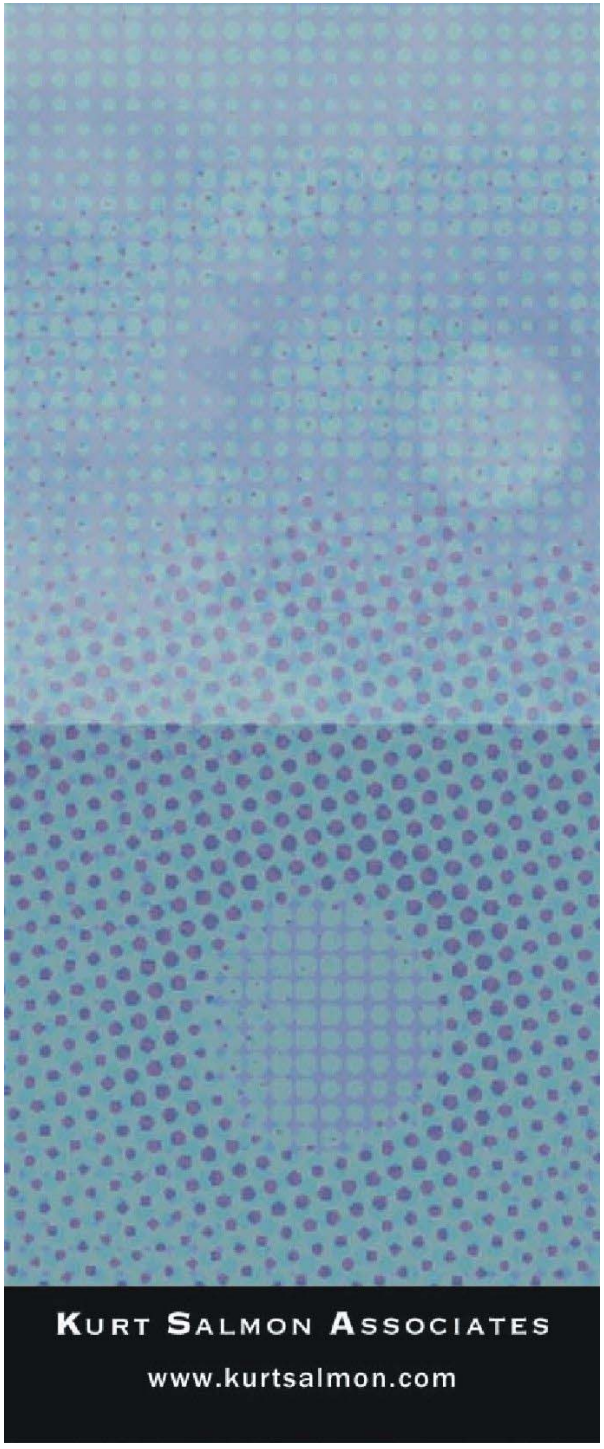


Final Report

The University of Texas System Board of Regents

An Assessment of The University of Texas Medical Branch at Galveston and Recommendations for Clinical Redevelopment

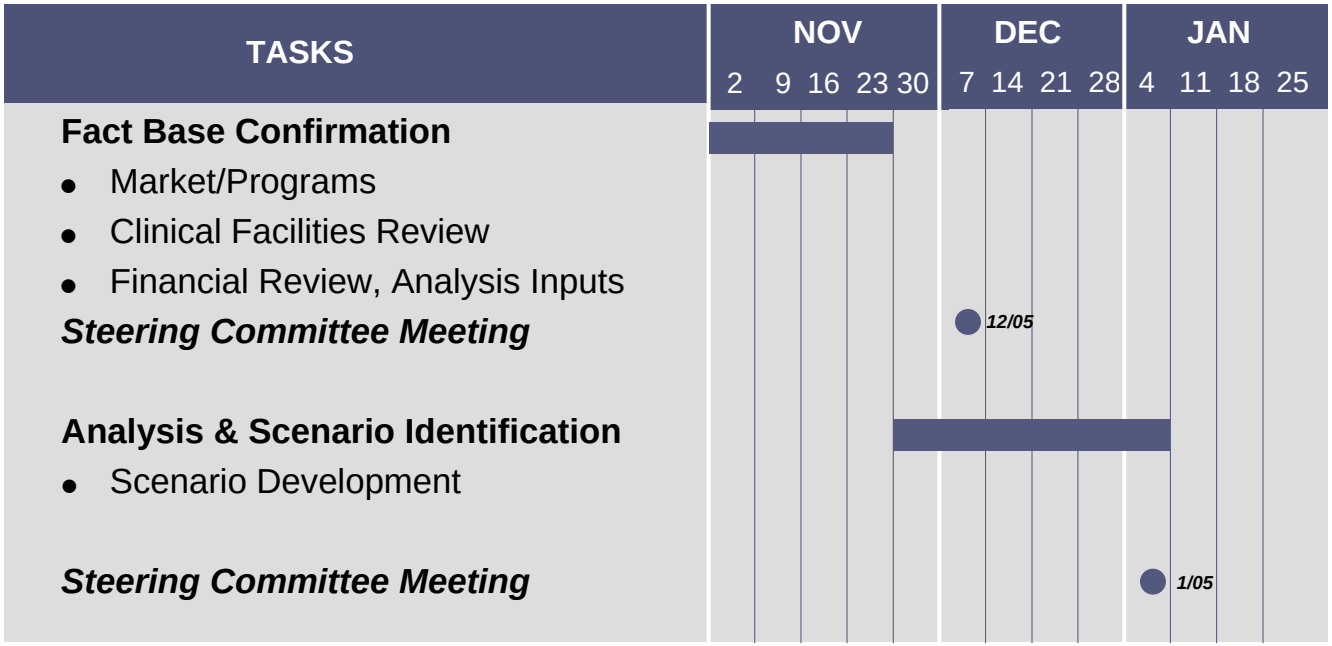
January 2009

Contents

Engagement Overview and Process

Engagement Overview

- Rapid 60-day process to evaluate data, develop scenarios, and reach recommendations
- High level process involving senior leadership from UT, UTMB
- Delivery of final report and executive summary in January 2009



