



The University of North Carolina

GENERAL ADMINISTRATION

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Constituent Universities
Appalachian State
University

East Carolina
University

Elizabeth City
State University

Fayetteville State
University

North Carolina
Agricultural and
Technical State
University

North Carolina
Central University

North Carolina
State University
at Raleigh

University of
North Carolina
at Asheville

University of
North Carolina
at Chapel Hill

University of
North Carolina
at Charlotte

University of
North Carolina
at Greensboro

University of
North Carolina
at Pembroke

University of
North Carolina
at Wilmington

University of
North Carolina
School of the Arts

Western Carolina
University

Winston-Salem
State University

Constituent High School
North Carolina
School of Science
and Mathematics

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MEMORANDUM

TO: Members, Committee on Educational Planning, Policies, and Programs

FROM: Alan Mabe

DATE: August 31, 2010

SUBJECT: UNC Health Care Annual Report and Comments by Dean Roper
about Medical School Expansion

Background: The UNC Health Care System was established in November 1998 to integrate UNC hospitals with the clinical patient care programs of the UNC School of Medicine. The General Assembly granted flexibility to the Health Care System in four areas: personnel, purchases, property and property construction and required annual reporting on the use of the flexibility.

Jurisdictional Authority: NC General Statutes 116-37 requires that a report be provided annually by September 30 to the Joint Legislative Commission on Governmental Operations.

Issues Involved: The report reviews each area of flexibility and summarizes the Health Care System's success in managing this flexibility.

Recommended Action: Recommend that the Report be approved and sent to the Joint Legislative Commission on Governmental Operations.

Additional Comments by Dean Roper: In addition to presenting his annual report on UNC Health Care System's management flexibility and its results, Dr. Roper will give the Educational Planning Committee an update on the activities involved in expanding the UNC School of Medicine, in partnership with colleagues in Charlotte and Asheville. The Committee recommended and the BOG authorized these efforts in March 2008 as part of the Plan for Medicine in North Carolina involving UNC-CH's medical school and ECU's medical school.



UNC
HEALTH CARE

Health Care System Annual Report

FY10

This annual report to the UNC Board of Governors addresses the benefits gleaned from the Flexibility Legislation granting the UNC Health Care System the ability to operate as a special enterprise

Report to the
UNC Board of
Governors

Background

The University of North Carolina Health Care System was established on November 1, 1998 to integrate UNC Hospitals with the clinical patient care programs maintained by the UNC School of Medicine.

The vision of the UNC Health Care System is to be the Nation's leading public academic health care system--leading, teaching, caring. Improving the health of our patients and meeting their needs remains our primary focus. We must deliver excellent service and operate leading programs. We must be deeply and broadly engaged with the people of North Carolina and the Nation to meet their health challenges. Throughout, we must maintain financial stability in support of our missions.

The authority granted in N.C.G.S. 116-37 subsection (d) personnel; subsection (h) purchases; subsection (i) property; and subsection (g) property construction has allowed the Board of Directors of the UNC Health Care System to approve the policies summarized below. In the following report, we detail how we use this flexibility to improve the operations of the UNC Health Care System. As required by statute, we will convey the report to the Joint Legislative Commission on Governmental Operations in September 2010.

Annual Report

In caring for patients across all 100 counties North Carolina (Appendix I), the UNC Health Care System improves the well being of the state. As in past years, this year we can report many successes accruing to the UNC Health Care System due, in part, to the operational latitude granted under the statute.

Fiscal year 2010 was a successful year for the UNC Health System. In a quickly changing, economically distressed environment, we improved the quality of our care, improved our cost effectiveness, reacted nimbly to new challenges and opportunities, and improved our financial stability.

With stable operations, we were able to provide substantial uncompensated care to the citizens of North Carolina while improving our performance on our research, education and clinical missions. In fiscal 2010, the UNC Health Care System provided uncompensated care at a cost of \$283 million, up from \$273 million in fiscal year 2009. We expect to provide still more this year, a projected \$305 million.

Personnel

The exemption of the UNC Health Care System from the State Personnel Act is the most important element of our statutory flexibility. In many past years, the State has faced fiscal challenges that have limited compensation enhancements for State employees. Such limitations while quite understandable would be very problematic in the health care market. Despite high unemployment in most sectors of the economy, unemployment for health care workers has remained functionally almost zero percent. Throughout the current recession, health care employment has increased (Appendix II) and wages have risen.

The UNC Health Care System has adopted many programs to compete for qualified professionals. These programs have helped us recruit and retain better trained care givers with quantifiable benefits. Since 2007, our relative employee turnover declined from 16% annually to about 8% (Appendix III). Over the same period, we have similarly halved our premium labor expense (Appendix IV). Concurrently, we improved our employee satisfaction scores from the 33rd percentile to the 66th percentile (Appendix V), compared to peer institutions.

We have accomplished these positive developments by recognizing and rewarding our workforce, emphasizing communication, demonstrating our commitment to co-worker satisfaction, hiring competent staff who “fit” with our ethos, articulating objective organizational goals, improving training, and creating career advancement opportunities. Each of these objectives is coupled with specific programs that we are weaving into the fabric of the UNC Health Care System culture (Appendix VI).

We have also offered competitive financial rewards to our co-workers. Our incentive plan enables all co-workers to earn additional salary by accomplishing organizational quality, service, satisfaction and financial goals. In each of the last several years, we have triggered payments by achieving most of these objectives (Appendix VII).

Despite these successes, we lately face renewed challenges due to wage pressure. Last year, we opted to forgo pay increases. With wages increasing industry-wide as well as within this region, our compensation has become less competitive. Nearly 2/3 of our co-workers are now paid below market (Appendix VIII), some substantially so. As we expand our services to meet growing needs, we face the added challenge of growing our workforce by 600 new co-workers this year.

