The UNC Health Care System: an Update

UNC Board of Trustees

January 27, 2011

Our Vision
To be the Nation's leading public academic health care system.
UNC Health Care: an Update

UNC School of Medicine

UNC Health Care System

Financing the Future

Conclusion
Our teaching mission is critically important, now more than ever

2014
More people will require medical care as health reform goes into effect

2015
U.S. physician shortage estimated to reach > 60,000

2015
65+ population will increase by 30+%. They will require more and longer care

2020
1/3 of today’s practicing MDs will have retired
School of Medicine expansion

Third- and fourth-year students can study at Carolinas Medical Center or Mission Hospital

Foster interest in primary care in rural and underserved areas
We’re a leader in Medical Education

*U.S. News & World Report* ranked Family Medicine #2, Occupational Health #5, Physical Therapy #6, Infectious Disease #9, Speech Pathology #18

We’re innovating how we teach

We’re currently undergoing reaccreditation
We’re proud of our extraordinary research growth

Total Awards of $424 million in medical research in 2010
  • 53% of the total campus research
  • 50% growth in NIH funding since 2007

Since 2009, School of Medicine stimulus (ARRA) grants
  • 214 awards, $85 million plus funding

Imaging Research Center and University Cancer Research Fund
  • Fully funded by State of North Carolina
  • $240 million in capital and $50 million annually respectively
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Conclusion
We serve North Carolina. Every day.

Every day, UNC Health Care provides care for thousands of people across North Carolina.
We serve North Carolina. Every day.

Every day, UNC Health Care provides care for thousands of people across North Carolina.
We are the state’s flagship health care system

We have a state-mandated mission to provide care to North Carolinians, regardless of their ability to pay

In FY2010, we provided $283 million in uncompensated care

In FY2011, we expect that number to exceed $300 million
In November 2007, we built the UNC Health Care System’s Strategic Plan on six pillars

**UNC HCS Vision**
To be the nation’s leading public academic health care system

- **PEOPLE**
- **SERVICE**
- **QUALITY**
- **FINANCE**
- **GROWTH**
- **INNOVATION**

**CAPITAL INVESTMENT**
We determined to focus on Service and Innovation

UNC HCS Vision
To be the nation’s leading public academic health care system

COMPETITIVE DIFFERENTIATION
Outperform

CAPITAL INVESTMENT

Outperform

Competitive Differentiation

Outperform
. . . and, in May of 2008, we prioritized key segments in which to execute those strategies

**UNC HCS Vision**
To be the nation’s leading public academic health care system

1. Oncology
2. Heart & Vascular
3. Solid Organ Transplant
4. Others as resources allow with focus on the most complex cases

**CAPITAL INVESTMENT**
(Compete & Enable)

Outperform

Competitive Differentiation

Outperform
We are executing our Strategic Plan

1. **Consolidation and branding of UNC Heart & Vascular clinical service**
   
   UNC Center for Heart & Vascular Care
   
   • Cardiology and Interventional Cardiology
   • Vascular Surgery
   • Heart Surgery
   • Vascular Interventional Radiology

2. **Formed Rex Heart & Vascular Specialists**

3. **Announced alignment with Wake Heart in October**
The broader context

- A rapid consolidation of physician practices is occurring
  - Both locally and nationally
- Health reform is uncertain - - but is driving change
- There is the need to expand care and access to that care
We are leaders

But there are hurdles as we engage in fulfilling our mission

*WakeMed accuses rival of ill will*
News and Observer 12/9/10

*State aims for Medicaid dollars*
News and Observer 01/08/11

*UNC Health, BCBS plan joint facility*
News and Observer 01/11/11

*Aetna-UNC flap may limit care*
News and Observer 01/08/11

We are committed to our mission…

*Our commitment to NC requires it*
Health Reform… day-by-day

Health Reform affirmed the strategy we laid out in 2007

Serve North Carolina’s citizens
  • We are serving all of North Carolina, even as we anticipate payment declines
  • We are leveraging programs which enable us to provide additional care to North Carolinians
  • We are expanding care across the state

Innovate the care model
  • A model based on patient volume alone is not sustainable
  • We must increase the quality of care while reducing the cost of care
Health Reform… day-by-day

Health Reform affirmed the strategy we laid out in 2007

Initiatives to better serve North Carolina

• Increase federal Medicaid payments to North Carolina
• Expand care to North Carolinians

