of campus before Sound Transit’s construction starts will be lost. Without moving ahead quickly, UWMC will be forced to attempt to permit and construct its expansion at the same time Sound Transit is doing its construction at the Husky Stadium site. A delay of up to six years (the amount of time Sound Transit is expected to be on campus) would significantly delay UWMC’s ability to meet its documented needs.
- UWMC’s short term financial position would improve.
  - Cash on hand could increase since the \$35 million of cash UWMC would have used for its equity contribution to the financing of the expansion would now be available for other uses. (This assumes an \$85 million project cost, with \$50 million in debt issuance.)
  - Operating margin could increase as less expense would be incurred to service the anticipated \$50 million in debt. That said, there would be a high risk of deterioration to payor mix.
- Debt capacity could increase since UWMC would not be borrowing the \$50 million for the expansion.

**ATTACHMENT**  
**Summary: Comprehensive Facility Planning Study**

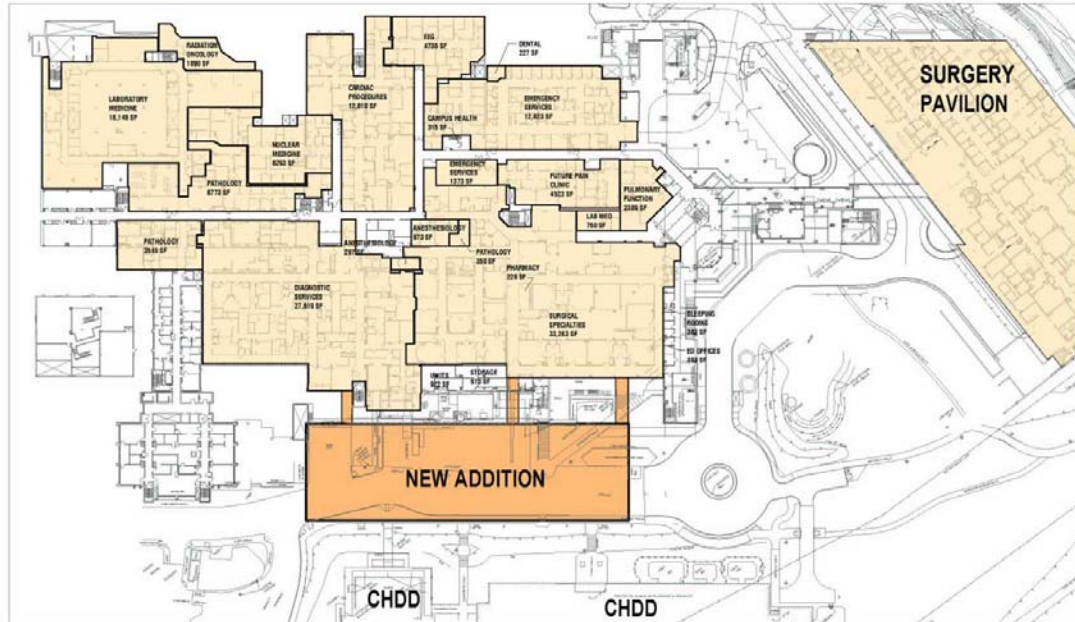
## **What was the recommendation of the Comprehensive Facility Planning Study?**

(Reviewed at the November 2005 Finance, Audit and Facilities Committee meeting)

**Conclusion:** The immediate and future needs of UWMC, based on its current significant space deficiencies and future strategic direction, cannot be accommodated with the configuration of the existing facility.

Expansion on campus and limited renovation of existing facilities best addresses the many constraints:

- UWMC should immediately initiate detailed planning, design, and funding for a new South Addition. This proposed addition would greatly alleviate workload demands in ICU, Imaging, Acute Care, and Surgery. Constructed over Columbia Road, to the south of the existing hospital, it will accommodate immediate and future unmet space needs.
- Improvements should continue to be made within the existing medical center to improve NICU, Imaging, Surgery, Labs, Pharmacy, Psychiatry, and Rehabilitation Medicine; provide additional support space for Muiienburg Tower nursing units; and provide space for teaching, education, and offices.
- UWMC should continue to look for opportunities to relocate services off-site.



## Phase I: 2005 to 2015

Build a new 4-story addition over Columbia Road and renovate limited portions of the Pacific Tower (leaving an unmet need of 129,500 BGSF). While this site is not identified as a development site in the Campus Master Plan, it is likely the addition (Phases I and II) would be considered a movement of square footage within a sector and a minor plan amendment.

	NEW	PACIFIC TOWER			MUILENBURG TOWER			
		S	N	E	SE	NE		
9			<b>Mechanical</b>			<b>Mechanical</b>	9	
8		CLINIC	REHAB (20)	GYM	INFUSION	28	8	
7		CRC 3	PSYCH (20)	REMODEL*	28	30	7	
6	<b>MECHANICAL</b>	OB 14	NICU 32	LDR 9	28	30	6	
5	<b>SHELL (30)</b>	OB 18	PF/ICU SUP	ICU (12)	ICU 22	30	5	
4	<b>UNIV. (30)</b>	OFFICES	OFFICES	SHORT STAY (29)	28	30	4	
3		CLINICS	CLINICS	CLINICS	CLINICS	CLINICS	3	
2	<b>IMAG. &amp; SHELL</b>	IMAGING	CARDIAC	MISC./EMS	SURGERY	SURGERY	2	
1	<b>EXISTING DOCK</b>	CAFE	ONCOLOGY	MAT. MGMT	MAT. MGMT	PHARMACY	1	
		35	72	41*	106	148		
		<b>30</b>						
	<b>STACKING</b>							
	432 BEDS (+ 30 SHELLED) = 462 POTENTIAL BEDS + 7E REMODEL							
	(* 7E Remodeled Beds not included)							

## Phase II: 2015 to 2025

Vertical expansion of additional inpatient bed floors.

	NEW	PACIFIC TOWER			MUILENBURG TOWER			
		S	N	E	SE	NE		
9	<b>BEDS (30)</b>		<b>Mechanical</b>			<b>Mechanical</b>	9	
8	<b>BEDS (30)</b>	CLINIC	REHAB (20)	GYM	INFUSION	28	8	
7	<b>BEDS (30)</b>	CRC 3	PSYCH (20)	REMODEL*	28	30	7	
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3		CLINICS	CLINICS	CLINICS	CLINICS	CLINICS	3	
2	<b>IMAG. &amp; SHELL</b>	IMAGING	CARDIAC	MISC./EMS	SURGERY	SURGERY	2	
1	<b>EXISTING DOCK</b>	CAFE	ONCOLOGY	MAT. MGMT	MAT. MGMT	PHARMACY	1	
		35	92	32*	106	148		
		<b>150</b>						
	<b>STACKING</b>							
	563 BEDS vs. 563 BED FORCAST + 7E REMODEL							
	(* 7E Remodeled Beds not included)							