



Health
Care
System
Flexibility
Report

FY14

Report to the
UNC Board of
Governors

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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 UNC Health Care System (UNC Health Care) was created by the state to: (1) provide patient care; (2) facilitate the education of physicians and other health care providers; (3) conduct research collaboratively with the health sciences schools of the University of North Carolina at Chapel Hill; and, (4) render other services designed to promote the health and well-being of the citizens of North Carolina.

The provisions of the N.C.G.S. 116-37 led UNC Health Care to establish our three-part mission of teaching, research, and patient care, which have guided our activities for the last 15 years. UNC Health Care is a multi-hospital health system in partnership with a top-tier school of medicine, operating hospitals and physician practices across North Carolina. We are anchored by the academic medical center in Chapel Hill, with community hospitals in Wake, Chatham, Henderson, Guilford, Caldwell, Johnston and Nash counties. UNC Health Care's physicians practice medicine in communities across the entire state. Collectively, UNC Health Care employs more than 30,000 people and generates an annual economic impact in excess of \$5 billion.

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 October 2014.

Annual Report

By caring for patients across all 100 counties in North Carolina¹, UNC Health Care improves the well-being of the state. As in past years, this year we can report many successes due, in large measure, to the operational latitude granted under the statute. Operational flexibility in Human Resources, Purchasing, and Property Management enable UNC Health Care to remain attractive² as an employer for increasingly scarce talent and to keep the cost of our services more affordable. These, in turn, have helped UNC Health Care achieve stable financial results.

Patients have reported that they are better satisfied with the service and care we delivered than ever before. Our inpatient satisfaction scores place us above the 75th percentile of academic medical centers. The latest HCAHPS³ results, a patient satisfaction survey tool administered by the Centers for Medicaid and Medicare Services, ranked UNC Hospitals #1 in the Nation among academic medical centers⁴, and #1 among Triangle health systems in all ten of the categories it measures. Healthgrades recognized UNC Hospitals as a recipient of the Outstanding Patient Experience Award. This distinction recognizes hospitals as leaders in patient experience based on HCAHPS scores.

We can report similarly outstanding results for co-worker satisfaction. Continuing a multi-year trend, our survey results demonstrate improved co-worker satisfaction. UNC Health Care remains high performing for the second year in a row. High co-worker satisfaction has translated directly into low staff turnover, an important contributor to UNC Health Care's improving performance.

At the UNC School of Medicine, we have achieved similarly strong improvements in areas that were already performing well. Research grants from the NIH rose as did medical student satisfaction with the quality of the education we provided. In both research and teaching, the UNC School of Medicine improved its ranking among marque programs nationally. The school ranked 2nd in Primary Care, and 22nd in Research overall in the 2014 U.S. News & World Report Best Medical School Rankings.

With gratitude for past achievements, we are entirely focused on the way forward.

¹ Figure 1, UNC Health Care Hospital and Physician Office Locations

² Figure 2, Fiscal Year 2014 Selected External Accolades

³ Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS)

⁴ University HealthSystem Consortium's 2013 Quality and Accountability Performance Scorecard showed that UNC Hospitals has the highest patient experience (patient satisfaction) scores in the UHC database of more than 100 Academic Health Centers and more than 250 hospitals in total.

Personnel

UNC Health Care's exemption from the State Personnel Act remains an important element of our statutory flexibility. Exemption from the State Personnel Act enhances UNC Health Care's ability to compete for talent in a market impacted by recovery from recession and limited supply of some highly specialized job candidates. The highly specialized nature of many of UNC Health Care's services requires recruitment in national, regional and local job markets. Healthcare employment and wages continue to grow, outpacing aggregate growth for other sectors of the economy.^{5,6}

UNC Health Care continues to develop new programs aimed at recruitment and retention of qualified employees while enhancing programs that have been implemented in the past. Key success factors for employee engagement and high retention, UNC Health Care invests significant resources in the recruitment and on-boarding of new employees. Turnover statistics⁷ for UNC Health Care remain relatively low compared to those of peer organizations in and beyond our service region. Controlled growth of staffing and controlled application of compensation premiums continue to moderate labor costs without negative impacts to employee morale and engagement as measured by the our annual employee satisfaction survey. The most recent survey, taken this summer, revealed consistently high scores when compared both to Academic Medical Centers and all other hospitals in Press-Ganey's employee opinion database⁸.

Ongoing programs to reward and recognize our workforce drive high levels of employee engagement. These programs begin in advance of hiring to insure that hiring managers select talented employees that are good a good fit for the organization culture. The new employee on-boarding process provides the information and support for new employees to quickly acclimate into the organization. Accessible senior leadership, though programs like "Glad You Asked", differentiates UNC Health Care from other employers, and promotes effective remedy of workplace concerns.

The industry recognizes UNC Health Care for conservative, fair and competitive compensation. We continue to provide incentive opportunities to enhance earnings by achieving organizational goals related to our system pillars; people, quality and service, growth, value and innovation.

Wage pressures continue in our industry. From 2010 to 2012 modest increases insured that overall compensation kept pace with the market. In 2013, we added a merit component to distinguish excellent performers. We expect to repeat the hybrid merit/market approach 2014, rewarding strong performers and keeping pace with the market.