Engagement Overview

Expectations:

- Engaged by UT System Board of Regents to provide an independent review of the clinical enterprise at UTMB and evaluate options for redevelopment

Consultants' role:

- Focus on the big picture, identify and frame major salient strategic issues, maintain focus on direction not detail (numbers rounded for simplicity)
- Utilize expertise in AMC planning, national perspective to outline viable options for consideration
- Review material/options without bias toward a specific solution
- Focus on facts, experience to define parameters

Engagement Overview: Assessment

Situation Assessment

- Met with selected UT System leadership in Austin
- Met with selected UTMB leadership in Galveston

Market Assessment

- Met with strategy / planning personnel in Galveston
- Conducted population analysis by service area
- Conducted utilization analysis by service area and service line
- Conducted competitor review (staffed beds, bed need, market share, etc.)
- Completed patient origin analysis for UTMB inpatient and outpatient services
- Analyzed UTMB payor mix, patient origin, and market share by service line and service area (with specific focus on Galveston Island)
- Conducted high level overview of TDCJ facility and services

Facility Assessment

- Met with facilities / operations personnel in Galveston
- Conducted site assessment relative to access and circulation
- Performed facility condition evaluation
- Conducted functional assessment of facility capacity and throughput

Financial Assessment

- Met with finance personnel in Galveston
- Reviewed audited financial statements and reconciled to clinical information systems
- Analyzed net patient revenue by service by payor for inpatient and outpatient services
- Analyzed contribution margin by service line and payor group

Scenario Description and Evaluation

Parameters Driving Scenario Development – I

- Scenarios are all predicated on a vibrant UTMB
  - Current education and research scope
  - Less expensive scenarios available with a reduced clinical program
- The UTMB campus on Galveston Island remains a critical part of the total academic medical center enterprise over the foreseeable future on a research, education and clinical basis
- UTMB must re-create a core complement of inpatient hospital beds – Medical/Surgical (meg/surg), Intensive Care (ICU), Obstetrics (OB) and Neonatal Intensive Care (NICU) – alternative solutions may exist for other bed types such as Psychiatric (psych) beds
- KSA considered options focused on direct UTMB redevelopment. Other possibilities exist related to use or purchase of existing clinical facilities.
  - Expanding alternative clinical affiliation arrangements (i.e., non-UTMB operated facilities and/or clinicians) to outsource direct clinical service provision supporting UTMB student education – adequate for sub-elements but not all of the UTMB program
  - Purchasing existing hospital capacity in the local region to directly serve UTMB program objectives, e.g., buy and turn an existing facility to UTMB purposes

Parameters Driving Scenario Development – II

- Interpretation of the UTMB mission is key to sizing the clinical enterprise regardless of location
  - Education and discovery can be supported with a selectively scaled-down clinical enterprise
  - Clinical service demands of the region suggest replacing more of the current capacity
- The sizing of UTMB is not dependent on the Texas Department of Criminal Justice Hospital (TDCJ). The planned complement of UTMB capacity is sufficient to provide the necessary experience for students, residents, and fellows
- The women's/maternity service is large and scalable, and can serve as the basis of a free-standing acute care facility
- Children's services are sub-scale and can be sited with other providers serving more feasible volumes
  - Pediatrics is important from a service and academic perspective and a contingent plan for co-location with women's/maternity should exist
- Direct provision of inpatient psychiatry is contingent upon UTMB's inability to site the program in other locations and/or relate it to other providers

Parameters Driving Scenario Development – III

- The Galveston Island community requires access to acute care inpatient services, but a full-service hospital need not be located on the island
  - A small scale community hospital on the island might be justified if capital and operating economics were viably defined
- The UTMB Medicaid and uninsured patient origin will generally follow the programs to any new campus site
- Inland geography presents the best opportunity to attract additional Medicare and/or commercial patients; conversely, redevelopment of historical capacity on UTMB's current campus is likely to result in a loss of these sectors from prior levels
  - To attract more Medicare and/or commercial patients, UTMB must develop new physician practice capability for this purpose in the immediate years

Parameters Driving Scenario Development – IV

- Scenarios defined to illustrate the features and challenges of the range of possibilities
  - Redevelop the inpatient enterprise on the current island site
  - Redevelop the inpatient enterprise on a new inland site
  - Redevelop the inpatient enterprise across two sites
- Any splitting of the adult medical/surgical inpatient program across two campuses will be costly due to redundant operations and inefficient attending physician and educational logistics
- Essential differentiating variables among scenarios are twofold
  - Logistics and the impact on operating efficiency and the interchange between the clinical and scientific activity
  - Capital costs, both duplication of capital and differential in construction costs dependent upon location and phasing