We can only hire and retain co-workers with competitive compensation. As we hire new FTEs, we also strive to maintain internal compensation parity, especially because we are in an environment in which all of our salary information is public. In fact, our co-workers’ salaries are easily accessed on the internet. With unquestionably transparent compensation information, all applicants, co-workers or curiosity seekers are free to examine and compare. We are now experiencing the repercussion of

these realities. For instance, to keep our operating rooms staffed, we must offer substantial referral rewards to our co-workers who recommend a qualified registered nurse.

Though compensation is challenging, the efforts described above have led to low turnover; which has produced improved employee satisfaction with the stability to improve quality, reduced personnel expense, and provided service that our patients recognize as simply better. (Appendix IX)

Purchasing

We have gleaned benefit from flexibility in purchasing by reducing acquisition costs, increasing efficiencies and broadening our purchasing power. This has helped not only the UNC Health Care System, but partner institutions as well.

Each year, our co-workers in Purchasing document savings realized due to purchasing flexibility. In fiscal year 2010, we recorded a record \$5.5 million benefit. Since first granted flexibility, we have documented more than \$34 million in savings (Appendix X). These savings are realized due to negotiations and other practices that fully leverage the strength of the UNC Health Care System. We gain additional leverage with MedAssets, our group purchasing organization (GPO). Through MedAssets contracts, we successfully source products that meet the needs of our patients, often at substantially reduced prices.

Within the UNC Health Care System, we have achieved pricing parity to reduce cost. We commonly found that UNC Hospitals and Rex Healthcare purchased like items at different unit costs. We have eliminated these differentials accessing the lower entity's pricing. With Rex Healthcare, we additionally combined purchasing strength; these changes sometimes require operational changes. This year, for example, we transitioned to a single pharmacy distribution contract, enabling \$1.2 million annual savings. Finally, we also established a purchasing affiliate program. Smaller hospitals across the region gain access to our pricing thereby leveraging our purchasing power on their behalf. The UNC Health Care System benefits from slightly lower costs and a modest rebate.

We also gauge the benefits of purchasing flexibility in staffing efficiencies. Before flexibility, all orders greater than \$10,000 were forwarded to the State's Purchases and Contracts Division for their approval prior to the awarding of purchase orders. This process often required 90 days or longer. We additionally faced bidding requirements that were resource intensive without necessarily yielding advantageous pricing. By acting more independently, the size of the purchasing staffing has not grown despite a many-fold increase in its activity. (Efficiency improvements are detailed in Appendix XI.)

Construction and Property Management

Flexibility in construction and property management has yielded benefits in terms of our ability to act responsively, to manage cost-effectively and to oversee projects responsibly. Due to rapid growth, a need to improve ease-of-access to our services, and aging facilities, we have invested heavily in on-campus and off-campus locations. Our ability to keep pace has been enabled by the processes put in place in accordance with the flexibility legislation. Two UNC Health Care System management committees, the Construction Bidding Oversight Committee and the Property Committee, oversee these activities in accordance with the statute.

The Construction Bidding Oversight Committee uses approved criteria to determine when to utilize alternative forms of construction bidding e.g., single-prime versus multi-prime. The \$180 million North Carolina Cancer Hospital, completed in fiscal year 2010 on-time and on-budget, is our single best example of how well single-prime bidding works. This method enables us to bid projects publicly while still capturing the efficiency of coordinating with a lead contractor.

Also in fiscal year 2010, over ten construction projects were bid and constructed using this method (Appendix XII). All but one were completed on-time and within original budgets. Some of the completed projects led to more than forty inpatient beds being added to UNC Hospitals licensed bed capacity, currently 784 beds.

Through the UNC Health Care System Property Committee, the Board reviews new leases, and renewals of existing leases (Appendix XIII). Similar to purchasing flexibility, the statute allows the UNC Health Care System to efficiently enter into leased space contracts, with approval from the Property Committee and the UNC Health Care System Board.

With the Property Committee's guidance, we moved patient care programs from the main campus to better accommodate increased demand of services and substantially expanded our clinical presence in the communities nearby the Chapel Hill campus and across North Carolina. Immediately off Interstate 40, for instance, we have leased the majority of available physician office space. This enables our patients to conveniently access outpatient services from major thoroughfares. Further, these transactions help place components of existing programs into contiguous spaces, improving efficiency and convenience for patients and clinicians.

