UNIVERSITY of KENTUCKY BOARD OF TRUSTEES
UNIVERSITY HEALTH CARE COMMITTEE RETREAT
June 16, 2008

MEMBERS	Mr. James Hardymon Judge Phillip Patton Dr. Charles Sachatello Ms. Myra Tobin Mr. Billy Wilcoxson
COMMUNITY ADVISORY MEMBERS	Mr. Luther Deaton Ms. Pam Miller Ms. Barbara Young
ADVISORY MEMBERS	Dr. Lee T. Todd Jr. Dr. Michael Karpf Dr. Richard Lofgren Dr. Jay Perman Mr. Murray Clark Dr. Michael Cibull Mr. Frank Beirne Ms. Caroline Henderson
GUESTS	A number of guests representing UK HealthCare administration and management including the deans of the health care colleges were present.

I. CALL TO ORDER

The meeting was called to order at 8:00 a.m. by Mr. James Hardymon.

Dr. Karpf began the meeting by reviewing the development of the vision for UK HealthCare and outlined how the retreat would be an update in the context of how that vision has evolved over the last five years and the need to recalibrate our plan for the next five years. Dr. Karpf then introduced Mr. Bradford Koles from The Advisory Board Company.

II. STATE OF OUR INDUSTRY 2007-2008 PRESENTED BY BRADFORD KOLES

Mr. Koles presented an overview of the current environment found in the healthcare industry. His presentation focused on changes in volume of care being delivered across the industry, the ongoing mission of providing cheaper care and then discussed "disruptive innovations" in care delivery. He first discussed how patient care volumes were lower than expected across the nation for a variety of reasons including a better than usual flu season, a decrease in serious cardiac inpatient stays and a shift

of inpatient days to observation days over the past few years. He stated that the shift to outpatient treatment from inpatient treatment is likely to accelerate. He then discussed the ongoing drive from payors, especially the Centers for Medicare and Medicaid Services to reduce the rate of growth of costs of healthcare. He discussed the use of pay-for-performance plans, physician reimbursement changes and other reimbursement changes emerging in the industry. The third section of Mr. Koles presentation focused on possible "disruptive innovations", meaning emerging trends in the industry that could significantly change how care is delivered or reimbursed. He concluded with presenting the challenges that we face as an industry and discussed the leadership approaches to these changes.

III. RECALIBRATING THE VISION

A. FACILITIES UPDATE

Dr. Karpf reviewed the facilities plan for UK HealthCare. He outlined each phase of the facilities plan under the original plan and the recalibrated plan. He set out goals for the meeting to finalize components of Phase 1a, begin detailed facility and financial planning of phase 1b, move forward on the conceptualization of Phase 2 and begin early conceptualization of Phase 3.

Mr. Clark then presented the UK HealthCare Chandler Hospital Facilities Master Plan and Construction Project Update. He explained how the master facilities plan was meant to be evolving to meet the challenges faced and to meet the needs of all of its constituents. He explained how the plan has evolved since the inception of the plan to present on a yearly basis. He then gave an update on the construction project explaining what had been completed so far and what is scheduled through its opening in 2011. He also gave a detailed update on the budget for the patient care facility project including construction underway and bids that have been finalized. There was then detailed discussion regarding a further defined Phase 1b.

Dr. Karpf outlined the plan for moving beyond Phase 1a including: options for completion dates; expediting Phase 1b in order to avoid significant inflationary risks and operating costs; and modifying Phase 1a to include other services.

B. ADVANCED SUBSPECIALTY CAPABILITIES

Dr. Jay Perman then discussed the growth of the College of Medicine faculty over the past five years and the expected growth in the upcoming year. He explained how this growth was targeted in advanced subspecialties and has resulted in corresponding inpatient market share growth in these areas. Not only has UK HealthCare experienced significant growth, but UK physicians are being recognized as leaders locally and in many cases nationally. Dr. Perman concluded this section by discussing plans for future program enhancements including physician recruitment in specific subspecialties including radiology, interventional pulmonology, neurology, and emergency toxicology.