⁵ Figure 3, Healthcare Employment Trends

⁶ Figure 4, Healthcare Wage Trends

⁷ Figure 5, UNC Hospitals Employee Turnover

⁸ Figure 6, Employee Satisfaction

The relatively high cost of dependent coverage under the State Health Plan Our impairs our ability to compete with private employers in the region. The State Plan recently introduced a high deductible plan option that should mitigate some of this challenge over time. UNC Health Care continues to subsidize a portion of employees' dependent health insurance coverage. Other costs, such as parking on and around our campus, reduce the effective earnings of our workforce compared to other healthcare workers in the region.

UNC Health Care continues to enhance and refine its compensation program to insure internal equity in addition to market equity. The transparent nature of our compensation, which is easily revealed at the individual level on the internet, and fundamental fairness drive these efforts. Accordingly, we consider equity in all hiring and advancement so that we will not be unfair to incumbents as we secure new talent.

Despite the continued challenge to remain competitive, we continue to maintain low turnover rates compared to our industry and region.

Purchasing

Statutory flexibility in purchasing has reduced acquisition costs, increased efficiencies, and expanded our purchasing power. This benefits UNC Health Care, its partner institutions, as well as the State's purchasing organization.

Each year, our colleagues in Purchasing document savings realized from the flexibility legislation⁹. In fiscal year 2014, we recorded a \$13.9 million benefit. In aggregate, these savings total more than \$67 million since the System was first granted flexibility. We realize these savings by leveraging UNC Health Care's size and scope as we renegotiate vendor contracts and as we purchase supplies in larger volumes. We gain additional leverage through MedAssets, our group purchasing organization (GPO). MedAssets extends its services to many of UNC Health Care's newest affiliates, including Caldwell Memorial Hospital, High Point Regional Health, and soon to Nash Health Care. With MedAssets as a partner, we successfully source products that meet the needs of our patients, often at substantially reduced prices.

Within UNC Health Care, we seek to achieve pricing parity to reduce cost. For example, we found that UNC Hospitals and Rex Healthcare commonly purchased like items at different unit costs. We have eliminated these differentials by accessing the lower entity's pricing. New affiliates to UNC Health Care also access the same pricing, yielding millions of dollars in annual savings to each participating affiliate. Adding the affiliate's purchasing power, in turn, will further reduce acquisition costs for all of UNC Health Care.

⁹ Figure 7, Savings from Purchasing Flexibility

We foster cost management as an organizational core competency, and maintain continued focus on cost containment efforts. Negotiations with MedAssets to renew our five year GPO contract were recently completed, and will provide aggressive savings targets across UNC Health Care. Achieving pricing parity remains only a preliminary step. The Shared Services Center, now occupying 180,000 square feet in Morrisville, NC has co-located, and will eventually fully integrate our entities' purchasing, warehousing, and supply chain activities.

Purchasing flexibility improves efficiency. 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 more than 90 days. We additionally faced bidding requirements that consumed resources without yielding advantageous pricing. Flexibility has allowed the purchasing department to work more independently, resulting in a more efficient operation. Since 2000, the purchasing staff's size has remained constant despite a 156% increase in purchase order volume, and a 269% increase in dollar volume¹⁰.

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 management committees, the Construction Bidding Oversight Committee and the Real Estate Portfolio Management 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, for instance, single-prime versus multi-prime versus construction manager at-risk (CM at-risk). As with other building projects across the UNC System, we typically employ the CM at-risk delivery model for major projects¹¹. A construction manager commits to deliver the project within a guaranteed maximum price and absorbs the risk of delivering the project on time and on budget. This method enables us to bid projects publicly while still capturing the efficiency of coordinating with a lead contractor.

The Real Estate Portfolio Management Committee reviews new leases as well as the renewal of existing leases¹². In a similar manner to purchasing flexibility, the statute allows UNC Health Care to efficiently enter into leased space contracts with approval from the Real Estate Portfolio Management Committee and UNC Health Care's Board of Directors.

¹⁰ Figure 8, Purchasing Efficiency Improvements

¹¹ Figure 9, Completed and Ongoing Construction Projects

¹² Figure 10, New and Renewed Leases

With the Real Estate Portfolio Management Committee's guidance, we moved patient care programs from the Chapel Hill campus to nearby communities, as well as across North Carolina. These moves better accommodate our patients, and increase patient satisfaction.

Conclusion

The governance structure and flexibility given to the UNC Health Care System by the Legislature are essential to our operations. As detailed above, they enable us to recruit and retain highly qualified employees, 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.

Our statutory mandate allows us to nimbly respond to the changing health care landscape and economic pressures. UNC Health Care will continue to conduct ground-breaking research, to train the next generation of physicians, and to provide excellent clinical care to all North Carolinians regardless of their ability to pay.

