

**Annual Report for
FY 2005-2006 on Actions Taken Under
Flexibility Legislation**

UNC Health Care System

Actions Under Authority Granted in N.C.G.S. 116-37

- Personnel - subsection (d)
- Purchases - subsection (h)
- Property - subsection (i)
- Property Construction - subsection (j)

UNC Health Care System

Human Resource Activities FY 06

- Compensation & Classification System
- FY06 Compensation Plan with aggressive market rates for critical classifications
- Health insurance costs as a recruitment and retention issue
- Performance Management System
- Employee Opinion Survey

UNC Health Care System

Compensation and Classification System

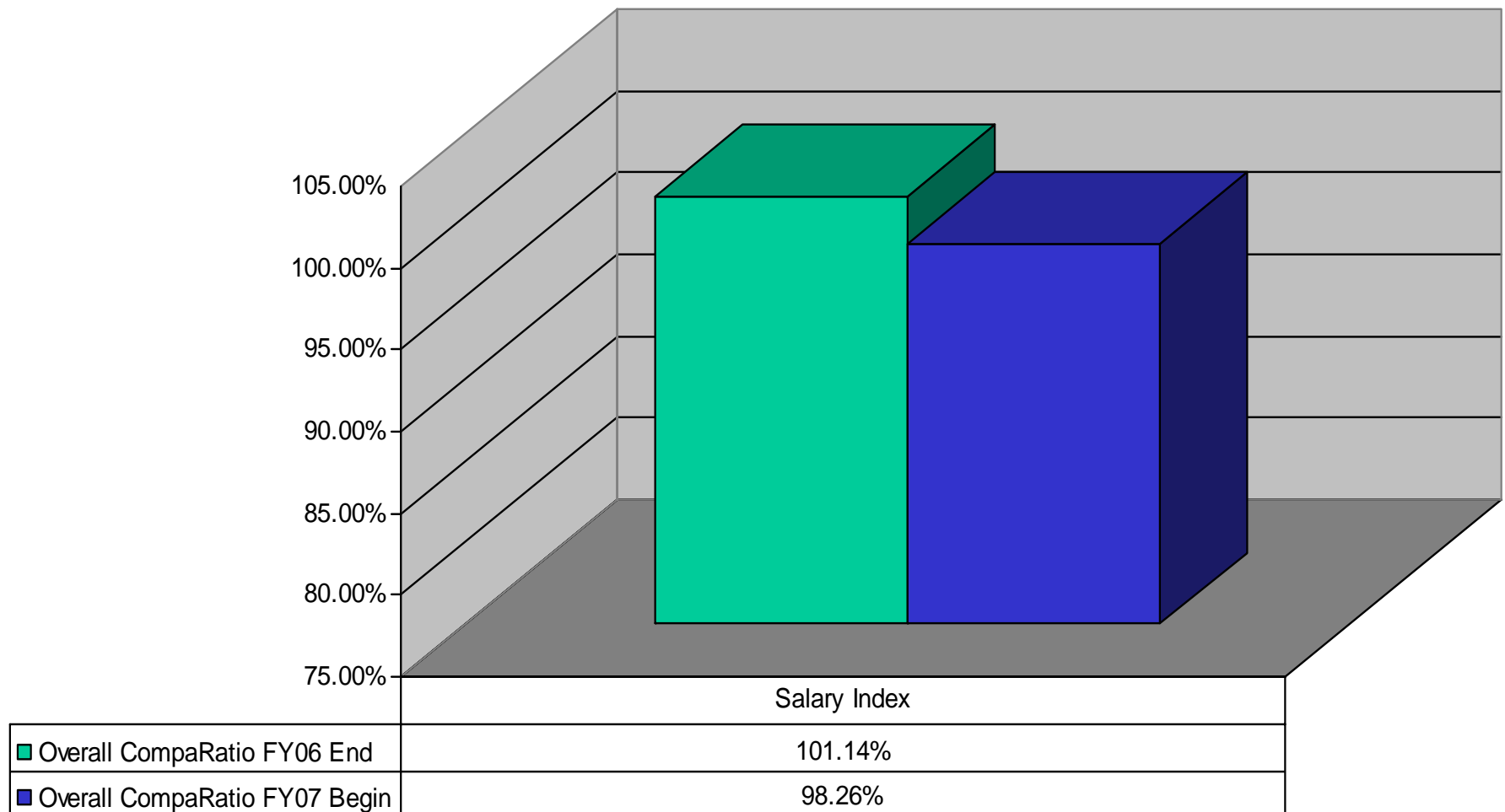
- Completed fourth year
- Restructured key salary bands and zones to track with purchased and customized market surveys
- Nursing market driven by local healthcare employers
- Eleven job families
- 611 job classes
- 5918 positions monitored