C. OUTREACH NETWORK AVAILABILITY

Dr. Karpf and Mr. Joe Claypool then updated the committee on the clinical outreach activities of UK HealthCare. He summarized outreach activities in secondary and tertiary markets throughout the State showing how UK HealthCare was steadily

increasing market share. These increases in the secondary and tertiary market have been across all payor types with the most marked increase in managed care. As planned the case mix index for patients across the system has increased signifying that we are serving more complex patients. Mr. Claypool discussed specific clinical network development efforts including the affiliate programs for the Markey Cancer Center, the digestive health program, the UK Children' s Hospital, and the transplant programs. There was also a brief discussion of specific developing relationships with community providers including Harrison Memorial Hospital, St. Claire Regional Medical Center and Rockcastle County Hospital. He concluded by briefly discussing other possible strategic partnerships throughout the State.

D. QUALITY, SAFETY AND EFFICIENCY

Dr. Karpf began the next section by discussing the strategic planning process and how it related directly to quality, safety and efficiency. He then explained how part of addressing these issues at UK HealthCare had resulted in a reorganization of the UK HealthCare' s operations. Specifically all of the enterprise' s healthcare operations have been consolidated under a single management organization being led by Dr. Richard P. Lofgren. Dr. Lofgren then discussed the charge and organization of the Office for HealthCare Operations and the operating principles currently being implemented.

Dr. Lofgren then outlined a number of operational initiatives including specific accomplishments in quality which include the creation of the Center for Enterprise Quality and Safety. He then discussed the adoption of Lean process tools and the resulting outcomes. UK HealthCare has received numerous awards at a national level recently for improvements throughout the organization. He highlighted marked improvements in throughput and operational efficiencies including the ability to adapt to dramatic changes in the growth of discharges. The integration and utilization of UK Good Samaritan Hospital was discussed. This includes the successful integration of the corporate functions, the retention of key community physicians, its dramatic financial turnaround, its continued planned growth and the important transition of service lines from UK Chandler Hospital to the newly acquired UK Good Samaritan Hospital.

Other operational improvements were discussed including the operating room redesign accomplishments, physician computerized order entry, customer service, and imaging services. Dr. Lofgren then discussed specific infrastructure tasks and major outcome goals for the organization. Infrastructure tasks include the integration of corporate support functions, increasing the effectiveness of managers and improving employee satisfaction. Major outcome goals include continuing the growth and impact of clinical services, improving the outcomes and quality of clinical services, improving efficiencies and improving service. He concluded by discussing the growth in discharges and the projected growth of inpatient discharges in the future.

E. STRATEGIC PLANNING

Dr. Karpf then discussed projected growth in discharges and average daily census over the past three years and projected growth for the upcoming two years. This level of growth will significantly change our comparison cohort for teaching hospitals and

will necessitate that we develop additional capacity. He then discussed in some detail financial planning for this growth including potential capital investments needed through 2010 in the context of historical performance and projected future revenues. He noted that volume projections for FY 2009 are well ahead of the original Patient Care Facility financial model. The acquisition of Good Samaritan provides UK HealthCare with the necessary bed capacity until the new facility is completed. Net revenue is expected to continue to exceed the original targets. Cash on hand is also sufficient to meet the cash requirements of the patient care facility.

F. FINANCES

Mr. Sergio Melgar then presented the annual financial update. He began by explaining that the system has seen a 21% growth in FY 2008 over FY 2007. With this growth UK HealthCare has become the market leader by increasing its overall market share from 28.5% to 43.3% between 2004 and 2008. He reiterated that this increase has been driven by the trends discussed earlier in increased volume and market share in key service lines and becoming the provider of choice across payor types.

He then summarized how these trends were being used to forecast financial performance for FY 2009. Trends in inpatient services, outpatient services and operating revenue were discussed in detail. The UK HealthCare system saw a 22% increase in salary cost over FY 2007 for FY 2008. A large portion of this salary cost increase was due to the addition to staff, but some was also due to a higher skill mix needed for operations. He detailed changes seen in purchased services, supply expense, bad debt expense, and investment income from FY 2007 to FY 2008 and discussed the projected changes for FY 2009.

Mr. Melgar also noted that the balance sheet at the end of FY 2008 reflects the acquisition of Good Samaritan Hospital and the completion of debt issues related to the Patient Care Facility. At the end of FY 2008 the UK HealthCare Hospital System will exceed $1 billion in aggregate assets. Mr. Melgar discussed hospital system risks that UK HealthCare will face and summarized accomplishments from 2008. He concluded with an overview of the FY 2009 Capital Plan and then reviewed financial statements summarizing FY 2004 to FY 2009 performance.