Conclusion

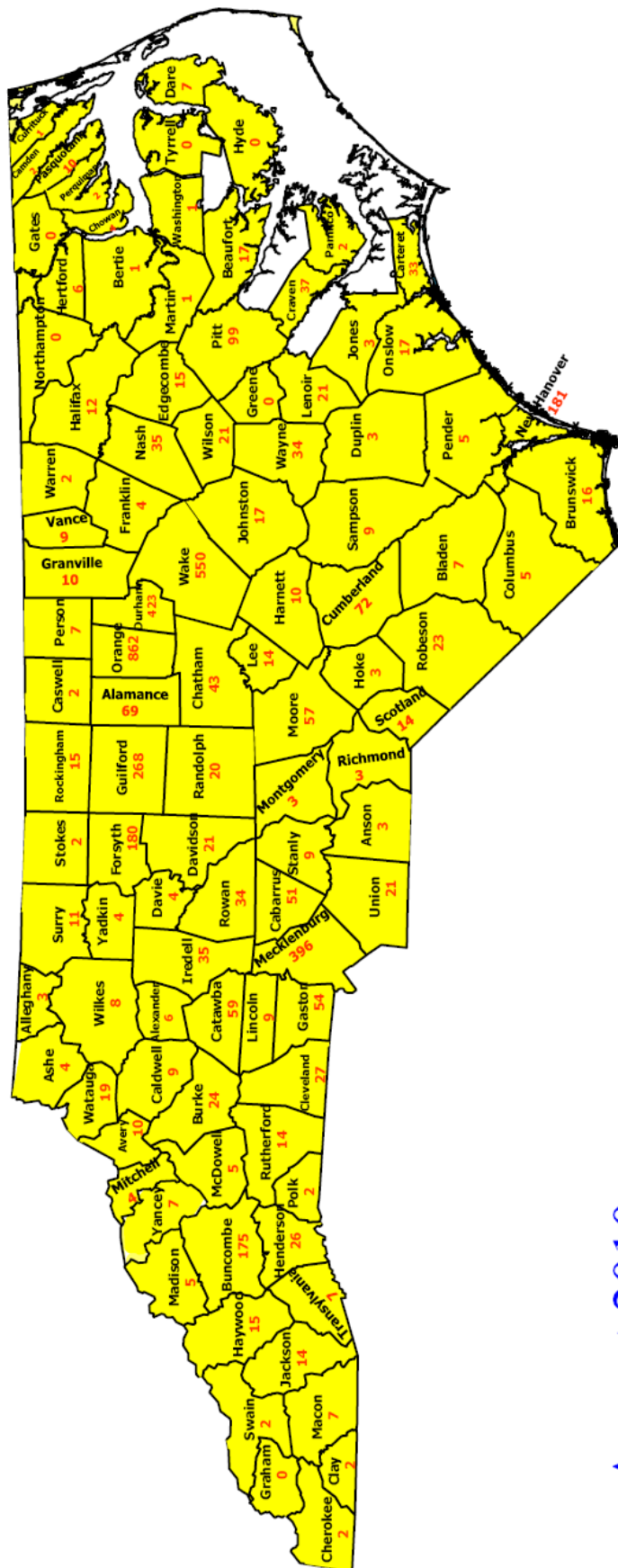
The flexibility which the legislature gave to the UNC Health Care System is essential to our operations. As detailed above, it has enabled us to recruit and retain highly qualified co-workers, acquire goods and services cost-effectively, build patient-centered facilities, ease access to our services, and grow in a responsive, efficient manner. These, in turn, have been essential ingredients to improving our quality, service and breadth of clinical programs. As a result, we better meet our commitment to care for all North Carolinians.

Appendices

- I. UNC School of Medicine Alumni and House Staff Map
- II. Net Changes in Employees
- III. UNC Hospitals and UNC Physicians & Associates Employee Turnover
- IV. UNC Hospitals and UNC Physicians & Associates Premium Labor Expense
- V. UNC Hospitals and UNC Physicians & Associates Employee Satisfaction
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- VII. UNC Health Care System Incentive Compensation History
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- XI. UNC Health Care System Purchasing Efficiency
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- XIII. UNC Health Care System FY10 Property Lease Agreements
- XIV. UNC Health Care System Organizational Chart
- XV. UNC Hospitals Organizational Chart

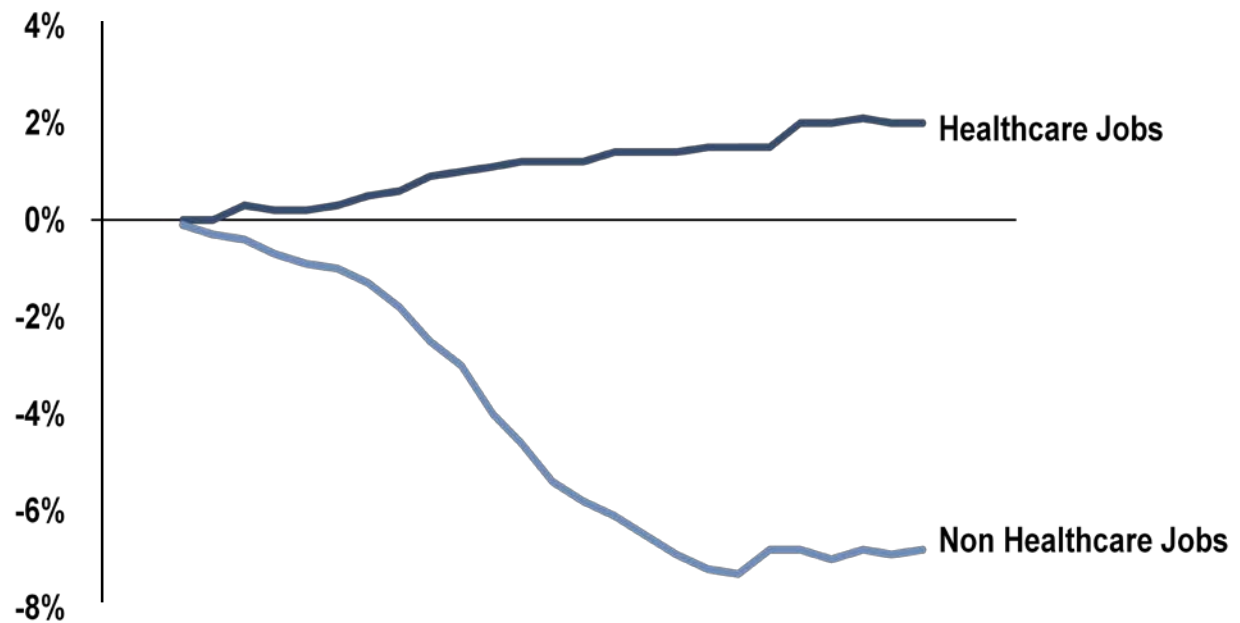
(duplicates eliminated)