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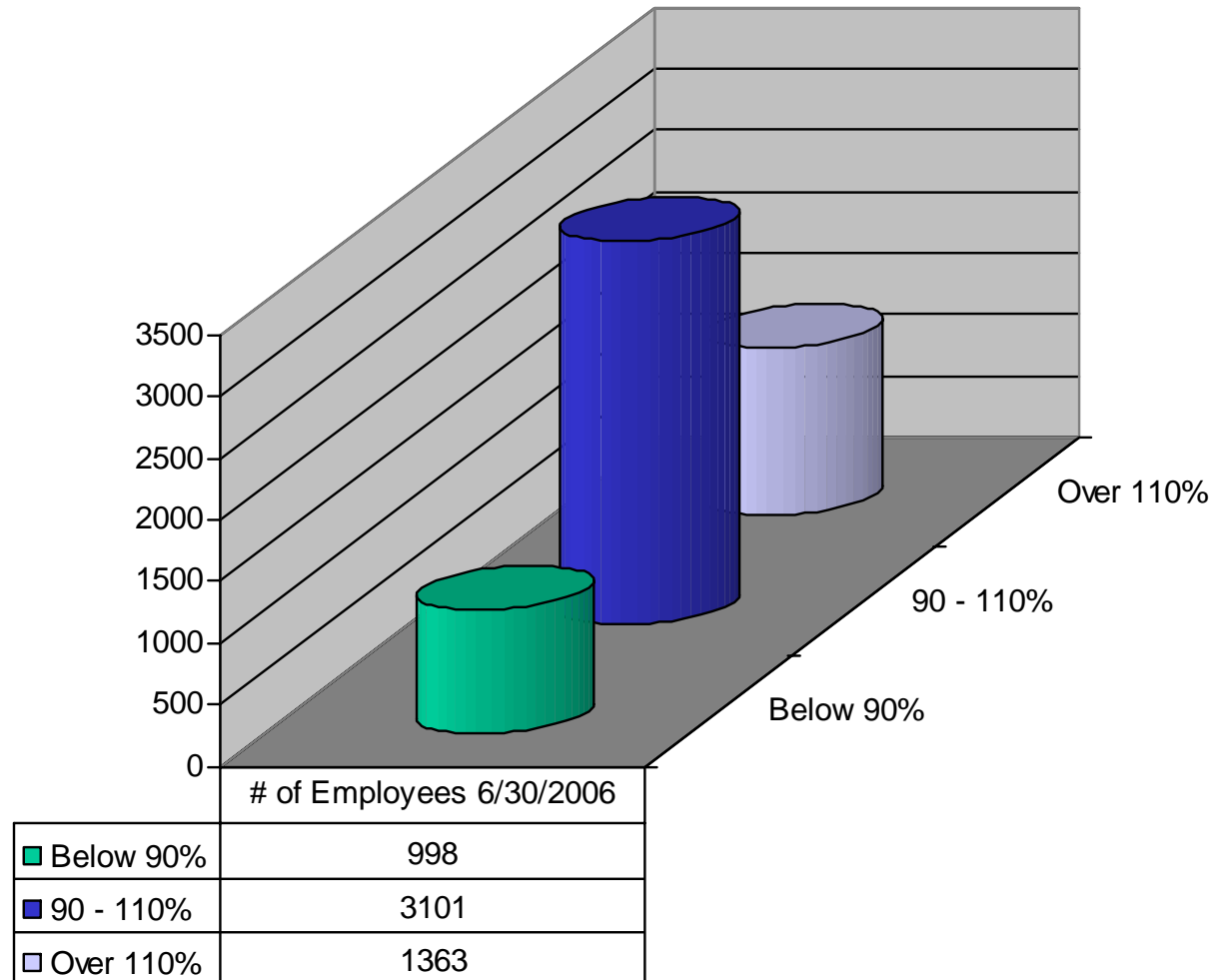
FY 2006 Performance Based Compensation Plan

- Performance based
- 3.5% budgeted for allocation to managers
- 75% received base building increases
- 11% received non-base building increases as a bonus
- 7% received increase and bonus
- Policy for three types of bonuses:
 - Outstanding Performance
 - Individual Contributor (Spot Award)
 - Unit Specific
- Retention bonuses every six months for bedside nursing staff
- Longevity bonus for service

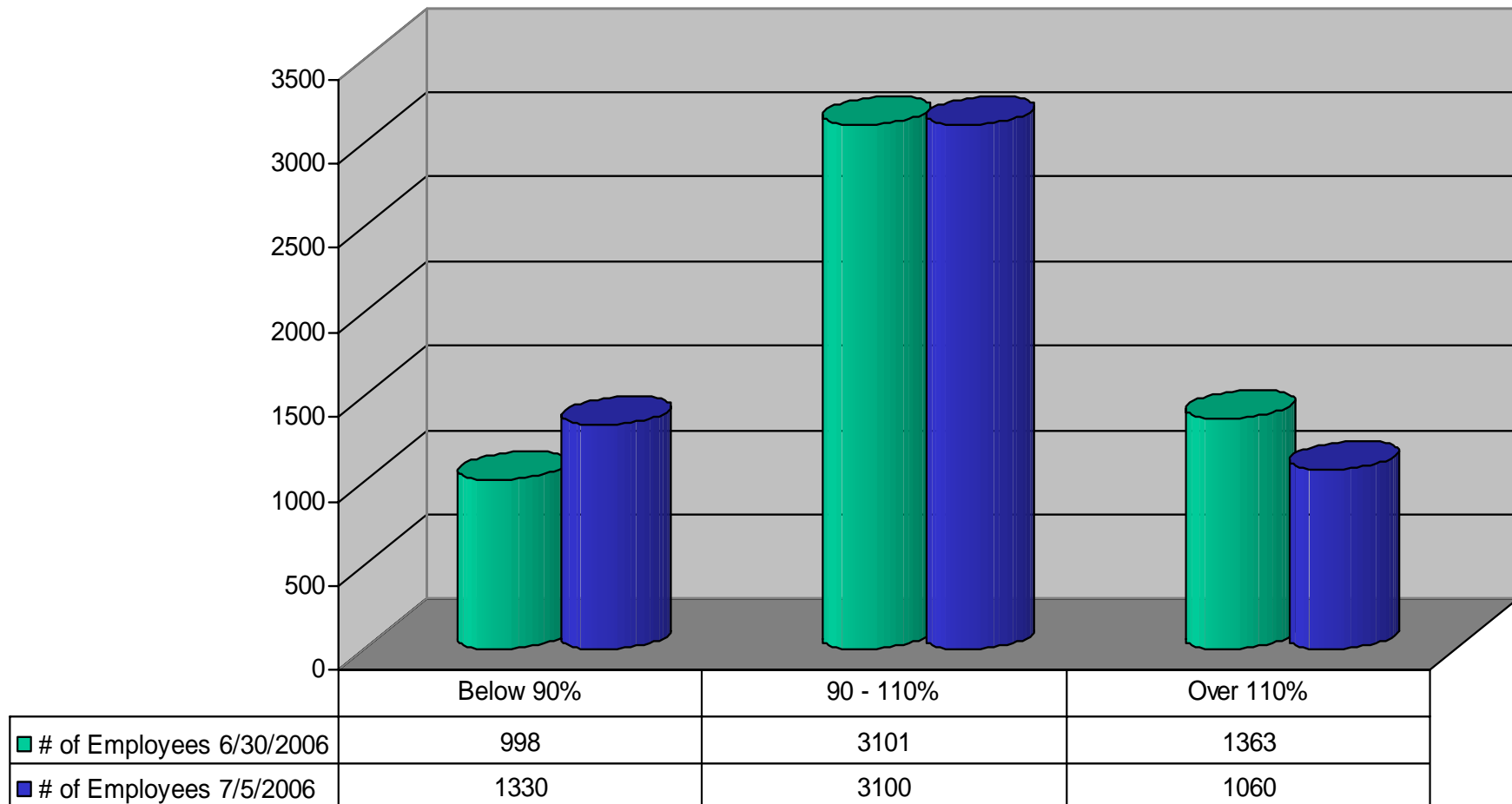
Aggregate Salary Index



FY 06 Employee Distribution by Comp Ratio



FY06 to FY07 Employee Distribution by Comp Ratio



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Awareness as Healthcare Employer of Choice