Scenarios

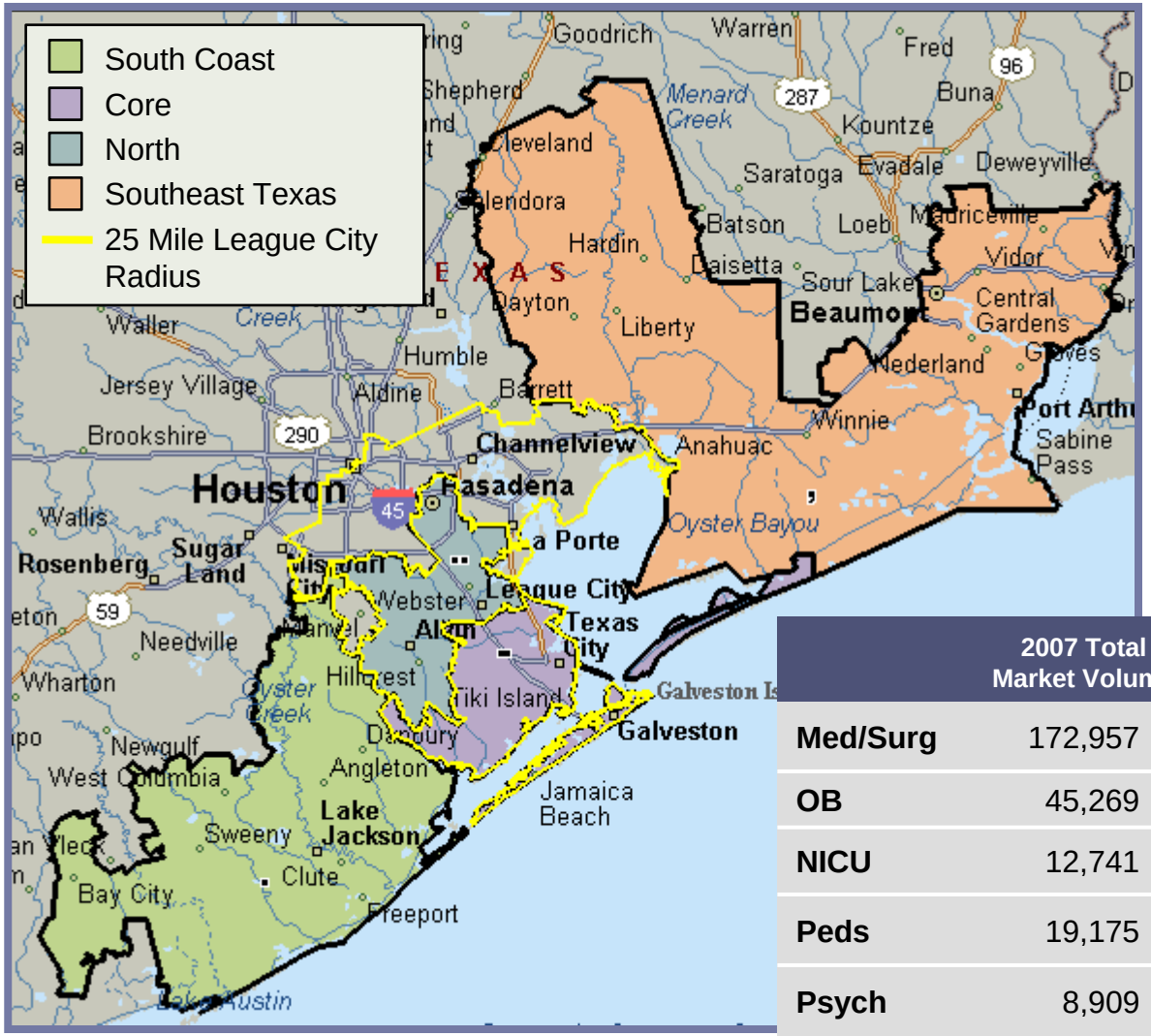
The preceding parameters framed the following scenarios for further evaluation:

Scenario Overview

• **Scenario #0** – Reestablish the UTMB clinical campus on Galveston Island to meet historical bed demand via repair and mitigation of pre-Ike buildings (i.e., no new buildings)
• **Scenario #1** – Rebuild the acute care clinical enterprise on Galveston Island
  ➤ Resized clinical capacities
• **Scenario #2** – Rebuild the acute care clinical enterprise inland – *two variations*
  ➤ **#2A:** All inpatient programs inland – ambulatory on the island
  ➤ **#2B:** All inpatient programs inland – small community hospital on the island
• **Scenario #3** – Allocate programs to two acute care hospitals, one inland, one on the island – *two variations*
  ➤ **#3A:** Adult acute care inland – women's and children's on the island
  ➤ **#3B:** Women's and children's inland – adult acute care on the island

Scenario Development Inputs

Scenario Development Inputs



Volume and Market:

- Historically defined UTMB service area utilized to estimate future clinical volume and corresponding demand
  - Evaluated demand specific to Galveston Island

	2007 Total Market Volume	2012 Total Market Volume	2017 Total Market Volume	CAGR
Med/Surg	172,957	189,344	213,409	2.1%
OB	45,269	47,249	48,017	0.6%
NICU	12,741	13,366	13,770	0.8%
Peds	19,175	20,993	23,661	2.1%
Psych	8,909	9,441	9,995	1.2%
Total	**259,051**	**280,391**	**308,852**	**1.8%**

Source: Thomson Market Data Provided by UTMB
Note: CAGR – Cumulative Annual Growth Rate

Scenario Development Inputs

Parameters

- Utilized Thomson population estimates and future inpatient volume for 2007 and 2012; estimated use rate to determine inpatient volume through 2017
  - Use rate specific to each region by age cohort
- The following variables were held constant at the 2008 level over the planning horizon
  - Market share by region
  - In-migration
  - Average length of stay
- Assumed industry average occupancy targets

	2006	2007	2008
Discharges	28,677	28,088	26,727
% Change		-2.1%	-4.8%
Patient Origin			
Core	45.1%	43.5%	41.9%
North	12.5%	12.9%	12.9%
SE Texas	5.8%	6.2%	6.8%
South Coast	5.6%	5.9%	5.9%
25-Mile League City	6.8%	6.9%	7.3%
Other	24.2%	24.6%	25.3%
Total	***100.0%***	***100.0%***	***100.0%***
Payor Mix			
Medicare	23.0%	21.8%	20.3%
Medicaid	43.6%	45.1%	47.8%
Commercial/Managed Care	10.6%	10.7%	11.0%
Employee	3.1%	3.0%	2.8%
Self Pay Unsponsored	15.9%	15.9%	13.5%
Other	3.8%	3.5%	4.6%
Total	***100.0%***	***100.0%***	***100.0%***

Note: Discharges exclude normal newborns, TDCJ and Austin Women's Hospital
Source: UTMB Inpatient Discharge Data

	2013	2014	2015	2016	2017
Projected Discharges	21,336	25,249	29,312	29,731	30,153

Source: KSA Volume Analysis

2006 MARKET SHARE	
Core	42.6%
North	6.8%
SE Texas	3.5%
South Coast	8.6%
Total	***12.8%***
25-Mile League City	9.1%

Source: 2006 Texas Health Care Information Collection Database

Scenario Development Inputs – Inpatient Beds

- Market assumptions and minimum teaching requirements define a clinical capacity of 400 adult med/surg, OB and NICU beds
- Additional services that may or may not be directly provided by UTMB require another 165 beds
  - Pediatrics is right-sized from current bed complement to reflect future bed need based on UTMB market share (from 50 to 40 beds)
  - Inpatient psychiatry is right-sized from the current bed complement to reflect future bed need based on UTMB market share (from 50 to 25 beds)
  - TDCJ at existing facility capacity

