

**UNIVERSITY OF WISCONSIN HOSPITAL AND CLINICS (UWHC)
AND UNIVERSITY OF WISCONSIN SCHOOL OF MEDICINE AND
PUBLIC HEALTH (UWSMPH)
ANNUAL ACADEMIC ADVANCEMENT
AGREEMENT (AAA)**

The Board of Regents of the University of Wisconsin System on behalf of the UW-Madison Health Sciences Schools and the University of Wisconsin Hospital and Clinics ("UWHC") executed an Affiliation Agreement ("AA") dated June 29, 1996. The AA provided in pertinent part that the UWHC, would provide certain financial support ("Additional Support") for the educational/clinical programs and other educational programs including programs outcomes research. The AA conditioned the Additional Support on the financial viability and strength of UWHC. The intent was that the Additional Support "will be used for one time rather than ongoing expenditures, and for those which will benefit the UW-Madison and the residents of the state of Wisconsin and for which state support is not being provided." This AAA (also referred to as "Agreement") is a mechanism for the process by which the UWHC and UWSMPH, on behalf of the UW Health Sciences Schools, will, subject to the continued financial strength of UWHCA, determine the use of said Additional Support.

I. STATEMENT OF INTENT

UWHC and UWSMPH wish to mutually support their academic missions in the most efficient and effective manner. UWHC and UWSMPH are in agreement that UWHC must be able to fulfill its mission as a Public Authority as defined by statute and related documents, and in accordance with applicable industry financial metrics. In order to do so, this Agreement will be applied on an annual basis.

Mindful of possible changes in future circumstances, UWHC and UWSMPH agree that the process set forth in this Agreement is to be a practical approach promoting considered and cooperative annual planning for the support of the academic mission.

II. DESCRIPTION OF FINANCIAL PARAMETERS

1. At the close of each fiscal year, UWHC shall determine its operating margin and days of cash-on-hand using the annual external audit of UWHC, as approved by UWHC's Finance Committee and its Board of Directors. If the operating margin exceeds five percent (5%) and days of cash-on-hand ("DCOH") exceeds one hundred and eighty (180) days, UWHC shall maintain on its books, but set aside for exclusive application to this AAA, an amount representing the lessor of the margin above five percent (5%) or the amount of cash in excess of 180 DCOH. Such amount shall be distributed (as cash is available) commencing in the last quarter of the calendar year for the prior

fiscal year, and will be referred to as the Academic Advancement Fund (AAF), provided however, said payment(s) shall not cause DCOH to be less than 180 days at any time. For application of this provision, operating margin will be computed using the annual audited financial statements except that interest expense will be treated as an operating expense.

2. The AAF shall be allocated and applied as hereafter described. An amount equal to fifty percent (50%) of AAF shall be for an Academic Programs Fund, twenty-five percent (25%) for a Clinical Departments Fund, and twenty-five percent (25%) for a Special Projects Fund.

A. The Academic Programs Fund

- i. The Dean of UWSMPH shall apply the portion of the AAF allotted to the Academic Programs Fund to enhance and support research and educational programs in accordance with a rolling five (5) year plan that is initially presented to the UWHC CEO and then reviewed by the Review Group made up of the Chancellor, the Provost, the Chair of UWHC Authority Board, and a senior public board member of the University of Wisconsin Medical Foundation (UWMF). The Dean shall provide an annual update and summary describing the prior year's use of the Academic Programs Fund to the Review Group and to the UWHC CEO. This report shall be provided by the end of September of each year.

B. Clinical Departments Fund

- i. The CEOs of UWHC and UWMF and the Dean shall collaboratively develop an annual plan (Clinical Departments Plan) for advancing the clinical mission of UW Health. The Clinical Departments Plan shall contain for each clinical department four clear goals and associated metrics for measuring the achievement of those goals. Two of the goals and their associated metrics shall be designed to be clinical enterprise wide in their applicability and achievement. The other two goals shall be designed to be achieved by individual departments.
- ii. The goals agreed upon by UWHC, UWMF, and the Dean shall be important to the clinical mission, and by way of example might include quality, safety, outcomes, compliance, patient satisfaction, and similar areas of focus.
- iii. The Dean and the CEOs of UWHC and UWMF shall reach final agreement regarding the goals and metrics determining

the distribution of the Clinical Departments Fund by April 1 proceeding the next fiscal year. If a final agreement is not reached by that date, the Chair of the UWHC Authority Board or his/ her representative (Representative) shall schedule meetings to advance final agreement. If no agreement is reached by May 1, the Chair of the UWHC Authority Board or Representative shall issue a report containing recommendations to the Review Group. The Review Group shall consider proposals from the Dean and the CEOs of UWHC and UWMF, and then determine the final plan that can be shared with the departments by June 1.