Figure 1 – UNC HEALTH CARE HOSPITALS & PHYSICIAN LOCATIONS

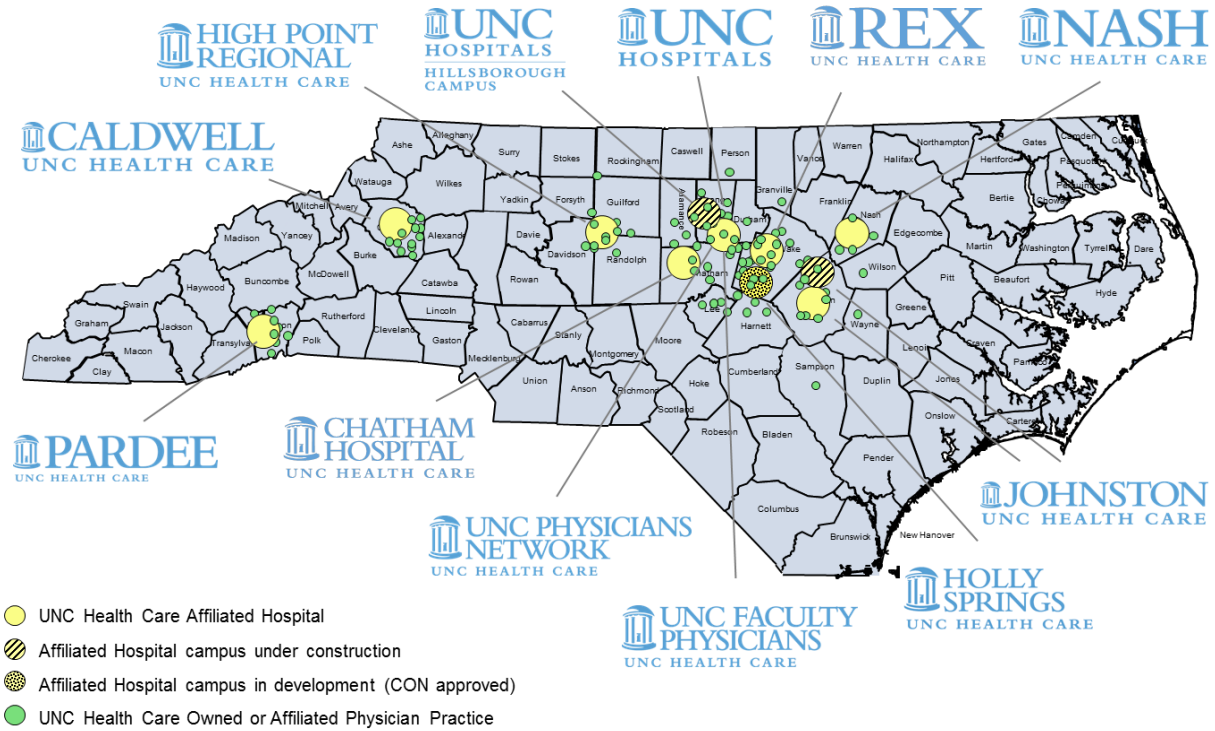


Figure 2 – SELECTED EXTERNAL ACCOLADES

U.S. News & World Report “America’s Best Graduate Schools”

The UNC School of Medicine was again ranked highly by U.S. News & World Report. The School ranked 2nd in Primary Care and 22nd in Research overall in the 2014 U.S. News & World Report Best Medical School Rankings. Family Medicine (#2), Audiology (#3), Rural Medicine (#6) and AIDS (#8), Physical Therapy (#9), Occupational Therapy (#10), Speech-Language Pathology (#11), Women’s Health (#15), and Internal Medicine (#20) were also listed as top specialties.

U.S. News & World Report “America’s Best Hospitals”

Two adult medical specialties offered at UNC Hospitals rank among the top 50 programs of their kind nationwide U.S. News & World Report in its 2014 "America's Best Hospitals" issue—Ear, Nose and Throat (#25) and Cancer (#38). An additional nine specialties were named as high performing. Multiple specialties at UNC Hospitals have been included in the U.S. News & World Report Best Hospitals list for 22 consecutive years.

U.S. News & World Report “America’s Best Regional Hospitals”

UNC Hospitals is ranked the #2 hospital in the Raleigh-Durham metro area by U.S. News & World Report in the 2014 publication.

U.S. News & World Report “America’s Best Children’s Hospitals”

NC Children’s Hospitals was nationally ranked in 7 of 10 categories by U.S. News & World Report in its 2014 “Best Children’s Hospitals” issue.

Secretary of Defense Freedom Award

Employer Support of the Guard and Reserve, a Department of Defense office, named UNC Hospitals as one of 15 recipients of the 2014 Secretary of Defense Employer Support Freedom Award. The Freedom Award is the Department’s highest recognition given to employers for exceptional support of Guard and Reserve employees.

UNC Physicians Listed in the “Best Doctors in America 2014”

Two-hundred sixty (260) University of North Carolina School of Medicine physicians were named to the list. Only five percent of doctors in America earn this prestigious honor, decided by impartial peer review. UNC maintains a high level of physicians named Best Doctors in America—277 were named in 2013, 240 in 2012, and 219 in 2011.

UNC Top Hospital in University HealthSystem Consortium for Patient Satisfaction

UNC Hospitals’ University HealthSystem Consortium (UHC) 2013 Quality and Accountability Performance Scorecard showed that we have the highest patient experience (patient satisfaction) scores in the UHC database, which contains more than 100 Academic Medical Centers and more than 250 hospitals in total. UNC Hospitals also achieved this honor in 2011.

UNC Hospitals Recognized for Surgical Patient Care by the American College of Surgeons

The American College of Surgeons National Surgical Quality Improvement Program (ACS NSQIP®) has recognized UNC Hospitals as one of 28 ACS NSQIP participating hospitals in the United States that has achieved exemplary outcomes for surgical patient care.