- New interactive recruitment CD that focuses on employment image and brand
- Highway bill boards and radio spots on 17 local stations
- TV spots highlight employment opportunities
- National print ads focus on reputation and living in this area of NC
- Linkages to internet recruitment sites
- Direct on-line access to our job listings, applications, benefits information

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Recruitment Activity

UNC Hospitals, UNC P&A, Ambulatory Care

- Applications received FY 06 28,066
- Applications received FY 05 17,711
- Applications received FY 04 14,302

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Recruitment Activity

UNC Hospitals, UNC P&A, Ambulatory Care

Non-nursing positions filled FY 06	896
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Nursing positions filled FY 06	1,304
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Total positions filled FY 06	2,200
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Improved Recruitment

Registered Nurses

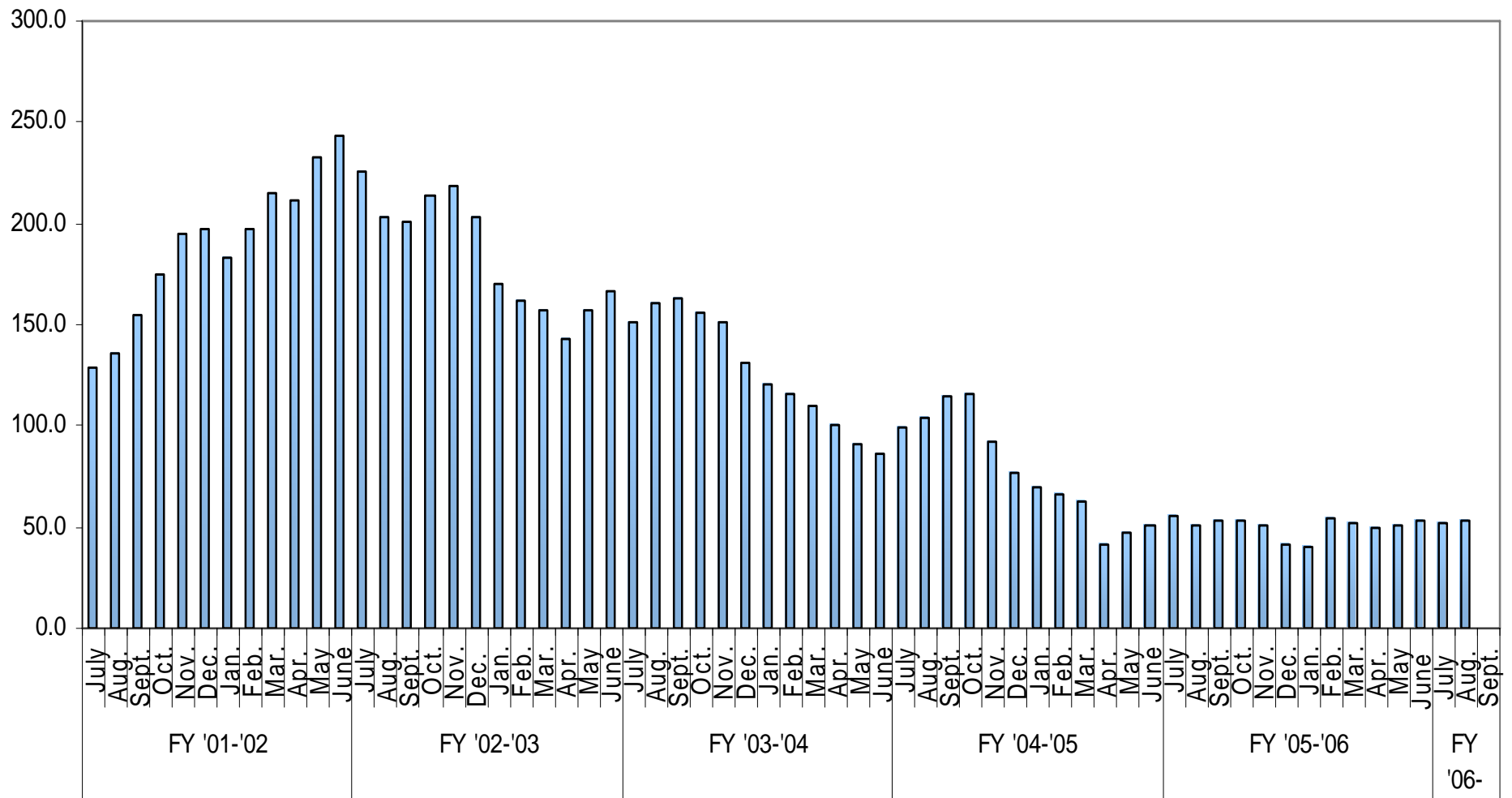
Radiology Techs

Medical Coders

Pharmacists

Information Technology

UNC Hospitals Contract FTEs



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Impediments to Recruitment and Retention

- Health insurance premium costs are not acceptable
 - 17% increase between 2003-06
 - No Employee/Spouse or Spouse only option
 - Employee/Family plan costs \$5,760/year
- Mandatory retirement plan participation is a negative
 - 6% contribution affects take home wage
 - Variable employer contribution (5.8% in FY05; 6.82% in FY06)
 - Not viewed as portable as other options
- Parking
 - Expensive, inconvenient, and often off-campus