Total of unique individuals: 4397

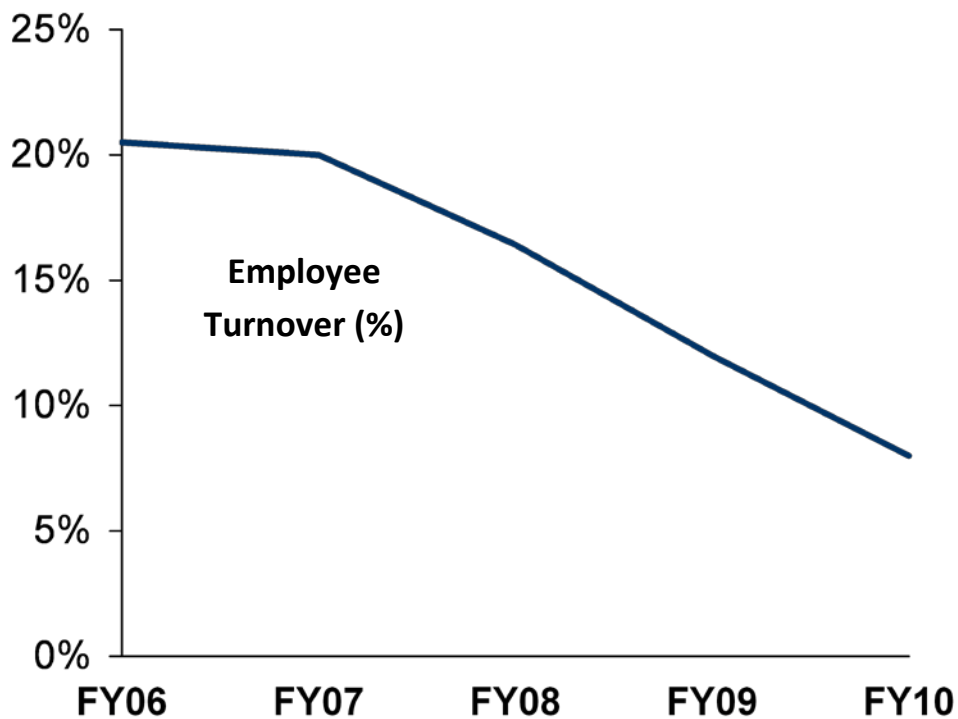


August 2010

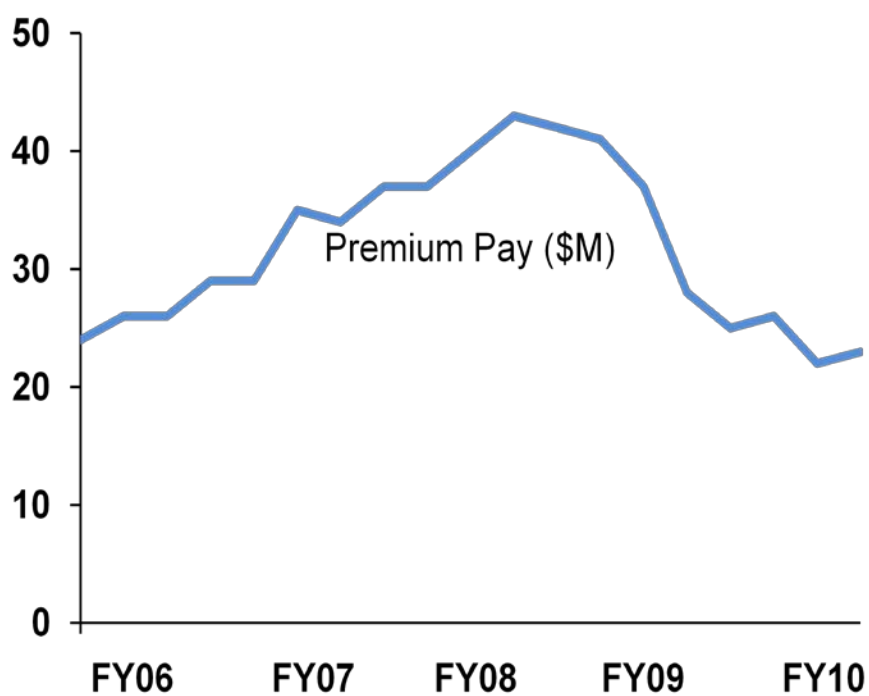
Appendix II

**Net Changes in Employees
State of North Carolina Mar 08 to Feb 10**

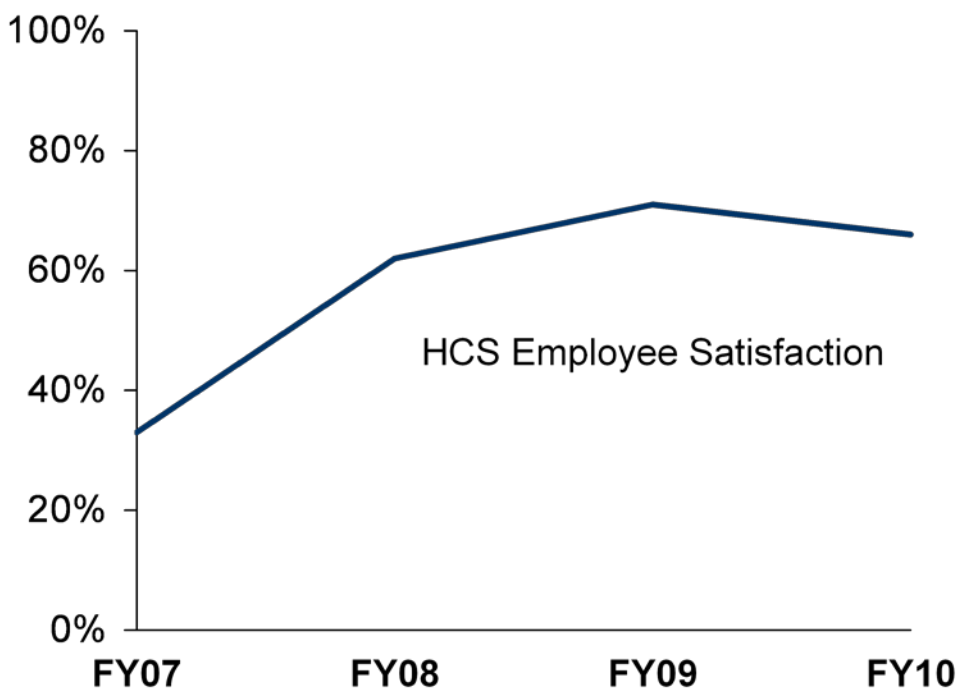
Appendix III

**UNC Hospitals and UNC Physicians & Associates
Employee Turnover FY06 – FY10**

**Appendix IV UNC Hospitals and UNC Physicians & Associates
Premium Labor Expense FY06 - FY10**



**Appendix V UNC Hospitals and UNC Physicians & Associates
Employee Satisfaction History FY07 - FY10**



Appendix VI The UNC Health Care System Culture

Hiring for Excellence

The UNC Health Care System utilizes Hiring for Excellence, a structured behavioral interviewing and selection process. All managers and staff who interview candidates use data-driven best practices. By recruiting the right team members, we raise our skill level, enhance continuity of care, and reduce employee turnover.

Recruitment/Sourcing Talent

The UNC HCS has implemented many programs to recruit talented employees. In addition to local, regional and national recruitment efforts, we have sourced almost 100 highly skilled and experienced registered nurses internationally, primarily in the United Kingdom. This strategy is designed to supplement domestic shortages for some skill sets.