NC Children's Hospitals Verified as a Level I Pediatric Trauma Center

North Carolina Children's Hospital has been verified by the American College of Surgeons (ACS) as a Level I pediatric trauma center, the highest verification offered by the ACS Committee on Trauma. UNC Hospitals is the first hospital in the Triangle, and one of only two in the entire state, to receive ACS recognition for having the highest level of expertise in treating critically injured children.

Healthgrades Recognizes UNC Hospitals for Patient Experience, Prostate Surgery and Pulmonary Care

Healthgrades recognized UNC Hospitals as a recipient of the Outstanding Patient Experience Award™ 2014. This distinction recognizes hospitals as leaders in patient experience based on responses to the Hospital Consumer Assessment of Healthcare Providers and Systems survey. UNC Hospitals also received the "Excellence Award" from HealthGrades for 2014 in both prostate surgery and pulmonary care. Hospitals in the top 10% of all hospitals qualify for the "Excellence Award".

UNC Hospitals Named a "Blue Distinction Center" for Cardiac Care

Blue Cross and Blue Shield of North Carolina has recognized UNC Hospitals as one of the first hospitals in the nation to receive a Blue Distinction Center+SM designation in the area of cardiac care, as part of the Blue Distinction Centers for Specialty Care® program.

American Heart Association/American Stroke Association Awards

The UNC Comprehensive Stroke Center has been awarded the Gold Plus Stroke Quality Achievement Award. This award, given by the American Heart Association/American Stroke Association (AHA/ASA), signifies that the UNC Stroke Center has achieved two consecutive years of compliance with eight Stroke Achievement Measures and five Stroke Quality Measures. The AHA/ASA also recognized the UNC Stroke Center as a Target Stroke Honor Roll Hospital. The Target Stroke Honor Roll signifies that we have achieved three consecutive months of compliance with a Door-to-Needle time goal of ≤60 minutes for greater than 50% of eligible cases. UNC Hospitals also received the Mission: Lifeline® Gold Receiving Quality Achievement Award for implementing specific quality improvement measures outlined by the AHA for the treatment of patients who suffer severe heart attacks.