G. RECALIBRATING THE VISION – SUMMARY AND APPROVALS

Dr. Karpf then recapped the discussions so far. He noted that Phase 1a of the Patient Care Facility will be totally bid out by September and this phase will cost approximately $532 million. The phase is on schedule and budget. UK HealthCare is now beginning Phase 1b in detail and the cost will eventually be $240 million. Phase 1b will be implemented incrementally as the organization can justify moving forward financially. This phase will be financed through cash flow and philanthropy. Planning for Phase 2 will begin, including converting the critical care tower into a Children's Hospital and the evacuation of the old Chandler facility so that it can be demolished.

UK HealthCare is experiencing success in developing centers of clinical excellence that are receiving national attention. The outreach strategy is working and as the medical marketplace matures, UK may consider some acquisitions and mergers.

Volumes have exceeded original projections and UK HealthCare is no longer a small academic medical center conflicting with a struggling College of Medicine. Instead it is a coordinated Clinical Enterprise with an aggregate budget approaching $1.3 billion and still growing. The management structure puts physicians in central roles in order to engage the faculty in a comprehensive manner. UK HealthCare can now legitimately challenge to become a Top 20 research academic medical center.

Looking forward, Dr. Karpf stated that UK HealthCare will be working to aggressively excel at customer service, develop an integrated ambulatory care presence and build a cohesive group practice. UK HealthCare has been a strong economic driver and will continue to grow its impact in the Commonwealth and beyond if supported appropriately. Ultimately UK HealthCare must become a "Medical Destination".

IV. COLLEGE OF MEDICINE ACADEMIC SUCCESS

Dr. Jay Perman then provided a brief update regarding the College of Medicine recent successes. He began by noting that there was a significant increase in applicants to the College of Medicine and that the College would be announcing a larger class size of 103 new students. Ten students are also being selected this year based on their intent to return to rural areas once they complete training to practice medicine. UK will be launching the rural health initiative in Morehead, and it is the College's hope that a similar program can be launched in western Kentucky.

Dr. Perman also summarized the extensive accomplishments of the faculty in the area of research. The College has seen significant increases in National Institutes for Health research funding in a period of time when research funding has been declining in most areas. Dr. Perman emphasized that there is still significant need for research space in order to remain competitive in recruitment and to retain high performing faculty. Dr. Karpf concluded this discussion by emphasizing that the clinical and academic successes of the medical center have occurred hand in hand.

V. ACHIEVEMENTS AND BARRIERS TO RESEARCH GROWTH

Dr. Kumble R. Subbaswamy, Provost then updated the Committee on the accomplishments and barriers related to research. Highlights for FY 2007-08 included leadership change, AAHRP accreditation (related to human subjects), the addition of an attending veterinarian and an increase in faculty start-up investment. There were also a number of cross-college initiatives including the Center for Clinical Translation Science and the upcoming launch of the Center for Pharmaceutical Research and Innovation. He also summarized research and development expenditures and showed UK's ranking in funding at the national level.

Challenges to research include space limitations, an aging "core" research equipment inventory, the federal research budget outlook and faculty and staff retention.

VI. UHC COMMENTS BY TOM ROBERTSON

Tom Robertson of the University HealthSystem Consortium presented a discussion of market changes that would be affecting UK HealthCare. He also assessed the enterprises position based on the presentations of the day. He praised UK's vision for focusing on high-end, complex care while assisting community providers to keep

primary care closer to patients' homes. He said that UK HealthCare's performance, growth and efficiency are very near national benchmarks. He then outlined key trends that the organization would need to focus on to improve upon its success in the national marketplace.

VII. APPROVAL OF CREDENTIALS AND BOARD APPOINTMENTS

Dr. Michael Cibull presented the Medical Staff report. The committee made a motion and approved his report.

The Center on Aging Board Appointments were presented for approval. The committee made a motion and these appointments were approved.

VIII. CLOSING REMARKS

Dr. Sachatello thanked Dr. Cibull for his work with the committee and then formally recognized the work of Albert B. Chandler as the founder of the UK medical center. He gave a detailed history of Governor Chandler's efforts to establish the medical center for Kentucky.

Dr. Karpf then concluded the meeting and said that the next retreat would have an increased focus on the Colleges.