We have eliminated dependence on expensive third-party contract labor for those jobs with limited supply and availability, especially registered nurses and certified registered nurse anesthetists. We paid \$5.5 million in FY09, were close to zero in FY10 and do not plan to utilize such external labor in FY11.

Workforce Development

In an era of staffing shortages, improving the skills of our workforce is increasingly important. We have launched the UNC Health Care Learning Institute to align training and development with our business strategies. It is a virtual entity that organizes staff training and education within the health care system. The Learning Institute provides a framework for knowledge sharing and strategic learning through four Colleges focused respectively on Leadership Excellence, Service & Quality Excellence, Clinical Excellence, and Workforce Development. Our 2010 Employee Opinion Survey results indicate that employee perception of career development opportunities has further improved over 2009.

Enhanced Communication

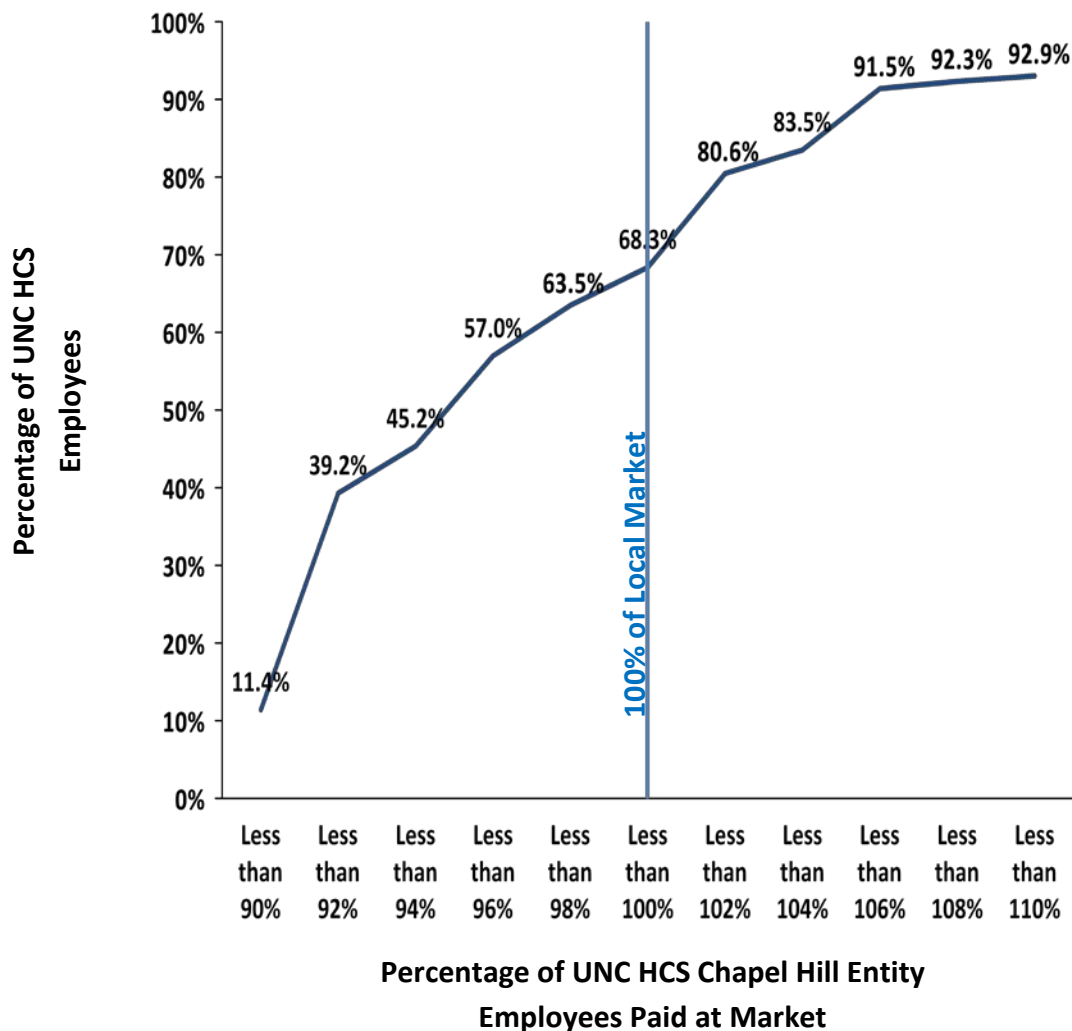
“Glad You Asked” is a web-based communication tool that allows employees to pose questions directly to system leaders. Questions and responses are posted on the intranet for all employees to view. This year, we responded to over 1000 questions and the website was one of the most popular and most frequently visited sites on the UNC HCS intranet.