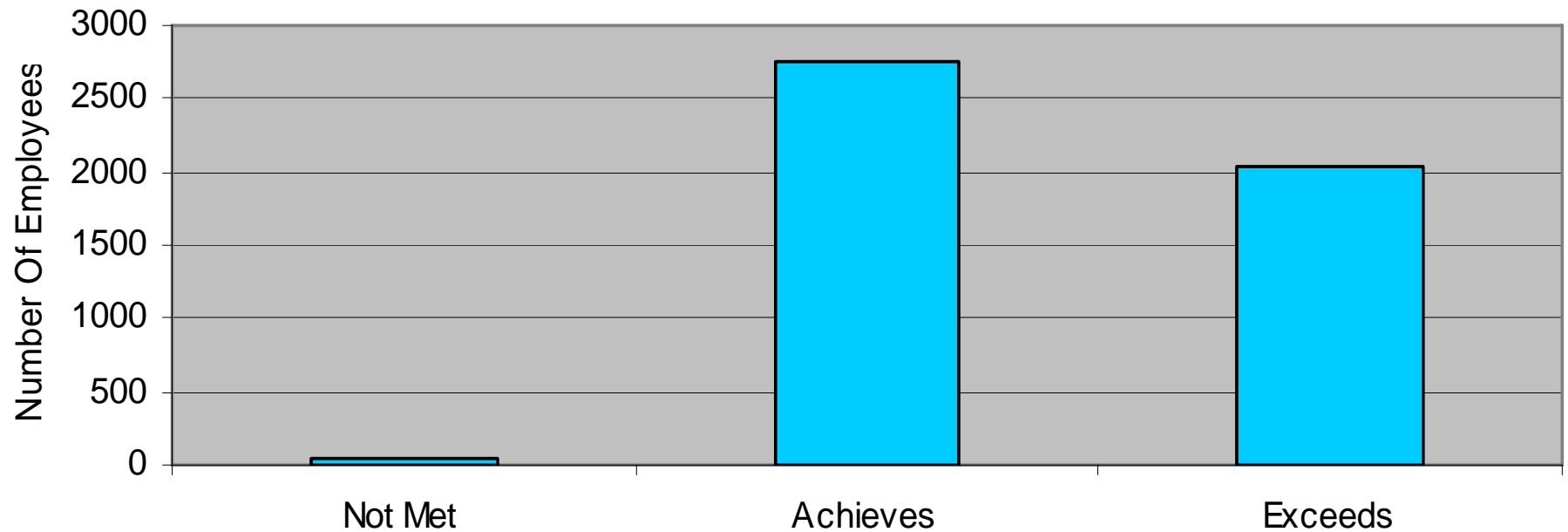
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Fourth Full Year of the Performance Management System

- Emphasizes mission-specific behaviors and core job elements
- 50% weight for behavior and job elements
- Three point rating scale
- Introduced Patient Safety as a measurable element
- Performance Reviews done on anniversary dates
- Pay is directly connected to performance

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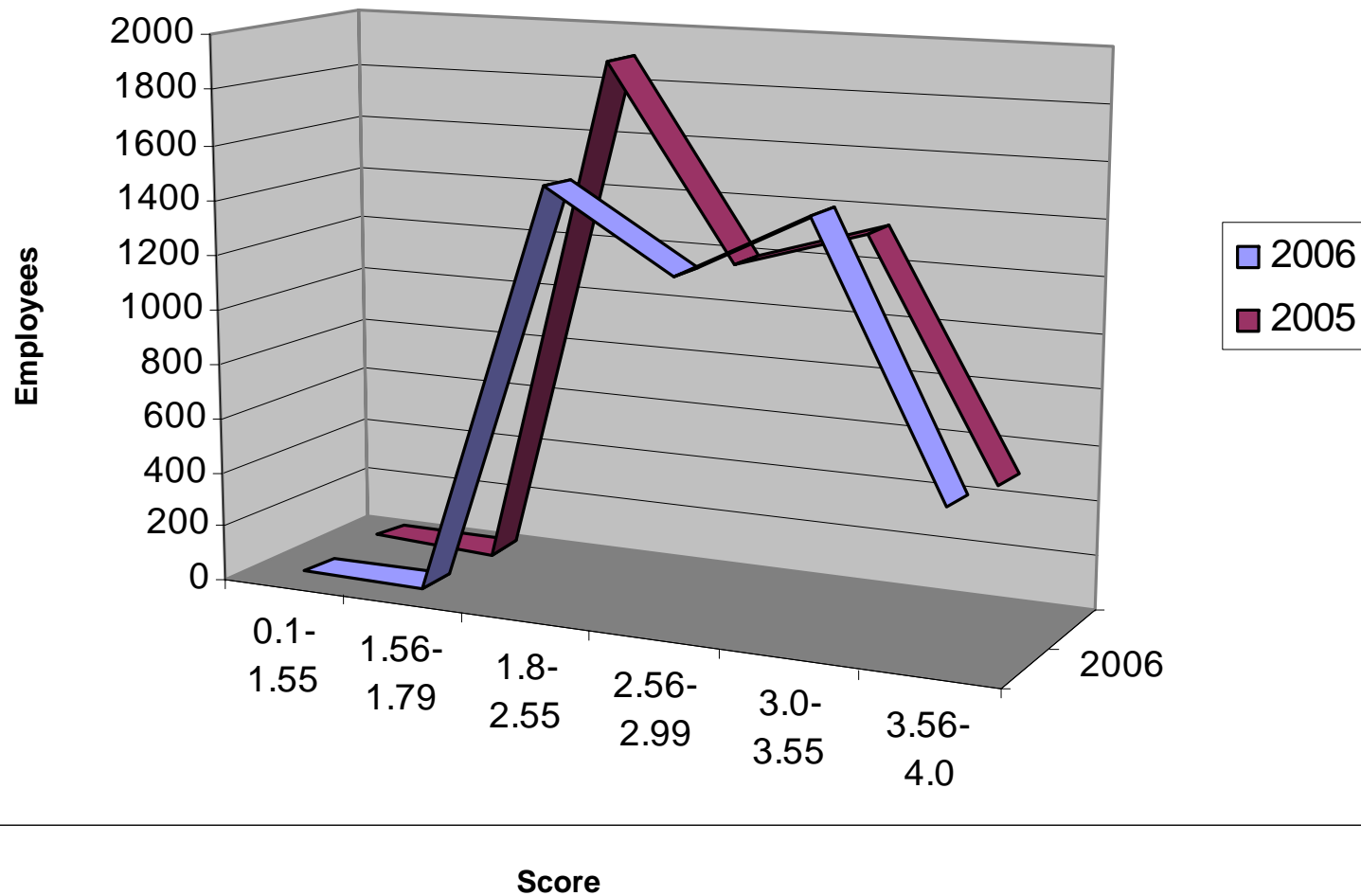
Performance Rating



In FY 06, performance scores continued to stabilize. On a three-point rating scale, 42% of employees received an “exceeds” range score, 57% received a “meets” range score, and .89% received a “does not meet” range score.