- iv. Within thirty (30) days after the first anniversary of the first distribution of funds from the Clinical Departments Plan, and within the same period each year thereafter, the Chair of each Department shall provide a report detailing use of the prior year fund distribution to UWHC, UWMF, and the Dean. The report shall be in a format prepared by the Dean and reviewed by UWHC and UWMF. Within sixty (60) days after the first year of the Clinical Departments Plan and within the same period each year thereafter, UWHC, UWMF, and the Dean shall provide a unified report to the Review Group evaluating the prior year.
- v. The Clinical Departments Plan shall be specific about how the Clinical Departments Fund shall be allocated. The departments shall be informed prior to the beginning of each applicable twelve month period of the goals and metrics. If one or more goals are not achieved and there is an unused allotment, the Dean and the UWHC CEO shall decide how any unused allotment shall be distributed between funds in the subsequent year.
- vi. In general, the Clinical Departments Fund shall be allocated to departments reflecting a department's pro rata proportion of imputed clinical full-time equivalents.
- vii. The Clinical Departments Fund is not to be used by any department in a way that would involve a long-term financial commitment or liability, since the availability of this fund will vary from year to year. The Fund shall not be used directly or indirectly as a substitute for other operational or other funds.

C. Special Projects Fund

- i. The Special Projects Fund shall be utilized solely for special projects which especially enhance the interdependent academic and clinical missions of UW Health and which would otherwise be unfunded or only partially funded. Such projects shall be of strategic importance to the above missions. Any use of these funds shall require the prior joint agreement of the UWHC CEO and the Dean, or approval pursuant to Article III below.
- ii. The Special Projects Fund shall not be used directly or indirectly for ongoing costs, including personnel support and operating expenses, or in place of any other allocated funds, and all funds must be spent in accordance with the strict terms under which the funds are granted. Any grantee of funds shall, within thirty (30) days after the fund year, deliver a report to the UWHC CEO and the Dean in such a format as UWHC and the Dean require.
- iii. The Special Projects Fund year shall begin October 1 of each year. It shall be spent or encumbered annually. If the funds are not spent/encumbered, they may accumulate for subsequent use in the Special Projects Fund for no longer than three (3) years.
- iv. Within sixty (60) days after the end of the fund year, the UWHC CEO and the Dean shall deliver an annual report to the Chancellor and the Chair of the UWHC Authority Board summarizing the uses of the funds.
- v. The UWHC CEO and the Dean shall begin discussions resulting in a final plan for the distribution of Special Projects Fund resources in the first week in September. If they have not agreed upon a plan by November 1, the Chancellor and the Chair of the UWHC Authority Board shall be notified and they shall appoint an individual (Appointee) who shall have the authority to schedule meetings in order to reach consensus on the plan. If consensus is not achieved by December 1, the Appointee shall make a detailed report to the Chancellor and the Chair of the UWHC Authority Board detailing areas of difference, competing proposals, and containing recommendations. Thereafter, the report shall be provided to the Review Group which shall schedule meetings and render recommendations to the Chancellor and the Chair of the UWHC Authority Board. The Chancellor and Chair of the UWHC Authority Board shall render such decisions as are

necessary to formulate a final plan for the use of the Special Projects Fund that year.

III. MISCELLANEOUS

1. This Agreement will begin effective for the 2012-2013 fiscal year. The CEOs of UWHC and UWMF and the Dean agree that for the Clinical Departments Fund for the 2012-2013 fiscal year, there shall be only two clinical enterprise wide metrics; the two additional individual department metrics will be incorporated starting in the 2013-2014 fiscal year. The two clinical enterprise wide metrics for 2012-2013 are: 1) to achieve a goal of ninety-seven percent (97%) on the National Hospital Quality Measures Score and, 2) to achieve an eighty-two percent (82%) on the HCAHPS Communication with Physicians. (The first goal was 95.6% and the second goal was 80.2% in 2012). The 2012-2013 fiscal year Clinical Departments Fund amount shall be twelve and a half percent (12.5%) of the AAF and the remaining twelve and a half percent (12.5%) shall be applied proportionately to the other funds.
2. No disbursements or use of funds allocated pursuant to this Agreement shall directly or indirectly be subject to a charge for overhead or similar charge by units receiving funds. No disbursement or use of funds allocated pursuant to this Agreement shall directly or indirectly be used to offset any currently established streams of support to the UWSMPH.
3. The purpose and intent of this Agreement is to establish a process and substantive provisions regarding the funds flow of operating margin in excess of an agreed-upon threshold, initially established as the lesser of the amount in excess of a 5% operating margin (as defined in clause II(1)) or the amount of cash representing the excess over one hundred eighty (180) days. However, the parties acknowledge that UWHC's financial requirements may be subject to unforeseen events over time and that external industry standards to assure that UWHC remains financially viable and retains its present bond rating may require revision of the margin and cash days on hand metrics used in this Agreement. In the event that either party recommends an increase to the cash-on-hand and/or margin (180 days and 5%, respectively), the Chair and Vice-Chair of the UWHC Authority Board, together with the UW-Madison Chancellor, shall consider changes to one or both of these requirements and recommend changes for the approval of the UWHC Finance Committee and the UWHC Authority Board. The changes, if any, must be approved by the UWHC Finance Committee and the UWHC Authority Board.

Agreement approved by:

David Walsh Date
Chair, UWHC Authority Board

David Ward Date
Chancellor, UW-Madison

Donna Katen-Bahensky Date
CEO, UW Hospital & Clinics

Robert N. Golden, M.D. Date
Dean, School of Medicine and Public Health