Leadership Rounding continues to be a valuable technique used by all levels of management to interact with employees in their workplace. Improved employee opinion scores reflect that our leaders are visible and available to learn first-hand from employees. This presence further engenders employee trust in leadership and commitment to the values of the institution.

Appendix VII UNC Health Care System Incentive Compensation History

	FY06	FY07	FY08	FY09
Payout per FTE	Greater of 2.5% or \$750	Greater of 3.0% or \$1,000	Greater of 1.5% or \$750	2.01%
Min payout per FTE	\$750	\$1,000	\$750	\$114
Max payout per FTE	\$3,468	\$4,376	\$2,251	\$3,958
Eligible FTEs	4,548	4,927	5,124	6,323
Total expense	\$5.9M	\$8.1M	\$4.9 M	\$6.5 M

Appendix VIII UNC Health Care System Compensation Market Differential



Appendix IX UNC Health Care System Selected External Accolades**219 UNC physicians listed in The Best Doctors in America 2009-2010**

Largest number of University of North Carolina at Chapel Hill School of Medicine physicians ever included in the compilation of The Best Doctors in America database

School of Medicine recognized as one of nation's best by U.S. News & World Report

The school ranked 2nd in primary care and 20th in research among medical schools in the United States. For the first time, UNC ranked in the top 10 for Women's Health. UNC ranked highly again in Family Medicine, Rural Medicine, and AIDS

N.C. Children's Hospital ranked as one of the best in the nation

U.S. News & World Report has ranked the N.C. Children's Hospital as ninth in the nation among those caring for children with respiratory disorders and 23rd for diabetes and endocrinology

UNC Hospitals ranked in four specialties in U.S. News & World Report's 2010-11 Best Hospitals

For the 18th year in a row, UNC Hospitals has been included in multiple specialties. The specific UNC Hospitals specialties, and their top-50 rankings, are:

- Cancer, 47
- Ear, Nose, & Throat, 21
- Gastroenterology, 27
- Gynecology, 27

UNC Hospitals recognized for community value and Patient Service Excellence

UNC Hospitals has been recognized as one of the top 100 hospitals for community value in America by Cleverley + Associates as part of its "Community Value Leadership Awards"

UNC Hospitals is in the top 5% of HCAHP Scores across the Nation

**Appendix X UNC Health Care System
2000 – 2010 Purchasing Savings**

FISCAL YEAR	DOCUMENTED SAVINGS (MILLIONS)
FY 00	\$ 1.1
FY 01	\$ 2.0
FY 02	\$ 1.6
FY 03	\$ 1.4
FY 04	\$ 2.9
FY 05	\$ 3.4
FY 06	\$ 3.8
FY 07	\$ 4.1
FY 08	\$ 3.9
FY 09	\$ 4.5
FY 10	\$ 5.5

**Appendix XI UNC Health Care System
2000 – 2010 Purchasing Efficiency**

	PERCENT CHANGE FROM FY00 TO FY10
Staff Level	-11%
Dollar Volume	41%
Number of Purchase Orders	21%
Number of Purchase Order Lines	43%
Average \$ per Purchasing Agent	60%
Average \$ per Purchase Order	17%
Average # of Purchase Orders per Agent	36%
Average # P/O Lines per Agent	61%
Average \$ per Purchase Order Line	-1%
Average # Lines per Purchase Order	17%

Appendix XII UNC Hospitals FY10 Construction Projects

Location	Activity	Improvement
NC Children's Hospital ground floor	Renovation	To improve flow and protect privacy to meet HIPAA requirements
NC Memorial Hospital ground floor	Renovation	To improve main lobby restrooms
UNC Hospitals' 6 East	Renovation	Cosmetic improvements after unit relocated to NC Cancer Hospital
UNC Hospitals' 5 APV	Renovation	Cosmetic improvements after unit relocated to NC Cancer Hospital
UNC Hospitals' NSICU	Expansion	Expansion of Neurosurgery Intensive Care Unit
UNC Hospitals' Cystology	Reconfiguration	Reconfiguration for equipment upgrades
UNC Hospitals' sprinkler system	Expansion	Expansion to unsprinklered areas, creation of building separation from other University buildings
UNC Hospitals' laboratories	Renovation	Upgrade outdated facilities to improve operation and efficiency
UNC Hospitals' 5 BT Nurse Stations	Renovation	Upgrade outdated facilities to improve operation and efficiency
UNC Hospitals Burn Center expansion	Renovation	Renovate existing patient unit as part of inpatient bed relocation
UNC Hospitals' patient lifts	Renovation	Add ceiling mounted patient lifts to all ICU rooms and select acute rooms to promote safe patient handling
UNC Hospitals' 2 APV	Expansion	Add two licenses beds in the Procedure Recovery Unit to facilitate faster admission
UNC Hospitals' MRI	Expansion	Add an additional MRI system to meet increasing demand
UNC Hospitals' ground floor	Renovation	Replace dishwasher and make associated utility upgrades for inpatient kitchen
UNC Hospitals' 4 Old Infirmary	Renovation	Renovate space to provide improved training facilities for necessary nurse education