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Performance Ratings



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Workforce Development

- Preceptor sites with training programs (over 100 affiliations)
- Partnership with UNC School of Nursing, School of Medicine Department of Allied Health and Durham Community College
- Funding for students now at \$10.6 million; 687 students
- Tuition assistance: 312 employees; \$311,148

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HR Accomplishments FY 06

- Implementation of foreign national administrative center
 - 15 foreign nationals sponsored;
 - tracking work authorizations of 112 employees
- Improvement in nursing retention
- Professional advancement ladder for nursing
- Expansion of Learning Management System
- Nursing per diem model as employment option for nurses and other patient care classifications
- Recruitment and retention in high-demand professions has been successful
- Improvements in employee opinion survey in focused areas
- Decreased reliance on contract employees

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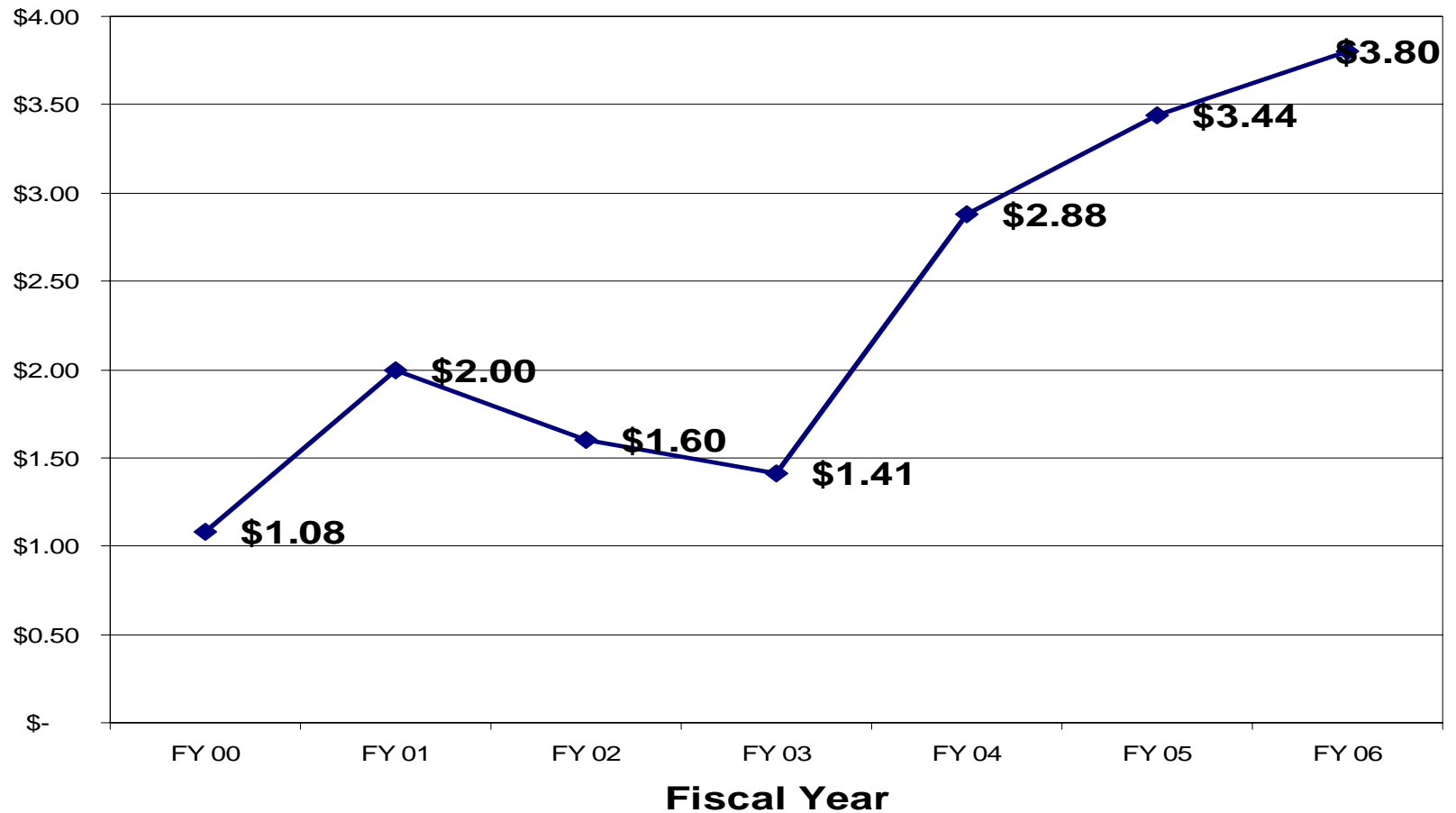
UNC Hospitals Purchasing Flexibility

- Achieved savings of \$2.23M with the conversion to MedAssets contracts
- The Purchasing Department documented a capital and operational expense reduction of \$3.8M