BEDS	
Core	
Med/Surg, ICU	250
Obstetrics	85
NICU	65
Subtotal	***400***
Pediatrics	40
Psychiatry	25
TDCJ	100
TOTAL	**565**

Scenario Development Inputs – Facilities

- All facility options provide capacity to accommodate estimated bed need
- All options include provisions for some level of care of the population on Galveston Island
- Mitigation costs, estimated by an independent 3rd party, are included in scenarios that redevelop clinical capacity on Galveston Island
- Options that call for redevelopment on Galveston Island reuse John Sealy Hospital for clinical care
- Capital estimates include the cost of planning, construction, project related costs, major fixed equipment and escalation
- Information technology costs for all options are equal and are in addition to capital estimates
- TDCJ Hospital remains as is with its existing clinical capacity, requiring no capital allocation on the part of UTMB

Scenario Development Inputs – Facilities

Capital Analysis Assumptions:

- Built on a cost per square foot basis
  - Project costs range from $580/sf to $730/sf depending upon phasing and anticipated midpoint of construction
  - Project cost/bed between $1.75-$2.25 million
- Escalation assumptions
  - Analysis escalates costs at 6% per year
  - For each $100 million of invested capital
    - A 1 percentage point change in escalation leads to $1 million of additional project costs
    - A 1 year change in construction timeline leads to $6 million of additional project costs (compounded over time)

Planning Timeline Assumptions:

- New hospital planning, design and construction can be completed in 4 years
  - Overarching assumptions to be validated through detailed planning processes

Scenario Development Inputs – Financials

Data Collected/Utilized:

- Audited financial statements and statistical reports for 2006 and 2007 (and preliminary data for 2008)
  - Hospitals and Clinics
  - Institutional
- Clinical revenue and cost detail at the patient encounter level (Eclipsys), inpatient and outpatient, for 2006 and 2007 (and preliminary data for 2008)
  - Reconciliation to audited financials
- Additional relevant financial schedules
- Previous financial projections related to Clinical Strategic Plan, January 2008
- Additional required inputs to analysis:
  - Asset impairment analysis (estimate included in analysis)

Scenario Development Inputs – Financials

Approach

KSA focused on three broad sets of financial numbers intended to assist in the evaluation of each of the scenarios

"Interim" Operating Financials

- What is the anticipated operating gain/loss between now and the time when new infrastructure is complete and ready to use?
- Assumption: 48-month interim period required to complete planning and construction of any scenario
- Projections are high-level and based on assumptions regarding service offerings available within existing infrastructure

Capital Estimates

- Assessment of the capital required to establish new infrastructure (essentially, to move from "interim" financials above to the "steady-state" financials below)

Steady-State Operating Financials (by Scenario)

- Once new infrastructure is established, what is the anticipated operating gain/loss going forward?

Scenario Development Inputs – Financials

For each scenario, the following inputs were developed…

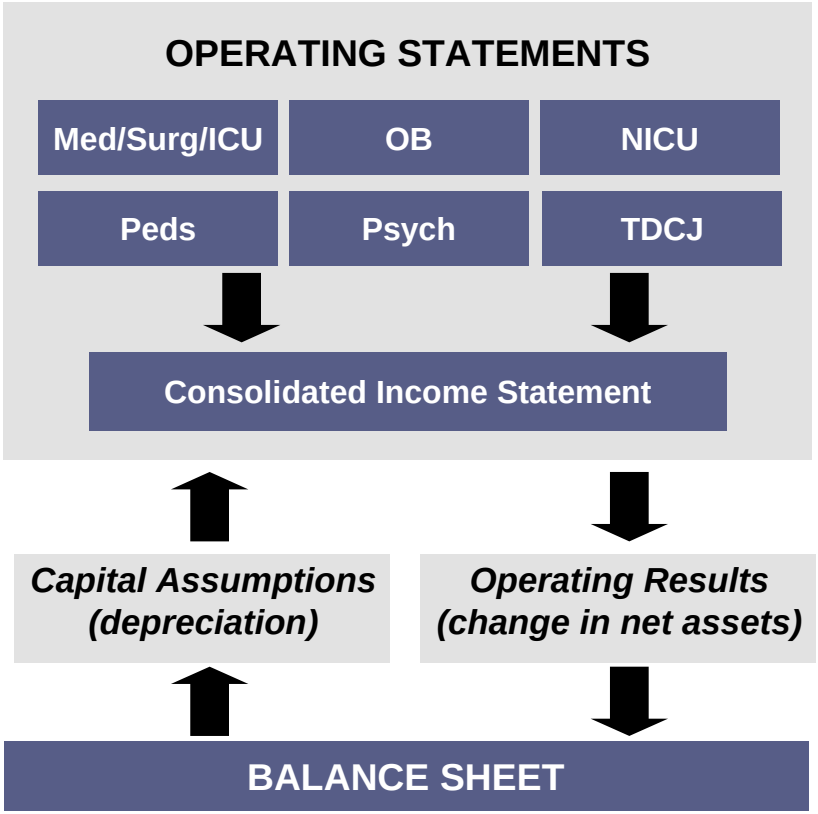
Volumes
- Inpatient discharges by bed type
- Adjustment factor to capture outpatient

Revenue
- Per adjusted discharge
- Based on 3-year historic average variable revenue by bed type by payor
- Annual revenue inflation factor

Expense
- Fixed costs based on historical percentage by expense category
- Variable costs based on historical percentage by expense category, projected on a "per adjusted discharge" basis
- Annual expense inflation factors by major expense category