Location	Activity	Improvement
UNC Hospitals'	renovation	Bring older building exits up to current building code per request of Department of Insurance
UNC Hospitals' ground floor	renovation	Replace dishwasher and make associated utility upgrades for inpatient kitchen
UNC Hospitals' lobbies	renovation	Replace main lobby doors with revolving door to improve energy efficiency
UNC Hospitals' NSICU	expansion	Expansion of Neurosurgery Intensive Care Unit
UNC Hospitals' 7 NSH	renovation	Relocate SOM laboratories to create another patient floor
NC Women's Hospital NCCC	expansion	Renovate to create an additional pod for newborn critical care bassinets
UNC Hospitals' 6 West	renovation	Cosmetic improvements as part of 68 Bed CON
UNC Hospitals' hyperbaric chamber	renovation	Renovation to add a fourth chamber to existing hyperbaric suite

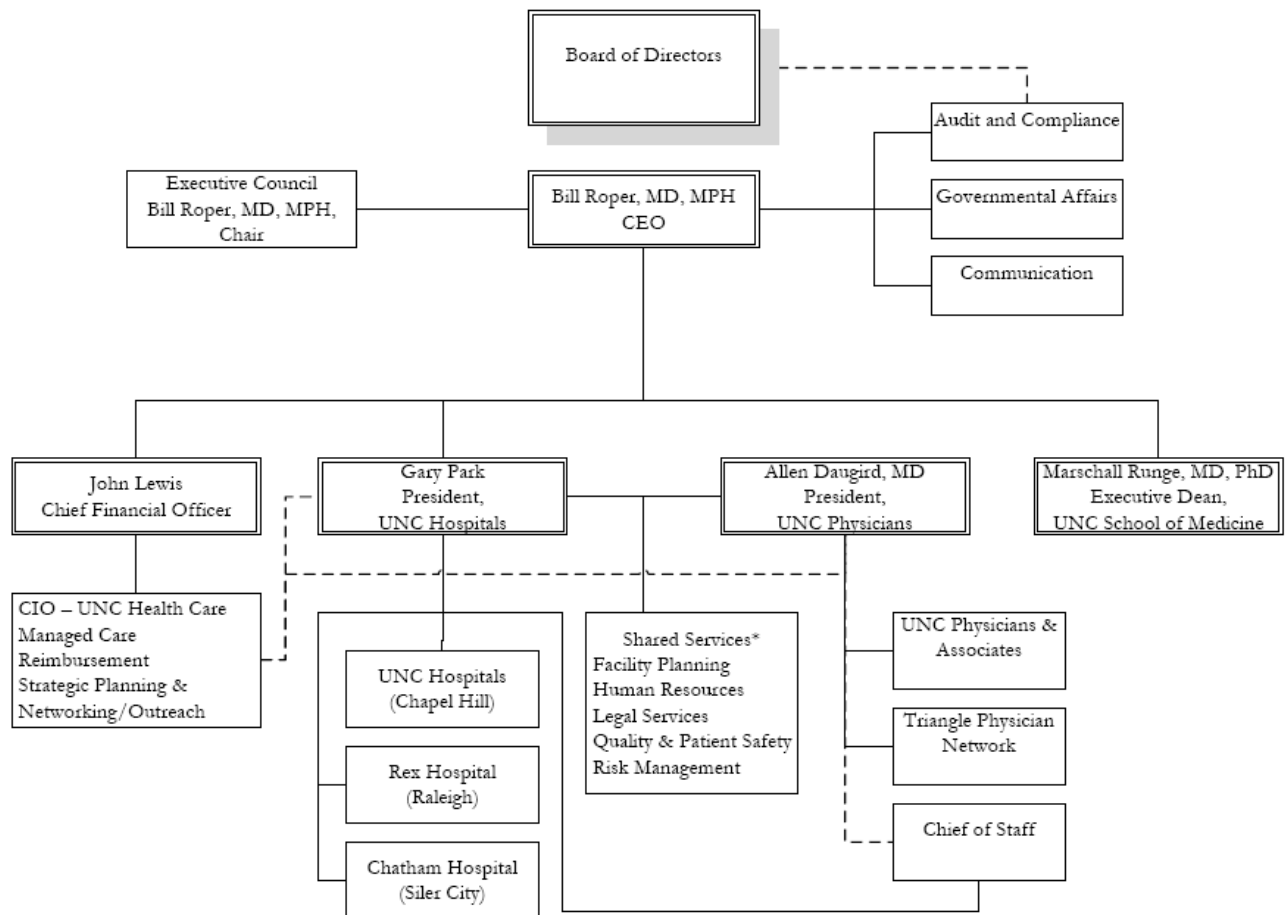
Appendix XIII UNC Health Care System FY10 Property Lease Agreements