UNC Hospitals

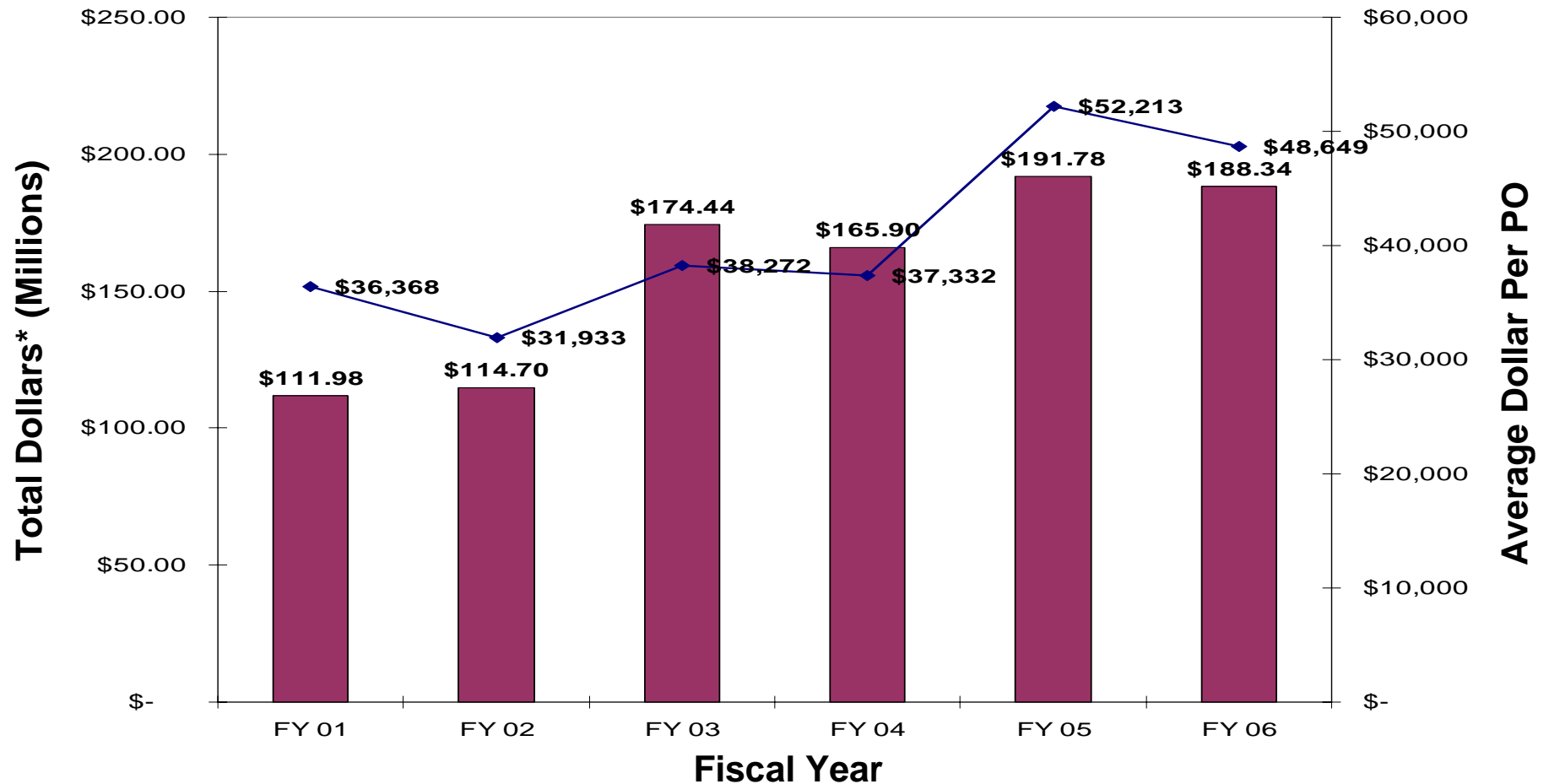
Purchasing Department Annual Report (Millions)

Total Savings on Capital Purchases and
Operational Expenses



UNC Hospitals

Purchase Order Totals Over \$10K



•Total dollars in millions includes all PO costs
(goods, services, tax, freight, handling fees, etc.)



Annual Report for FY05-06 on Actions Taken Under Flexibility Legislation

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Patient and Staff Safety Initiatives

- New products & protocol to reduce the incidence of Ventilator Associated Pneumonia
- Protocol & cart established to decrease bloodstream infections
- Introduced latex free gloves & Foley catheters to protect latex allergic patients and staff
- Purchased IV securement products to prevent IV site failure

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Patient and Staff Safety Initiatives

- Initiated a Lift Program designed to reduce patient lift related injuries to staff nurses
- Evaluated and purchased feeding pumps that are designed to prevent “free flow” and have a wider rate per hour range
- Conducted extensive education programs on the use of safety engineered products

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Materials Management Initiatives Achieved in FY06

- Infusion pumps with wireless capability deployed
- Documented savings of \$1.18M in capital acquisitions
- Development of MedAssets Strategic Information web-based tool to identify products purchased without a contract
- The Distribution Annex is operational as a warehouse and storage facility

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Flexibility in Property Matters

- Property Oversight Committee considered and recommended leased space for clinical programs and administrative functions to include:
 - UNC School of Medicine's Departments of Dermatology, Psychiatry, Allied Health for OT/PT, Otolaryngology (ENT), and Nephrology.
 - Home Health, Outpatient Dialysis, and Hospice
 - Warehouse to provide storage for several departments.
- Acquisition by Deed of 7.4 acres in Amberly Development, Wake County (Cary).

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Flexibility in Construction Matters

- Construction Bidding Oversight Committee approved seven projects for single prime contracting method to include:
 - CT Scanner Addition
 - MRI 5
 - GI Procedures
- Committee also approved design contracts for ten projects to include:
 - McClendon Clinical Lab Renovations
 - Wound Care Clinic

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Performance Improvement Project

- Continued focus on 4 broad categories
 - Improvements in revenue cycle management
 - Patient throughput and capacity management
 - Development of productivity-based clinical compensation plan
 - Supply chain savings

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Improve Access to Care

- New discount policy began August 1, 2005
 - 25% discount for all uninsured patients
- Enhanced charity care eligibility criteria by effectively lowering the patient's income threshold. Patients below 250% (rather than 200%) of the federal poverty guidelines (\$48,375 for a family of four) will not be charged for services beyond co-payments at the time of service.