Figure 3 – HEALTHCARE EMPLOYMENT TRENDS

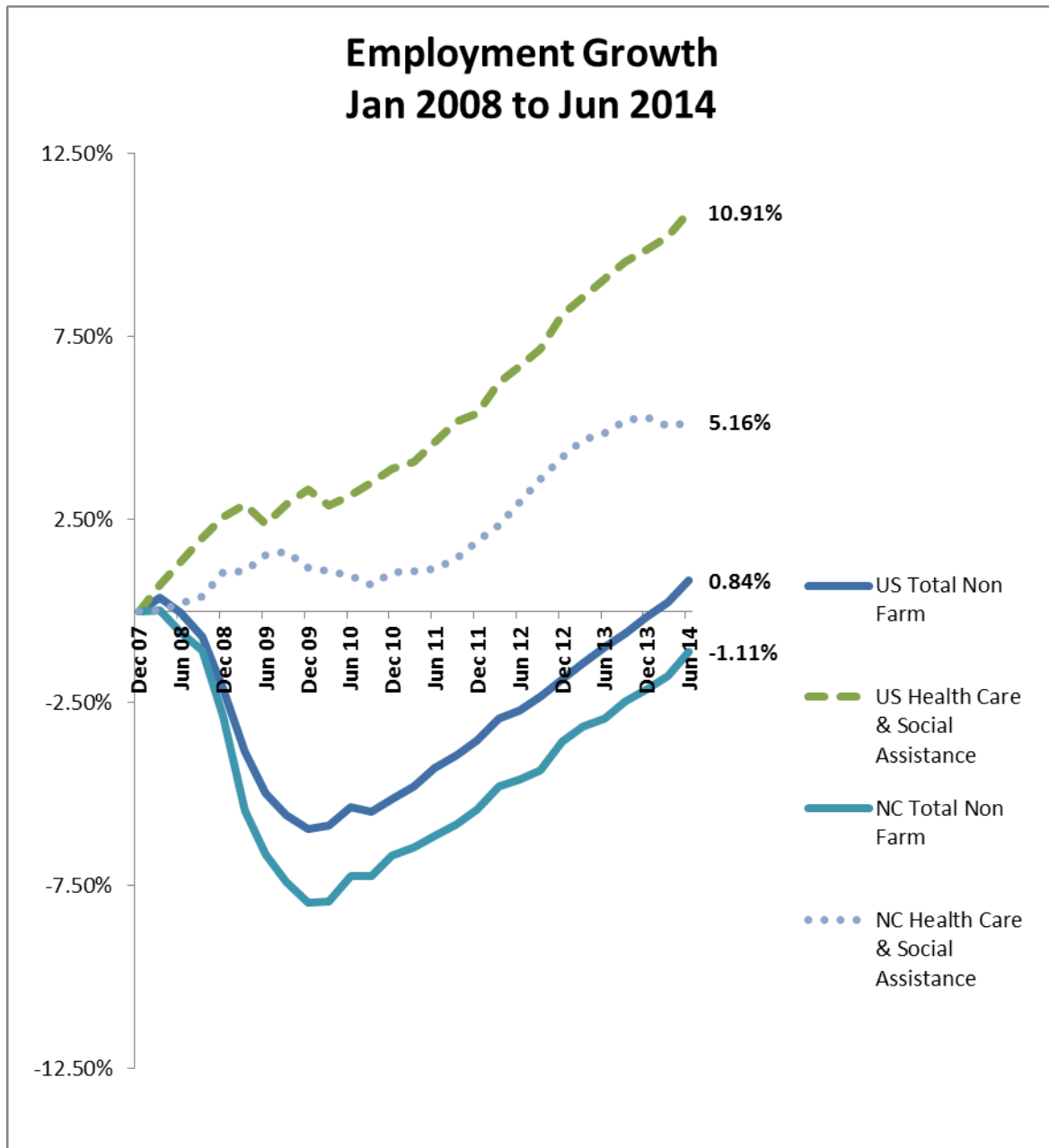


Figure 4 – HEALTHCARE WAGE TRENDS

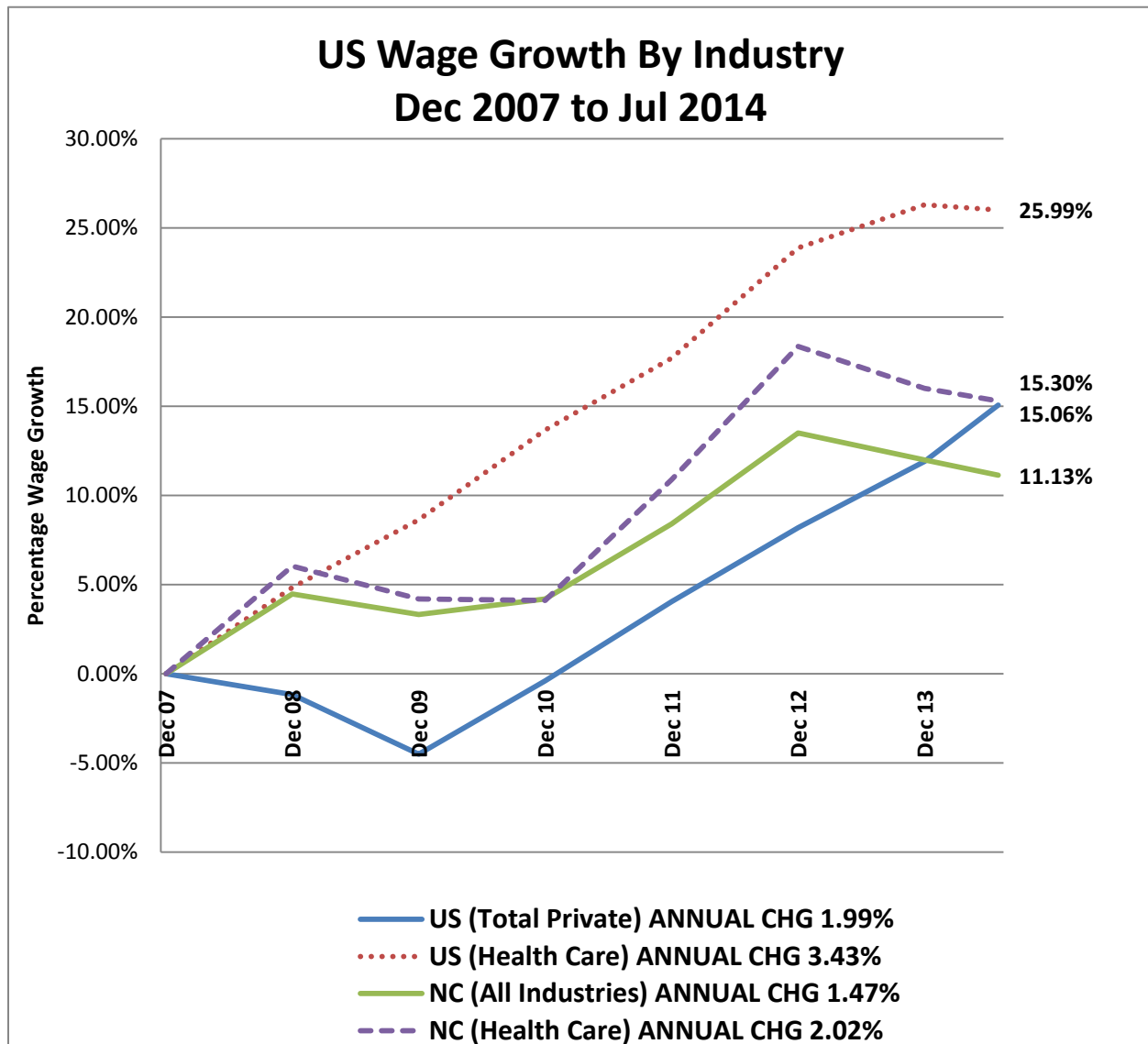


Figure 5 – UNC HOSPITALS EMPLOYEE TURNOVER

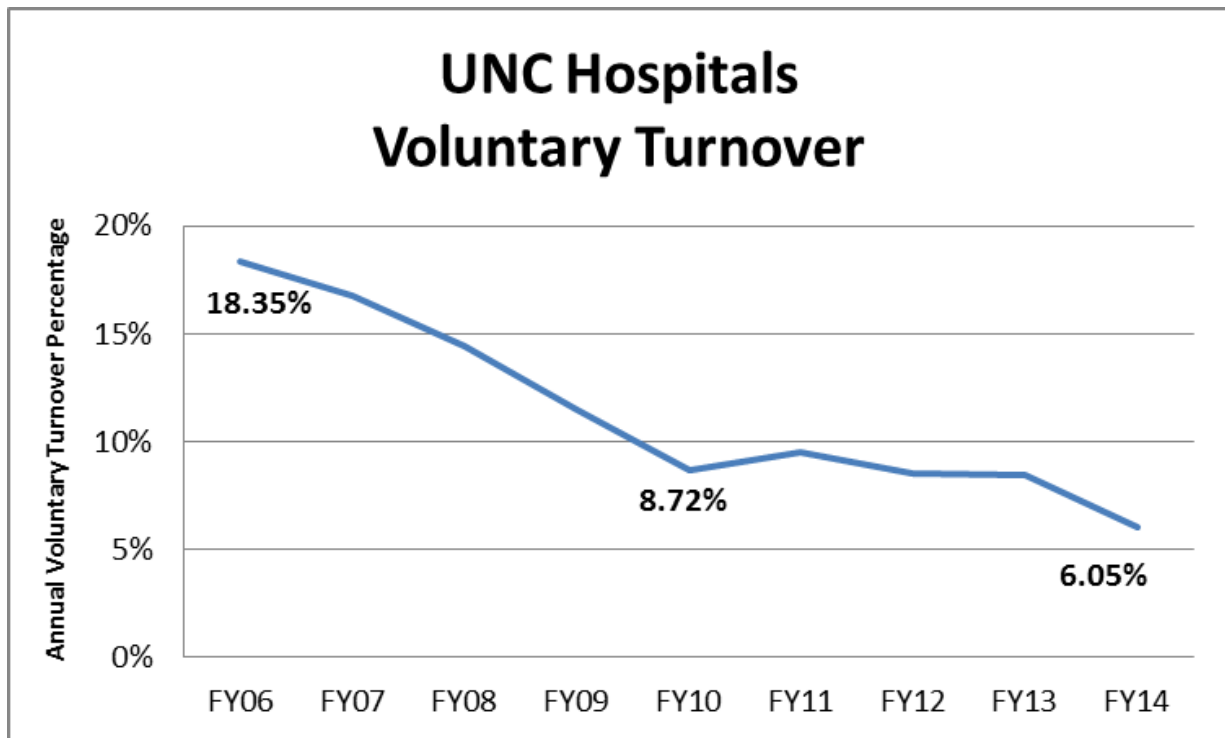


Figure 6 – EMPLOYEE SATISFACTION