Location	Square footage	Program	Activity	Improvement
Orange County (Carrboro, NC)	17,000	UNC SOM Center for Teaching and Learning	New lease	New space to accommodate the Center for Teaching and Learning Program (CDL)
New Hannover County (Wilmington, NC)	1,110	UNC Hospitals' Solid Organ Transplant	New lease	New space to accommodate pre-transplant clinic
Orange County (Chapel Hill, NC)	4,995	UNC Hospitals' Pain Program	New lease	Expansion of clinical space
Wake County (Raleigh, NC)	600	UNC SOM Dept of Psychiatry	New lease	New space to accommodate postpartum depression program
Durham County (Chapel Hill, NC)	14,000	UNC SOM	New lease	New research laboratory space
Craven County (New Bern, NC)	1,800	UNC SOM Dept of Ophthalmology	New lease	Expansion of clinical services in Craven County
Orange County (Chapel Hill, NC)	8 Apts	UNC SOM Dept of OB/GYN	New lease	New space to expand the Horizons program
Orange County (Carrboro, NC)	16,000	UNC SOM TEACCH	New lease	New space to accommodate TEACCH program
Chatham County (Siler City, NC)	100	UNC Hospitals' Air Transport	New lease	New space to accommodate landing pad and crew support space
Dare County (Nags Head, NC)	200	UNC Health Care's Oncology Outreach	Renewal	Space to house Oncology Outreach program
Orange County (Carrboro, NC)	3,065	UNC SOM Dept of Psychiatry	Renewal	Space to house OASSIS program
Cumberland County (Fayetteville, NC)	860	UNC Hospitals' Air Transport	Renewal	Space to accommodate landing pad and crew support space
Orange County (Chapel Hill, NC)	1,600	UNC SOM Dept of Psychiatry	Renewal	Space to house First Episode program

Appendix XIV UNC Health Care System Organizational Chart



Organizational Chart
July 1, 2010



* The shared services components work collaboratively across the UNC HCS, and Mr. Park and Dr. Daugird will work in partnership in these areas.

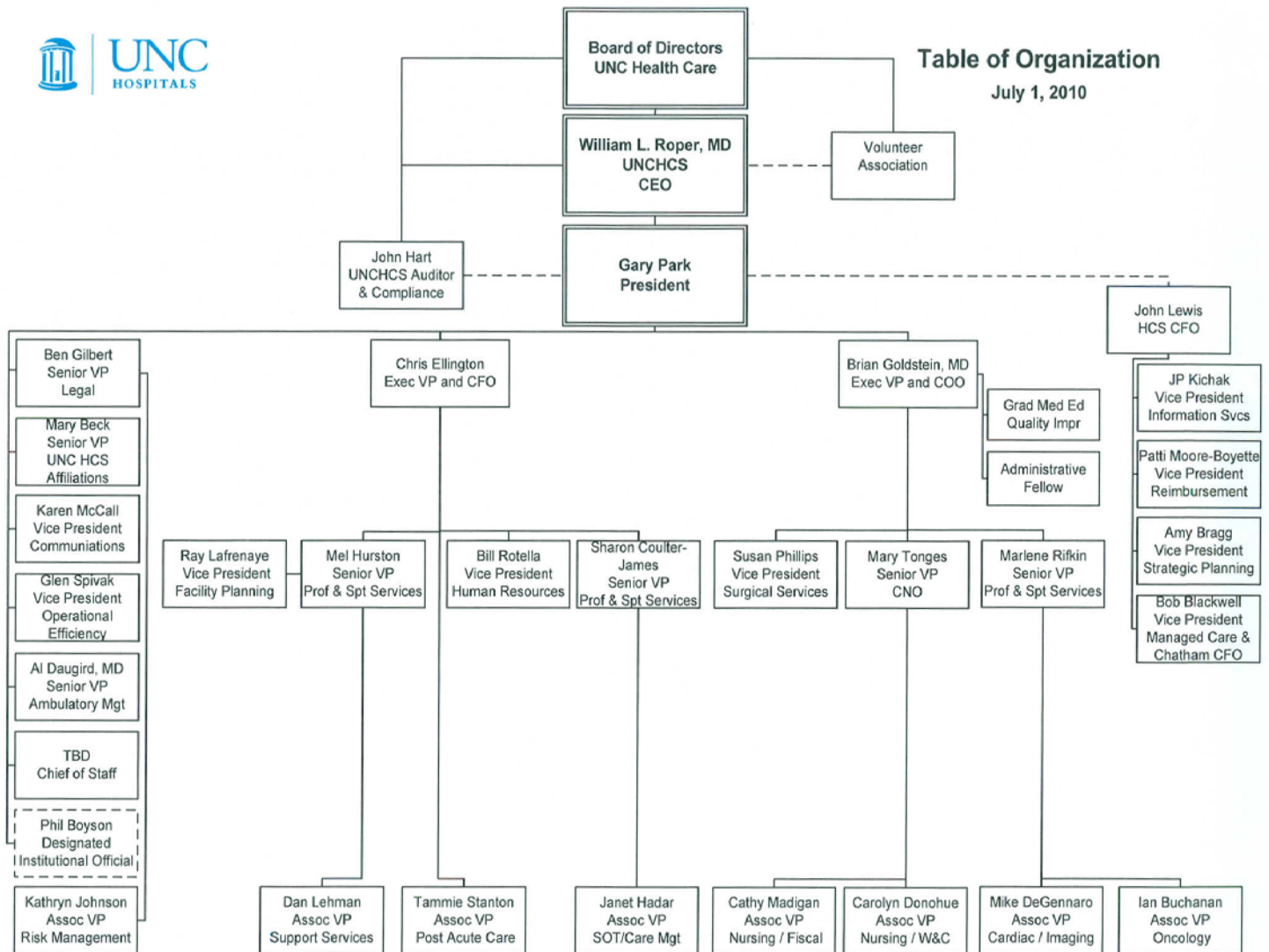
Appendix XV

UNC Hospitals Organizational Chart



Table of Organization

July 1, 2010



Gary L. Park 6/21/10
 Gary L. Park, President Date