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UNC Physicians and Associates

Accomplishments:

- Financial performance
 - Net gain of \$17.5M
 - 6% increase in physician productivity
 - 3% increase in revenue improvements
- Improved overall morale of organization
 - Improved integration and cooperation
 - Reduced employee turnover
- Reduced cost of P&A principle functions
 - Expenses held at 2.3% growth in the FYTD (6% excluding unexpected reduction in Malpractice Expense)
 - Reduced clinical department taxes by \$700K

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UNC Physicians and Associates

Accomplishments:

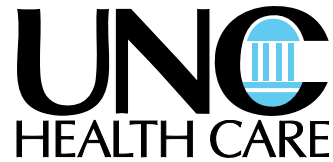
- Faculty Incentive Plan
- Reduction in employee turnover
- Increased integration with hospital
 - Information Systems
 - Human Resources
 - Revenue Cycle Processes
- Evaluation and planning for new patient billing system (GE Centricity Business)
- Rebate of surplus P&A service revenue

UNC Health Care System

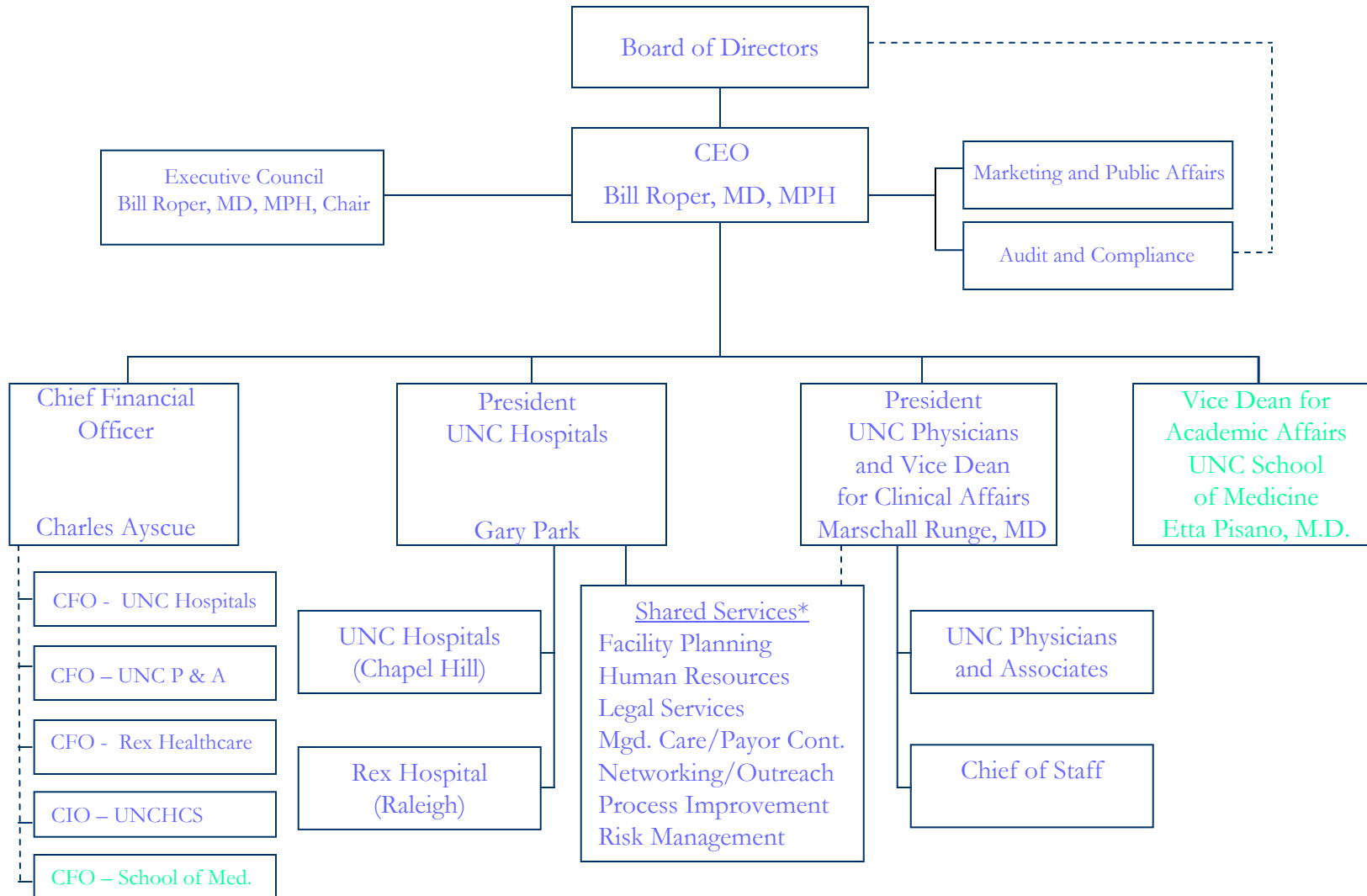
UNC Physicians and Associates

Goals:

- Expand patient access and availability of services to all citizens of North Carolina
- Improve quality of care across all areas of practice
- Continue focus on patient safety initiatives
- Participate fully in data warehouse initiative to support quality and safety goals
- Continue focus on improving patient and employee satisfaction
- Align the interests of UNC Health Care System physicians
- Continue front-end process improvements to increase patient service revenue and reduce bad debt and denials
- Continue to analyze back-end processes for efficiency and revenue improvements
- Successfully implement new scheduling, registration and patient billing system