Initiatives to foster innovation

• Partnership with Blue Cross to explore new health care delivery models
• Quality incentives imbedded into Managed Care contracts

State aims for Medicaid dollars
News and Observer 01/08/11

UNC, Rex start Triangle Physician Network
News and Observer 10/08/10

UNC Health, BCBS plan joint facility
News and Observer 01/11/11
Initiatives to serve North Carolina better

We are expanding care to the citizens of North Carolina

Partnered with Rex Healthcare to form Triangle Physician Network (TPN) in Fall 2010 (a regional network of over 130 physicians)

Affiliated with Wake Heart & Vascular Associates in October 2010

Partnered with Burlington Imaging & Breast Center this month to improve imaging services provided to patients in Alamance County

Opened new Imaging and Spine Center this month on N.C. Highway 54
Initiatives to foster innovation

1. We announced plans to open a joint medical practice with Blue Cross and Blue Shield of North Carolina
   - 3 year pilot project; clinic launch 4Q 2011
   - New clinic, serving BCBSNC patients only
   - Expect to care for 5000 patients with chronic conditions
   - Location likely Chapel Hill/Durham

2. We have imbedded quality improvement and innovation into our culture
   - Tied system payment to stretch quality targets
   - Tied individual compensation to organizational quality targets
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Efforts to innovate come at a price

**Aetna-UNC flap may limit care**  
*News and Observer 01/08/11*

Over the past several months, we have worked with Aetna to renew our insurance provider contracts.

We seek very comparable terms – financial and otherwise – from all private insurers, including Aetna:

- The rates and terms are reasonable in the marketplace
- They are affordable
- They enable us to continue to provide the highest quality healthcare to our patients, improve facilities and bring new technology to our hospitals and clinics

At this point, we are not optimistic that Aetna will agree to what we have proposed:

- but there is nothing more we can offer
Fulfilling the Mission and executing the plan requires cash

We plan to spend almost $1.2 billion over the next 5 years

Our reserves allow us to maintain bond rating which, in turn, makes debt affordable

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<th>Bond Rating</th>
<th>UNC Hospitals</th>
<th>Rex Healthcare</th>
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<td>AA-</td>
<td>$707 million</td>
<td>$137 million</td>
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<th>Reserves</th>
<th>UNC Hospitals</th>
<th>Rex Healthcare</th>
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<td>$710 million</td>
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<th>Existing Debt</th>
<th>UNC Hospitals</th>
<th>Rex Healthcare</th>
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<td>$303 million</td>
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<th>5-year Capital Plan</th>
<th>UNC Hospitals</th>
<th>Rex Healthcare</th>
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<td>$710 million</td>
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<th>Expected Debt Issue</th>
<th>UNC Hospitals</th>
<th>Rex Healthcare</th>
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<td>$100 million</td>
<td>$217 million</td>
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At the same time, we anticipate possible appropriation and payment changes

Our appropriation from the state may decline
Private payment will likely decline
Patients enrolled in Government programs will increase, yet government payments will likely decline
Over the short term, uncompensated care will increase
With revenues exceeding $1.8B, the state appropriation is a small portion

- **$1.8 B Net Operating Revenue**
- **$32 M State Appropriation**

Our appropriation from the state may decline

Private payment will likely decline

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Over the short term, uncompensated care will increase
School of Medicine funding sources

- Research
- Clinical (P&A)
- Service Contracts & UCRF
- Gifts, Endowments & Other
- State Funds
- Other Managed Care
- BCBSNC Research
- State Funds
- Service Contracts & UCRF
- Clinical (P&A)
- State Funds

Our state funds may decline

Philanthropy has dropped over the last several years and may continue to decline

Over the short term, uncompensated care will increase
Funding pressures have multi-dimensional impact

State Budget

Research NIH Budget

UNC SOM Budget

UNC Chapel Hill Budget

UNC HCS Budget (P&A and UNCH)
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Conclusion
Going Forward Together with UNC-Chapel Hill

To serve the state of NC, the interests of the School of Medicine and Health Care System are closely intertwined with UNC-Chapel Hill in:

- Research
- Teaching
- Patient Care

The stewardship the Board of Trustees provides UNC-Chapel Hill is vital to the School’s and Health Care System’s continued leadership and growth.

We believe the continued leadership and growth of the UNC School of Medicine and the UNC Health Care System are vital to UNC-Chapel Hill.
Questions?