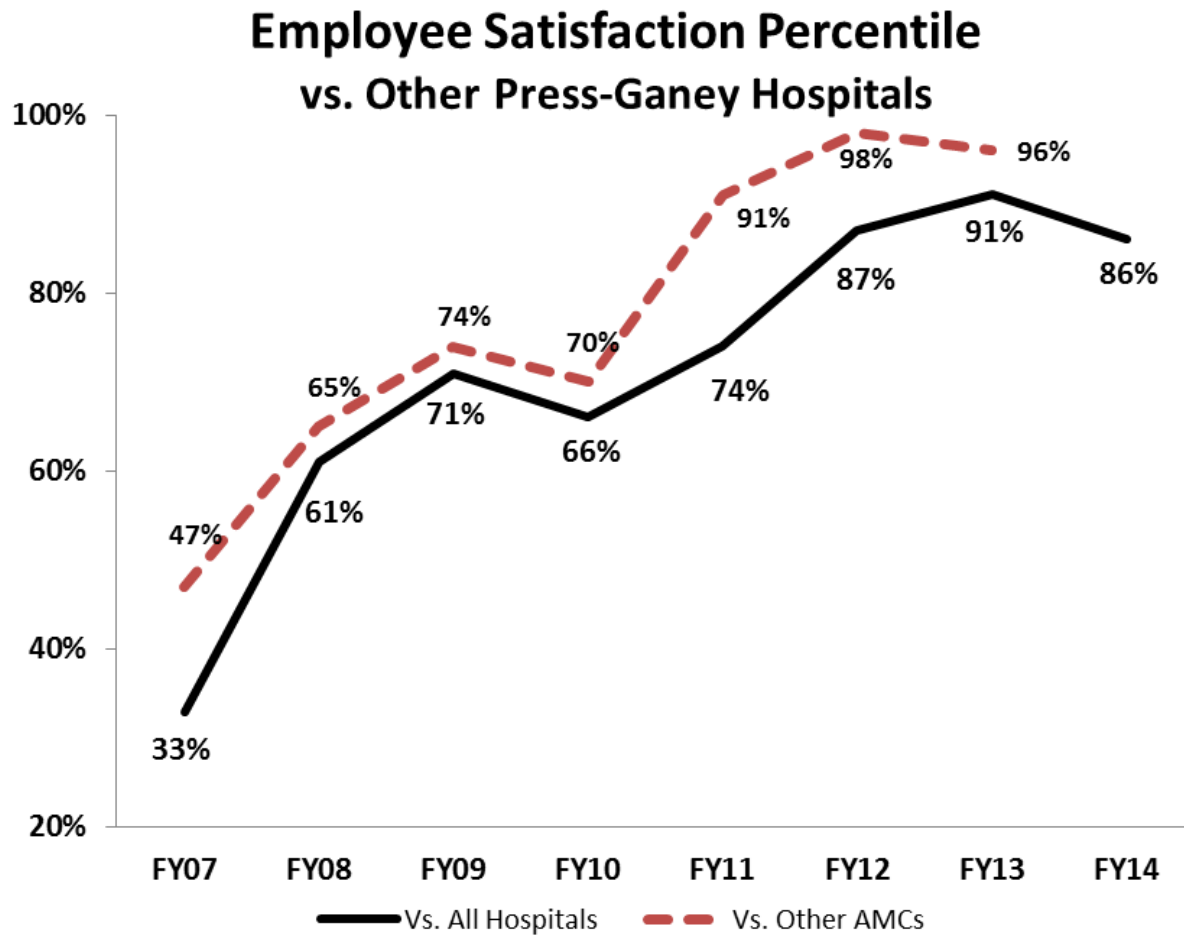


Figure 7 – SAVINGS FROM PURCHASING FLEXIBILITY

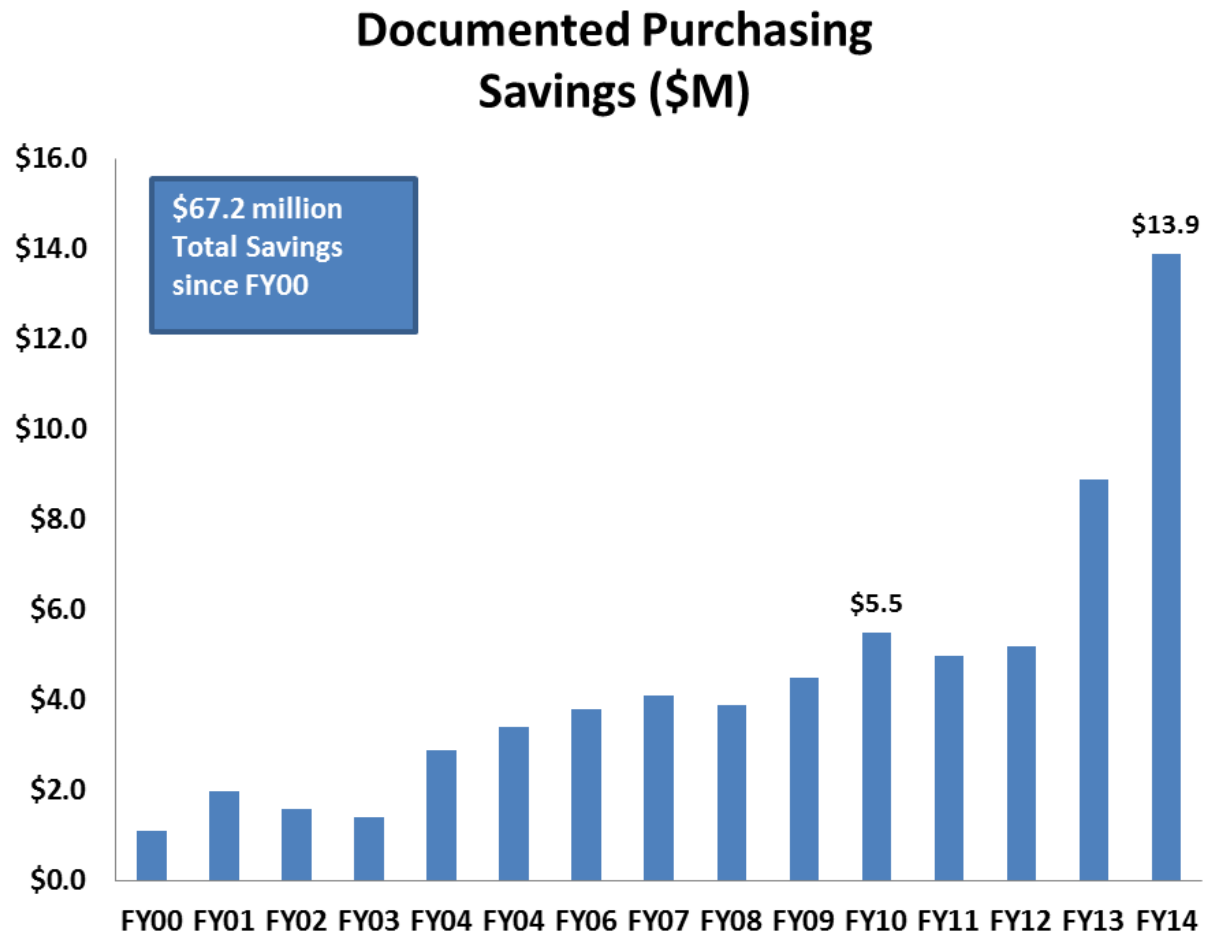


Figure 8 – PURCHASING EFFICIENCY IMPROVEMENTS

PURCHASING EFFECIENCY FY00-FY14

Purchasing Efficiency Measures	Percent Change from FY00 to FY14
Staff Level	(-11%)
Dollar Volume	167%
Number of Purchase Orders	56%
Number of Purchase Order Lines	66%
Average \$ per Purchasing Agent	202%
Average \$ per Purchase Order	72%
Average # of Purchase Orders per Agent	76%
Average # P/O Lines per Agent	87%
Average \$ per Purchase Order Line	62%
Average # Lines per Purchase Order	7%

