

UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS AUTHORITY
Minutes of Board of Directors Meeting

November 5, 2014

PRESENT: David Walsh (Chair), David Ward (Vice Chair), Dean Robert Golden, Dr. Thomas Grist, John Litscher, Dean Katharyn May, Regina Millner, Janice Mueller, Senator Luther Olsen, Lisa Reardon, Pablo Sanchez

EXCUSED: Chancellor Rebecca Blank, Richard Fetherston, Andrew Hitt, Rep. Howard Marklein, Dr. Humberto Vidaillet

LIAISONS: Ron Sliwinski, Dr. Lee Faucher

STAFF: Kristi Amelong, Mike Buhl, Mike Dallman, Erin Elliott, Tim Gaillard, Dr. Chris Green, Beth Houlahan, Jeff Poltawsky, Bob O'Keefe, Jay Robaidek, Sue Sanford-Ring, John Sheehan, Ron Sliwinski, Dan Weissburg, Kelly Wilson

GUESTS: Tim Stumm

1. Call to Order

Chair David Walsh called the meeting to order at 1:30 p.m. Roll call was taken, and a quorum was present. Kelly Wilson, SVP & General Counsel, reminded the Members that we will be requesting a copy of their Statement of Economic Interests from the Government Accountability Board (GAB), as required by the Joint Commission accreditation standards, to track and address Board member potential conflicts of interest. The GAB will notify the Members that we have requested a copy of their reports.

2. ACTION: Approval of Minutes of September 2 and 3, 2014 Authority Board Meetings

Senator Olsen moved approval of the minutes of the September 2 and 3, 2014 meetings (Attachment A). Dr. Grist seconded the motion, and it passed unanimously.

3. ACTION: Review and Approval of Medical Staff Membership and Clinical Privileges

Dr. Chris Green introduced Dr. Lee Faucher as the new President of the Medical Staff. Dr. Faucher presented the Medical Board recommendations concerning medical staff memberships and clinical privileges (Attachment B). Dean May moved that the recommendations be approved. Mr. Litscher seconded the motion, and it passed unanimously.

4. Introduction: Erin Elliott, Director, Government Affairs

Ron Sliwinski, President & CEO, introduced Erin Elliott, Director, Government Affairs. Erin will play a key role in developing and executing our legislative strategies. Her responsibilities will include representing UW Health at the State Capitol and before local governments. Erin previously worked with the University of Missouri System and has extensive experience in working with state legislatures.

5. Ebola Update

Mr. Sliwinski provided a detailed update on the hospital's extensive Ebola planning, including personal protective equipment ("PPE") "donning" (putting on) and "doffing" (taking off) training, isolation procedures, and training physicians and staff. He reminded the Board that UW Hospital and Clinics and the American Family Children's Hospital are among four hospitals that the State of Wisconsin has designated to care for patients testing positive for Ebola. A leadership team

has been meeting twice a week to continue to chart the progress for UWHC in preparing for a potential patient. The request for volunteers to care for possible Ebola patients has been extremely successful and over 93 volunteers have been identified, covering all of the needed care areas.

6. Board Committee Reports

Bob O'Keefe, VP, Fiscal Affairs, reported on the activities of the Audit and Finance Committee meetings from the morning. A number of items were reviewed with Scott Houtakker, Director, Internal Audit. Mr. O'Keefe reported that Dan Weissburg, Compliance and Privacy Officer, gave an updated Compliance report, which covered our progress with Medicare audits, generally referred to RAC (standing for "Recovery Audit Contractor") audits. Since the RAC audits have begun, only 1% of the reviewed charges have warranted repayment, which is extremely good. Mr. Weissburg also reported on privacy violations and the continued surveillance around HIPAA compliance and the implementation of the government's Sunshine Act, which is related to payments care providers receive from outside sources.

Mr. O'Keefe introduced a proposal to amend the current UWHC Investment Policy. After the initial investment policy, management found a good source for peer information as to how similarly situated organizations invest their assets and how they allocate funds between four major categories, referring to Attachment D. Looking at these comparisons with peers, a number of conservative policy decisions were noted. The proposal was that our ranges be adjusted to be more in line with peer organizations, although still on the conservative side. Board members discussed the pros and cons of being conservative. Mr. O'Keefe explained that 25% of investments were in endowment funds, and 60% of that was in equities. Extensive discussion followed regarding the nature and size of the investments, their fluidity, volatility of the market, days cash on hand, realistic expectations, philosophy of focusing on core business, and gradual approach rather than taking on additional risk all at once. The working assumption was stated as a 2.5% annual return, and the proposal is projected to increase that 3.6%. Ms. Mueller raised the question of the ability to invest in the State of Wisconsin Investment Board ("SWIB"), in which state agencies can invest. Mr. O'Keefe was encouraged to speak with someone at SWIB. Some concern was raised that spending money on an investment advisor would eat away at the return on investments.

CFO Report

Mr. O'Keefe presented the CFO report. He explained when Physicians Plus Insurance Corporation ("PPIC") terminated the UWHCA agreement, Unity had 116,000 members. People walked with their feet and Unity today has 166,000 members, an emphatic statement that people prefer to receive care at UWHC. Mr. Buhl then reviewed the net revenue and cost increases per patient from July 2012 through June 2014, showing a clear trend that revenue has gone up only slightly while costs have gone up significantly, by almost 10% in two years, compared to around a 4% increase in revenues during that same time period. Thus, UWHCA needs to either increase revenues, which is not likely in today's environment, or reduce costs.