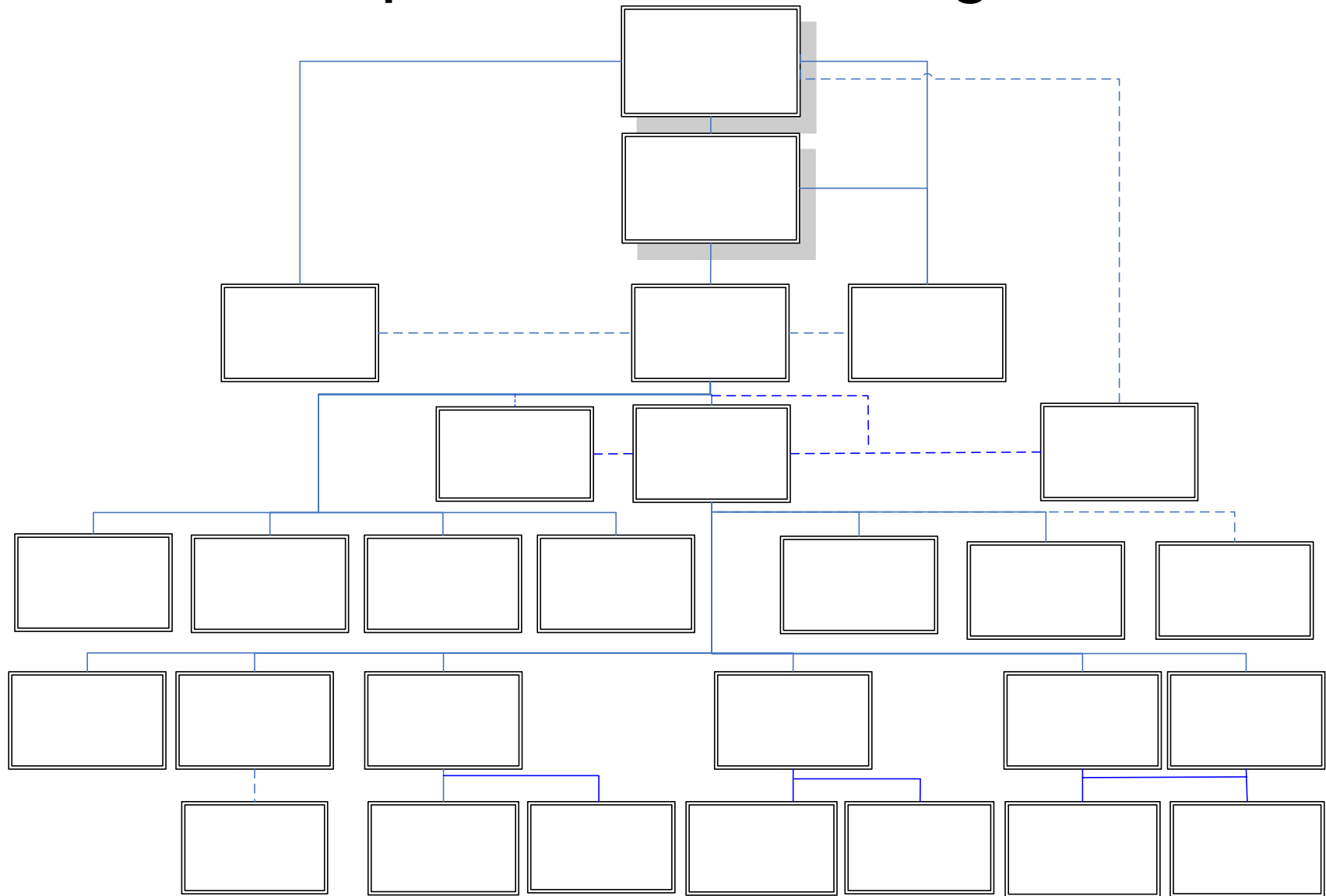


Organizational Chart
August 2006



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

UNC Hospitals Table of Organization



UNC Hospitals

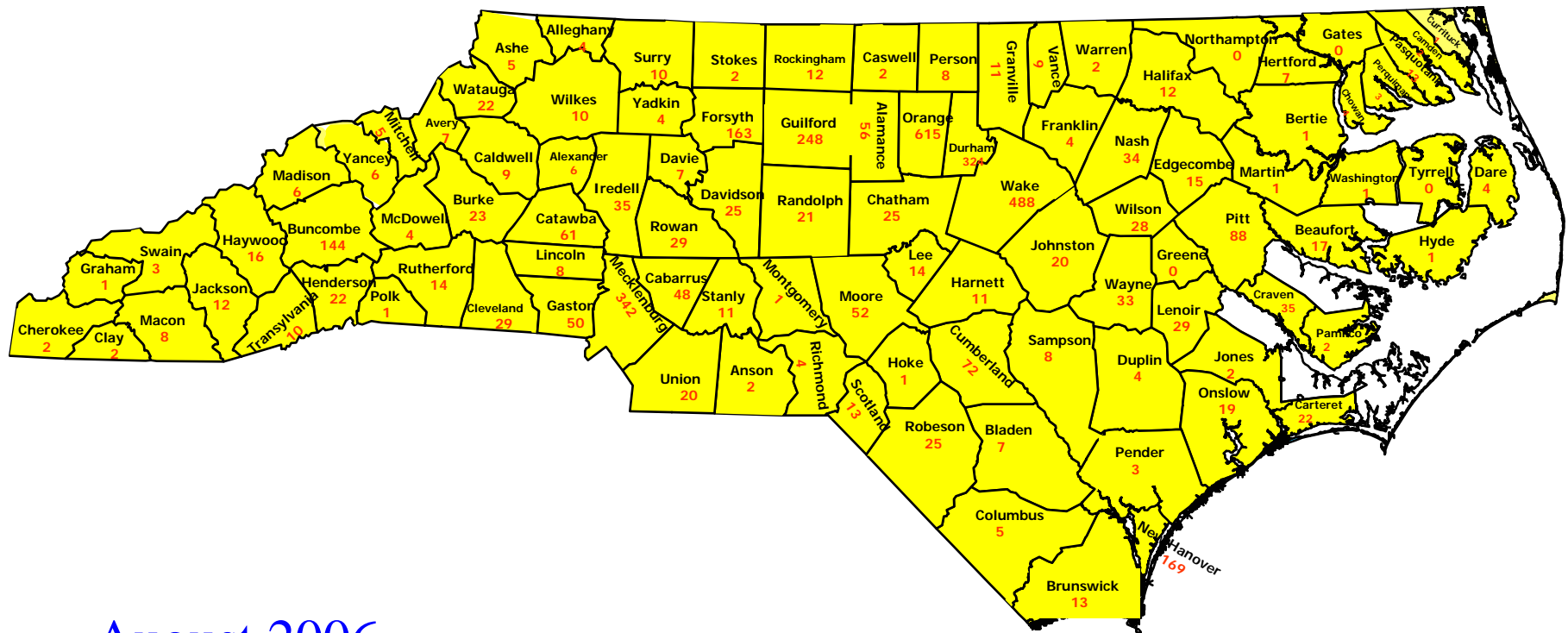
FY06 Uncompensated Care (Charges)

- Total Charity Care – \$52,961,060
- Total Bad Debt - \$43,189,342
- Total Uncompensated Care - \$96,150,402
- Percent of uncompensated care by County
 - Orange comprises 18.34%
 - Alamance comprises 16.94%
 - Wake comprises 7.93%
 - Chatham comprises 6.89%
 - Durham 6.97%
 - Lee comprises 5.42%

Residents, UNC Hospitals

(duplicates eliminated)

Total of unique individuals: 3809



August 2006