Capital
- Estimated capital expenditures

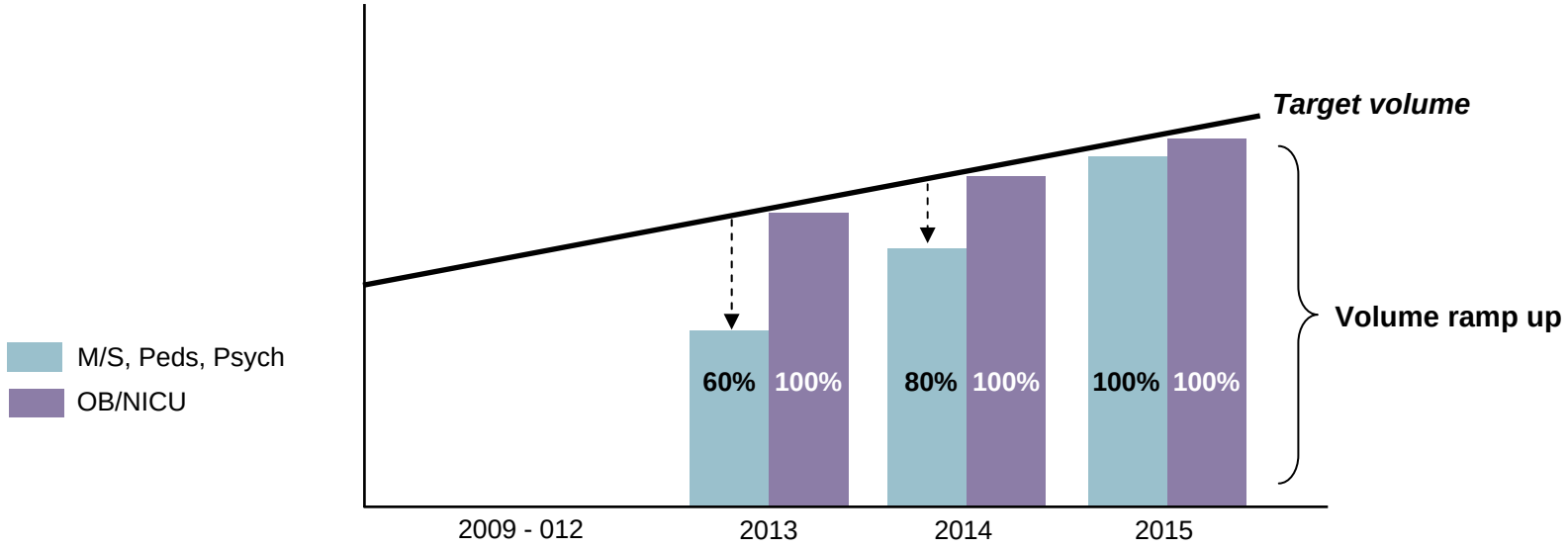
…and run through the financial analysis.



Scenario Development Inputs – Financials

Ramp-up Assumptions

- Assumed volume will not return to pre-Ike levels immediately after a facility becomes operational in 2013
  - Med/Surg, Pediatrics, and Psychiatry were assumed to ramp up over a 3-year period, reaching target volume by 2015
  - OB/NICU was assumed to reach target volume in 2013 given the volume projected in the interim period (2009-2012)



Note: Targeted volume = UTMB's projected volume based on pre-Ike market share

Scenario Development Inputs – Financials

Approach to Payor Mix

- Galveston Island is relatively inaccessible vis-à-vis other hospitals serving south Houston, making gains in commercial and Medicare business on the island more challenging
- UTMB has the potential to improve payor mix by establishing inpatient capacity inland
  - While location is the primary determinant of payor mix, change in location by itself does not guarantee a change in payor mix
  - Whether on the island or inland, significant strategic and operational changes are required to realize an increase in commercial and Medicare business:

    Examples include:
    - Ensure physician complement (with desired payor mix) is in place and ready for 2013
    - Manage the size and flow of ED patients
    - Designate beds, ancillaries, etc. for commercial and Medicare patients
- In the event these strategic and operational changes are not made, UTMB's payor mix may shift towards more Medicaid/uninsured in the 2009-2017 timeframe
- Proceeding financial analyses show a range of operating income gain/(loss) based on potential changes in payor mix
  - Each percentage point shift from Medicaid/self-pay/other to commercial equates to approximately $4 million in operating income

Scenario Development Inputs – Financials

Interpreting the financial analysis

- The financial analysis is based on the current funds flow between the state and UTMB
  - State General Revenue to UTMB is captured as non-operating revenue
- Results in operating losses in certain programs that appear much larger than typically observed in comparable institutions
  - Most institutions comparable to UTMB directly collect and administer their own DSH funds and as a result show much lower operating losses

Scenario Development Inputs – Financials

Assumptions

- KSA projected each line item in the UTMB audited income statement and balance sheet
  - Income statement was projected at the level of "Hospitals & Clinics"; balance sheet was projected at the institutional level, but tied to the "Hospitals & Clinics" income statement
- Line items in the income statement adjust based on fluctuations in discharges
- The adjustment factor (ratio of outpatient encounters to inpatient discharges) is held constant throughout the analysis
- Interim volume projections (2009-2012) are based on UTMB internal forecasting; financial impact is based on KSA analysis
- Fixed and variable percentages based on UTMB 3-year average (2006, 2007, and 2008) for labor and non-labor expense categories
- TDCJ operations are assumed at break even throughout the analysis
- The inefficiencies of operating two campuses are approximated at $17-19 million per year and are included as an independent line item in the operating statements
- Gross PP&E in 2008 is estimated to have been impaired by $400 million in 2009

Scenario Description and Evaluation

Scenarios: UTMB Inpatient Services

The clinical services to be analyzed in each of the scenarios remain constant, with the exception of Scenario 2B which includes a community hospital on Galveston Island

BEDS	Pre-Ike	SCENARIO 1 Rebuild on Island	SCENARIO 2A Rebuild Inland	SCENARIO 2B Rebuild Inland w/Comm Hospital on Island	SCENARIO 3A Split Campus Adult Inland	SCENARIO 3B Split Campus Women & Children Inland
Island						
Med/Surg, ICU	250	250		56		250
Obstetrics	85	85		8	85	
NICU	65	65			65	
Inland						
Med/Surg, ICU			250	250	250	
Obstetrics			85	85		85
NICU			65	65		65
Subtotal	***400***	***400***	***400***	***464***	***400***	***400***
Pediatrics	40	40	40	40	40	40
Psychiatry	25	25	25	25	25	25
TDCJ	100	100	100	100	100	100
TOTAL	**565**	**565**	**565**	**629**	**565**	**565**

Notes: TDCJ Beds assumed to stay on Island in any scenario.
If developed, Psych beds assumed to stay with M/S, ICU in each scenario.
If developed, Peds beds assumed to stay with OB/NICU in each scenario.