UWHCA, under the leadership of Ron Sliwinski and Tim Gaillard, has formed eight committees with accountable leaders addressing cost structure and attempting to figure out how to bring costs in line with revenue increases. Mr. O'Keefe discussed the impact of expensive specialty drugs (biologicals) involved in the care of complex cases, explaining that we had one Medicaid patient in June of 2015 to whom we administered \$450,000 in specialty drugs in ten days. Looking at our 2012 cost spend, we spent \$126 Million on pharmaceuticals. This year, we will spend \$210 Million on these same pharmaceuticals. We need to manage these costs, which are a bit of a "runaway train" at the moment. In FY 2015, our goal was to decrease costs by 3%, which we did if we wash out the cost of specialty drugs. With those included, our costs have increased over 4%. We have a 7% operating margin in the retail pharmacy setting. In the

inpatient environment, however, we get about 35 cents for each dollar we spend. There is no differentiation in the payment received from Medicare based on the drugs used because of the DRG system. Nationwide, the cost of these drugs is expected to increase five-fold by 2020, to \$400 Billion. The Board had extensive discussion about management of these and other costs.

CEO Report

Mr. Sliwinski presented the CEO report and highlighted the Organizational Dashboard. He explained that we went through a period of historically high demand and diversions. He noted the Madison Rehabilitation Hospital groundbreaking next to UW Health at The American Center.

Mr. Sliwinski introduced a new organizational chart, pointing out the service of Gary Johnson in the Interim VP of Human Resources role. He also introduced Tim Gaillard as the new Chief Operating Officer, and his replacement by John Sheehan on the Madison Rehabilitation Hospital Board.

Mr. Sliwinski recently met with Marty Beil, AFSCME Executive Director, who informed Mr. Sliwinski that two thirds of his unit will no longer want to voluntarily continue with Wisconsin State Employees Union after the contracts expire in January. Still, the plan is to have ongoing discussions with Mr. Beil or other individuals to hear any perspectives that they would like to bring.

Mr. Sliwinski also discussed the upcoming Joint Commission survey visit and other current operational issues.

7. ACTION: Review and Approval of Utilization Review Committee

Dan Weissburg, Compliance and Privacy Officer, presented an overview of the Utilization Review ("UR") Charter and Requirements, seeking Board approval to create and operate an UR Committee. Ms. Millner moved, and Mr. Litscher seconded, approval of the Resolution of the Board of Directors approving the creation and operation of the UWHC Utilization Review Committee, as described in the attached Charter (Attachment C). The motion passed unanimously. Resolution No. 15-012

8. ACTION: Review and Approval of Investment Policy Amendment

Mr. O'Keefe presented proposed modifications to the December 4, 2013 Investment Policy with regard to permitted ranges by asset category specified in Appendix A, and to similarly amend the body of the policy where those matters are described (Attachment D). Dean Golden moved, and Ms. Reardon seconded, approval of the Resolution of the Board of Directors approving the requested modifications to the Investment Policy with regard to permitted ranges by asset category specified in Appendix A, and to similarly amend the body of the policy where those matters are described. The motion passed unanimously. Resolution No. 15-013

9. CFO Report

Mr. O'Keefe provided the CFO Report (Attachment E). As part of the report, he provided a high level review of the previous year's financials. It was noted that last year continued to show the downward pressure on reimbursements. This was the case with an ever growing patient load, which partly could be attributed to the great success of Unity Insurance in the market place. Cost is another challenge and Mr. O'Keefe stated that costs continued to grow but that growth was attributable to one area, Specialty Pharmacy, which when removed from our cost structure showed that UWHC met its goal of reducing cost by 3%. Mr. O'Keefe said we will need to continue focusing on cost reduction.

10. Other Matters

There were no Other Matters to present to the Board.

11. Closed Session

There being no other matters for the open session, Mr. Walsh proposed to take the meeting into closed session as previously noticed. The purpose for the closed session was for the discussion of financial and other matters, including budgetary matters which for competitive reasons require a closed session, pursuant to Section 19.85(1)(g), Wis. Stat.; to confer with legal counsel regarding strategy with respect to threatened or pending litigation; and pursuant to Section 146.38, Wis. Stat., for the review of the services of health care providers.

Ms. Millner moved to go into closed session; Senator Olsen seconded the motion, and there was a unanimous roll call vote approving entering into closed session. The following members voted for the motion: Chair Walsh, Vice Chair Ward, Dean Golden, Dr. Grist, Mr. Litscher, Dean May, Ms. Millner, Ms. Mueller, Senator Olsen, Ms. Reardon, and Mr. Sanchez.

Ms. Millner moved to return to open session; Dean May seconded the motion; and the motion was unanimously approved.

The Board took no action in the closed session.

12. Return to Open Session – ACTION: Approval of SwedishAmerican Resolution

Dr. Grist moved, and Senator Olsen seconded, approval of the following Resolution of the Board of Directors: Having reviewed the terms and conditions of the proposed transaction with SwedishAmerican Health System Corporation and the status of due diligence, hereby delegates to the UWHCA chief executive officer the authority to take those steps, deploy those resources and authorize execution of those documents necessary to close the transaction substantially as described to the UWHCA Board of Directors. The motion passed unanimously.

Resolution No. 15-014

Ms. Miller moved to adjourn the meeting; Mr. Litscher seconded the motion; and the motion was unanimously approved.

Respectfully Submitted,

Kelly C. Wilson, Secretary