Figure 9 – COMPLETED AND ONGOING CONSTRUCTION PROJECTS**FY14 CM AT RISK CONSTRUCTION PROJECTS**

Location	Activity	Improvement
Hillsborough Campus	New Construction	New Hospital and Medical Office Building underway
UNC Hospitals - Chapel Hill Campus	Renovation	Upgraded exiting corridors and pathways in older facilities to meet current building code
Meadowmont Building - 2nd Floor	Renovation	Relocation of Pulmonary and Diabetes Clinics
Meadowmont Building - 3rd Floor	Renovation	Relocation of Heart & Vascular and Wound Care Clinics to provide space for future renovations
UNC Hospitals - 1 Neurosciences	Expansion	Relocation of Bone Marrow Transplant Unit and eight (8) bed expansion to meet increased demand (Part of 27-Bed CON)
UNC Hospitals - Ground Neurosciences	Renovation	Relocation of Psychiatry Clinic and faculty to allow for BMTU project. (Part of 27-Bed CON)
UNC Hospitals - 4 Support Tower	Renovation	Replacement of HVAC equipment serving the 4th floor Operating Suites
UNC Hospitals - 3 Bed Tower	Expansion	To create twenty-four (24) bed Intensive Care Unit on 3-Bed Tower to meet increased demand

FY14 SINGLE PRIME CONSTRUCTION PROJECTS - IN PROGRESS

Location	Activity	Improvement
UNC Hospitals - Basement APCF	Renovation	Replacement of medical equipment for GI procedures
UNC Hospitals - 1 Infirmary	Renovation	Consolidation of Occupation Therapy and Physical Therapy (OT/PT) functions to expand Apheresis Unit
UNC Hospitals - 1 North Building	Expansion	Expansion of Apheresis Unit to provide five (5) additional treatment bays
UNC Hospitals	Renovation	Replacement of fire alarm system components in the Neurosciences, Women's and Children's Hospitals
UNC Hospitals	Expansion	Replacement of existing medical vacuum pumps and installation of new vacuum pumps
UNC Hospitals - Manning Level NC Cancer Hospital	Expansion	Construction of vault to accommodate 5th Linear Accelerator to meet additional patient demand
UNC Hospitals - 3 Anderson	Renovation	Upgrade finishes and replacement of headwalls in existing patient unit

FY14 CONSTRUCTION PROJECTS - COMPLETE

Location	Activity	Improvement
UNC Hospitals - Prestwick	Expansion	New space allowing relocation of Neurology Clinic off-campus. Allows space for Bone Marrow Unit project (Part of 27-Bed CON)
UNC Hospitals - Operating Rooms	Expansion	New Children's Surgery and Sedation Center
Eastown Campus - Building 500	Renovation	Relocation of formerly on-campus functions, allows expansion of clinical programs within main campus facilities
Eastown Campus - Building 100	Renovation	New space to house EPIC@UNC implementation
WakeBrook Campus - Building 111	Renovation	Renovated sixteen (16) bed licensed psychiatric facility to provide better care for patients
UNC Hospitals	Expansion	Installation of fire suppression components where UNC Hospitals' buildings abut other UNC-CH buildings
UNC Hospitals - Women's and Children's Hospitals	Renovation	Replacement of flooring which was at the end of its service life. Made other architectural enhancements to improve patient care
UNC Hospitals - 1st Floor Clinic Building	Renovation	Modified space previously used by medical records staff

Figure 10 – NEW AND RENEWED LEASES

Fiscal Year 2014 LEASE ACTIVITY

LEASE AGREEMENTS INITIATED OR RENEWED IN 2013

Location	Square footage	Program	Activity
Guilford County (High Point)	2,398	Heart and Vascular	New Lease
Mecklenburg County (Charlotte)	463	Lung Transplant	New Lease
Wake County (Cary)	952	OB/GYN (Panther Creek)	New Lease
Chatham County (Pittsboro)	6,580	Psychiatry	Lease Renewal
Durham County (Durham)	2,138	Diabetes	Lease Renewal
Orange County (Carrboro)	951	Psychiatry	Lease Renewal
Wake County (Morrisville)	34,652	Epic Training	Lease Renewal
Orange County (Chapel Hill)	2,427	Psychiatry	Lease Renewal
Orange County (Chapel Hill)	3,570	Medical Spa	Lease Renewal
Orange County (Chapel Hill)	95	Ophthalmology	Lease Renewal
Orange County (Chapel Hill)	3,040	Urgent Care	Lease Renewal
Orange County (Chapel Hill)	1,520	Laboratory	Lease Renewal
Orange County (Chapel Hill)	1,520	Radiology	Lease Renewal
Orange County (Chapel Hill)	8,018	Oncology	Lease Renewal
Orange County (Chapel Hill)	8,018	Rheumatology	Lease Renewal
Orange County (Chapel Hill)	2,972	Psychiatry	Lease Renewal
Orange County (Chapel Hill)	5,348	OB/GYN (Panther Creek)	Lease Renewal
Wake County (Morrisville)	37,057	Epic Training	Lease Renewal
Wake County (Raleigh)	3,925	Maternal Fetal Medicine	Lease Renewal
Wake County (Raleigh)	2,219	Cardiology	Lease Renewal