Pre-Ike: Rebuild on Galveston Island

Core Components

- Remediate the damage to UTMB buildings on Galveston Island to meet historic bed demand
- Mitigate UTMB clinical buildings (i.e., no new buildings)
- Maintain pre-Ike bed configuration (64 beds to a floor in John Sealy Hospital)
- Pediatrics, psychiatric and TDCJ beds are included in program planning
  - Peds and psych could be sited with alternative providers
  - TDCJ is a contracted service with UTMB

BEDS	SCENARIO 0 Pre-Ike
Island	
Med/Surg, ICU	250
Obstetrics	85
NICU	65
Inland	
Med/Surg, ICU	
Obstetrics	
NICU	
Subtotal	***400***
Pediatrics*	40
Psychiatry*	25
TDCJ*	100
TOTAL	**565**

* Contingent program plan

Pre-Ike: Rebuild on Galveston Island

Facility Plan/Capital Estimate

Description – Reestablishment and mitigation of existing infrastructure

Capital Estimate – $670 million

Sensitivity Parameters – Assumes a 10 point decrease in commercial business

Financial Summary

	SCENARIO 0 Pre-Ike
Project Capital ($M)	$550
Mitigation ($M) *	$120
Total	$670
2013 Operating Revenue	385-400
2017 Operating Revenue	615-650
2013 Operating Gain/Loss	(185-170)
2017 Operating Gain/Loss	(270-230)
2013 EBITDA	(130-110)
2017 EBITDA	(215-180)
2013 - 2017 Cumulative Operating Gain/Loss	(1,185-1,045)

Note: Payor mix sensitivities were run at -10 points with shifts between "commercial" and "Medicaid/self-pay/other" on med/surg/ICU patients only

* Total mitigation dollars presume mitigation of all clinical buildings

Source for Capital: UTMB Department of Facilities and Construction

Scenario 1: Rebuild on Galveston Island

Core Components

- Rebuild clinical capacities to meet local geographic and training program needs at contemporary standards
- OB/NICU capacity can be reduced while retaining adequate clinical material to support the training program (100-110 beds)
  - Total bed complement of 350-400 absent contingent beds meets minimum education threshold
- Pediatrics, psychiatric and TDCJ beds are included in program planning
  - Peds and psych could be sited with alternative providers
  - TDCJ is a contracted service with UTMB

BEDS	SCENARIO 1 Rebuild on Island
Island	
Med/Surg, ICU	250
Obstetrics	85
NICU	65
Inland	
Med/Surg, ICU	
Obstetrics	
NICU	
Subtotal	***400***
Pediatrics*	40
Psychiatry*	25
TDCJ*	100
TOTAL	**565**

* Contingent program plan

Scenario 1: Rebuild on Galveston Island

Facility Plan/Capital Estimate

Description – Four-phase redevelopment of a contemporary hospital and ambulatory center on Galveston Island. First three phases can run in parallel and be operational in 2013; replacement of John Sealy begins in 2013 and is operational in 2017.

- Phase 1: Interim renovation of John Sealy for acute inpatient care
- Phase 2: Construct a diagnostic and critical care pavilion
- Phase 3: Construct an ambulatory building
- Phase 4: Replace John Sealy and all clinical and non-clinical support

Capital Estimate – $ 1.17 billion

Sensitivity Parameters – Assumes a 5 point decrease in commercial business

Financial Summary

	SCENARIO 1 Rebuild on Island
Project Capital ($M)	$1,050
Mitigation ($M) *	$120
Total	$1,170
2013 Operating Revenue	390-400
2017 Operating Revenue	630-650
2013 Operating Gain/Loss	(175-165)
2017 Operating Gain/Loss	(260-245)
2013 EBITDA	(120-110)
2017 EBITDA	(200-180)
2013 - 2017 Cumulative Operating Gain/Loss	(1,120-1,050)

Note: Payor mix sensitivities were run at +/- 5 points with shifts between "commercial" and "Medicaid/self-pay/other" on med/surg/ICU patients only

* Total mitigation dollars presume mitigation of all clinical buildings; some buildings in this scenario may not be re-used and will not require mitigation – thus, mitigation may be overstated

Source for Mitigation Capital: UTMB Department of Facilities and Construction

Scenarios 2A/2B: Rebuild Inland

Core Components

- Scenario 2A includes only inland beds
- Scenario 2B includes beds planned for 2A plus 64 community hospital beds on Galveston Island (in John Sealy Hospital)
- Inland inpatient beds at Victory Lakes or closer to the Island
- In 2A, provide ambulatory program (urgent care, diagnostic imaging, ambulatory surgery, physician office space) on the Island
  - Supports Island population, prison diagnostics, etc.
- Pediatrics, psychiatric and TDCJ beds are included in program planning
  - Peds and psych could be sited with alternative providers
  - TDCJ is a contracted service with UTMB

BEDS	SCENARIO 2A Rebuild Inland	SCENARIO 2B Rebuild Inland w/Comm Hospital on Island
Island		
Med/Surg, ICU		56
Obstetrics		8
NICU		
Inland		
Med/Surg, ICU	250	250
Obstetrics	85	85
NICU	65	65
Subtotal	***400***	***464***
Pediatrics*	40	40
Psychiatry*	25	25
TDCJ*	100	100
TOTAL	**565**	**629**

* Contingent program plan

Scenarios 2A/2B: Rebuild Inland

Facility Plan/Capital Estimate

Description

- New hospital developed on the site of Victory Lakes (or similar) including ambulatory care to support clinical programs. Training/education spaces for clinical care embedded in inpatient and ambulatory facilities.
- Either an ambulatory destination center would remain on the island or a 64-bed community hospital.

Capital Estimate – $820 million with ambulatory only development (2A); $1 billion with community hospital (2B)

Sensitivity Parameters – Assumes a 5 point increase in commercial business

Financial Summary

	SCENARIO 2A Rebuild Inland	SCENARIO 2B Rebuild Inland w/ Comm Hospital on Island
Project Capital ($M)	$820	$880
Mitigation ($M) *	$0	$120
Total	$820	$1,000
2013 Operating Revenue	400-420	445-465
2017 Operating Revenue	650-670	745-765
2013 Operating Gain/Loss	(170-150)	(185-165)
2017 Operating Gain/Loss	(230-210)	(265-245)
2013 EBITDA	(110-90)	(125-105)
2017 EBITDA	(180-160)	(210-190)
2013 - 2017 Cumulative Operating Gain/Loss	(1,060-960)	(1,175-1,075)

Note: Payor mix sensitivities were run at +/- 5 points with shifts between "commercial" and "Medicaid/self-pay/other" on med/surg/ICU patients only

* Total mitigation dollars presume mitigation of all clinical buildings; some buildings in this scenario may not be re-used and will not require mitigation – thus, mitigation may be overstated

Source for Mitigation Capital: UTMB Department of Facilities and Construction

Scenarios 3A/3B: Split Campus Options

Core Components – Adult Acute Care Inland (3A)

- Develop a new adult medical/ surgical hospital inland
- Redevelop a women and children's hospital on the Island using John Sealy Hospital
- Maintain a clinical teaching service at the TDCJ hospital and develop diagnostic services and programs in support of island residents
- Pediatrics, psychiatric and TDCJ beds are included in program planning
  - Peds and psych could be sited with alternative providers
  - TDCJ is a contracted service with UTMB

BEDS	SCENARIO 3A Split Campus Adult Inland
Island	
Med/Surg, ICU	
Obstetrics	85
NICU	65
Inland	
Med/Surg, ICU	250
Obstetrics	
NICU	
Subtotal	***400***
Pediatrics	40
Psychiatry*	25
TDCJ*	100
TOTAL	**565**

* Contingent program plan

Scenarios 3A/3B: Split Campus Options

Facility Plan/Capital Estimate – Adult Acute Care Inland (3A)

Description – All acute care services with the exception of women's and children's would be constructed inland (Victory Lakes or similar). Women's and children's clinical services would be redeveloped in the John Sealy Hospital Facility on Galveston Island.

Capital Estimate – $ 850 million

Sensitivity Parameters – Assumes a 5 point increase in commercial business

Financial Summary

	SCENARIO 3A Split campus Adult Inland
Project Capital ($M)	$730
Mitigation ($M) *	$120
Total	$850
2013 Operating Revenue	400-420
2017 Operating Revenue	650-670
2013 Operating Gain/Loss	(180-160)
2017 Operating Gain/Loss	(255-235)
2013 EBITDA	(130-110)
2017 EBITDA	(200-180)
2013 - 2017 Cumulative Operating Gain/Loss	(1,120-1,020)

Note: Payor mix sensitivities were run at +/- 5 points with shifts between "commercial" and "Medicaid/self-pay/other" on med/surg/ICU patients only

* Total mitigation dollars presume mitigation of all clinical buildings; some buildings in this scenario may not be re-used and will not require mitigation – thus, mitigation may be overstated

Source for Mitigation Capital: UTMB Department of Facilities and Construction

Scenarios 3A/3B: Split Campus Options

Core Components – Women and Children's Inland (3B)

- Develop a new women's and children's hospital inland
- Redevelop an adult acute care hospital on the Island using John Sealy Hospital
- Maintain a clinical teaching service at the TDCJ hospital utilizing diagnostic services that support adult acute care
- Pediatrics, psychiatric and TDCJ beds are included in program planning
  - Peds and psych could be sited with alternative providers
  - TDCJ is a contracted service with UTMB

BEDS	SCENARIO 3B Split Campus Women & Children Inland
Island	
Med/Surg, ICU	250
Obstetrics	
NICU	
Inland	
Med/Surg, ICU	
Obstetrics	85
NICU	65
Subtotal	***400***
Pediatrics	40
Psychiatry*	25
TDCJ*	100
TOTAL	**565**

* Contingent program plan

Scenarios 3A/3B: Split Campus Options

Facility Plan/Capital Estimate – Women's & Children's Inland (3B)

Description – A new women's and children's hospital would be constructed inland (Victory Lakes or similar). All other acute care services would be located on Galveston Island. Development on the Island initially focused on the John Sealy Hospital, full redevelopment requires a new inpatient bed tower over the long term.

Capital Estimate – $ 1.4 billion

Sensitivity Parameters – Assumes a 5 point decrease in commercial business

Financial Summary

	SCENARIO 3B Split campus Women's Inland
Capital ($M)	$1,310
Mitigation ($M) *	$120
Total	$1,430
2013 Operating Revenue	380-400
2017 Operating Revenue	630-650
2013 Operating Gain/Loss	(210-190)
2017 Operating Gain/Loss	(290-270)
2013 EBITDA	(150-130)
2017 EBITDA	(220-200)
2013 - 2017 Cumulative Operating Gain/Loss	(1,275-1,175)

Note: Payor mix sensitivities were run at +/- 5 points with shifts between "commercial" and "Medicaid/self-pay/other" on med/surg/ICU patients only

* Total mitigation dollars presume mitigation of all clinical buildings; some buildings in this scenario may not be re-used and will not require mitigation – thus, mitigation may be overstated

Source for Mitigation Capital: UTMB Department of Facilities and Construction

Scenarios: Financial Implications

- Financial comparisons across scenarios provide insight into relative financial performance of options.
- For comparison purposes, UTMB's FY 2008 financial results for Hospitals and Clinics:
  - Operating gain/(loss) - ($190 m)
  - EBITDA - ($155 m)

	SCENARIO 0 Pre-Ike	SCENARIO 1 Rebuild on Island	SCENARIO 2A Rebuild Inland	SCENARIO 2B Rebuild Inland w/Comm Hospital on Island	SCENARIO 3A Split Campus Adult Inland	SCENARIO 3B Split Campus Women & Children Inland
Capital ($M)	$550	$1,050	$820	$880	$730	$1,310
Mitigation ($M) *	$120	$120	$0	$120	$120	$120
Total	$670	$1,170	$820	$1,000	$850	$1,430
2013 Operating Revenue	385-400	390-400	400-420	445-465	400-420	380-400
2017 Operating Revenue	615-650	630-650	650-670	745-765	650-670	630-650
2013 Operating Gain/Loss	(185-170)	(175-165)	(170-150)	(185-165)	(180-160)	(210-190)
2017 Operating Gain/Loss	(270-230)	(260-245)	(230-210)	(265-245)	(255-235)	(290-270)
2013 EBITDA	(130-110)	(120-110)	(110-90)	(125-105)	(130-110)	(150-130)
2017 EBITDA	(215-180)	(200-180)	(180-160)	(210-190)	(200-180)	(220-200)
2013 - 2017 Cumulative Operating Gain/Loss	(1,185-1,045)	(1,120-1,050)	(1,060-960)	(1,175-1,075)	(1,120-1,020)	(1,275-1,175)

Note: Payor mix sensitivities were run with shifts between "commercial" and "Medicaid/self-pay/other" on med/surg/ICU patients only; Source for Mitigation Capital and Pre-Ike Scenario 0 Capital: UTMB Department of Facilities and Construction; * Total mitigation dollars presume mitigation of all clinical buildings; some buildings in some scenarios may not be re-used and will not require mitigation – thus, mitigation may be overstated

Scenarios: Financial Comparison

If contingent services (pediatrics, psychiatry) can be sited elsewhere, a positive impact to EBIDTA and reduced initial capital outlay will be realized in all scenarios

		SCENARIO 0 Pre-Ike *	SCENARIO 1 Rebuild on Island	SCENARIO 2A Rebuild Inland	SCENARIO 2B Rebuild Inland w/Comm Hospital on Island	SCENARIO 3A Split Campus Adult Inland	SCENARIO 3B Split Campus Women & Children Inland
Med/ Surg/ ICU	**Capital ($M)**	$315	$665	$450	$490	$430	$830
	2013 EBITDA	(35)	(35)	(35)	(45)	(55)	(55)
	2017 EBITDA	(75)	(75)	(75)	(95)	(95)	(95)
OB/NICU	**Capital ($M)**	$190	$225	$270	$290	$205	$325
	2013 EBITDA	(55)	(55)	(55)	(60)	(55)	(55)
	2017 EBITDA	(65)	(65)	(65)	(75)	(65)	(65)
Peds	**Capital ($M)**	$50	$100	$60	$60	$55	$85
	2013 EBITDA	(10)	(10)	(10)	(10)	(10)	(10)
	2017 EBITDA	(20)	(20)	(20)	(20)	(20)	(20)
Psych	**Capital ($M)**	$30	$60	$40	$40	$40	$70
	2013 EBITDA	(10)	(10)	(10)	(10)	(10)	(10)
	2017 EBITDA	(20)	(20)	(20)	(20)	(20)	(20)
Mitigation	**Capital ($M)**	$120	$120	$0	$120	$120	$120

Notes: EBITDA figures assume no changes in payor mix; Source for Mitigation Capital: UTMB Department of Facilities and Construction*; Total mitigation dollars presume mitigation of all clinical buildings; some buildings in some scenarios may not be re-used and will not require mitigation – thus, mitigation may be overstated; * Pre-Ike Scenario 0 capital includes KSA estimate of $35 million for equipment*

Conclusions

- A core complement of services, including adult med/surg, obstetrics and neonatology, are required to support redevelopment of the academic enterprise
  - Inpatient pediatric, psychiatry and TDCJ volumes are not included as part of the core;
  - If pediatric and/or psychiatry are included in the future plan, required capital and operating losses increase
- With current operating parameters and current assumptions, greater volume will result in greater future losses
- Changes to payor mix will be most impacted by geographic location
  - UTMB will have a greater opportunity to secure commercial and Medicare volume at an inland location; requires different physician structure and organization and designated capacity
  - Redeveloping UTMB on Galveston Island presents minimal opportunity for greater commercial and/or Medicare patient volumes
- Split campus options present long term operational inefficiencies
- Certain scenarios can be contemplated in combination with one another, presenting opportunities to phase development over time

Recommendations

KSA's proposed prioritization of scenarios:

1) Rebuild inland
   - Best opportunity for UTMB to achieve greater financial self-sufficiency
   - Capital efficient relative to other scenarios
   - Development of a community hospital on Galveston Island can be pursued if sponsored by the community
2) Split campus
   - Inefficiencies resulting from split campus models make these scenarios operationally and economically less attractive
   - Were UTMB to elect to establish a split campus model, placing the adult medical/surgical core inland provides the best opportunity to achieve more commercial and Medicare business
3) Rebuild on island
   - Conceptually easiest to implement
   - Location not aligned with future growth
   - Likely relegates UTMB to even greater reliance on public and private subsidies
4) Remediate and mitigate pre-Ike buildings (i.e., no new buildings)
   - The useful life of John Sealy tower is less than 15 years
   - The campus is left operationally inefficient and will not meet contemporary standards
   - Least opportunity for UTMB to achieve financial self-sufficiency

Appendix

Definitions

Bed Type	Definition
Women's/NICU	Obstetrics, Labor & Delivery, NICU
Peds	General pediatric service, PICU
Trauma	Calculation including discharges by trauma DRG definition, ALOS, and occupancy target
Psych	Includes all inpatient psych services
Med/Surg--Island	Includes all discharges originating on Galveston Island less Women's/NICU, Peds, Trauma, and Psych
Med/Surg--Region	Includes all other service area discharges; excluding Women's/NICU, Peds, Trauma, Psych and Island
TDCJ	Includes all TDCJ services

Other Terms	Definition
Remediation	Restoring buildings to operational status
Mitigation	Protecting / reducing risk of future storm damage