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UNIVERSITY OF FLORIDA HEALTH

UF Health Jacksonville

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May 21, 2015

Office of Governor Rick Scott
State of Florida
The Capitol
400 S. Monroe Street
Tallahassee, Florida 32399-0001

Dear Governor Scott:

Thank you for your May 15 letter inquiring about the operations of UF Health Jacksonville. We welcome the opportunity to provide you with information as you negotiate with the federal government on crucial Low Income Pool (LIP) funding and weigh solutions for addressing Florida's large uninsured population. We are also happy to work with the Commission on Healthcare and Hospital Funding to provide data and educate members on the significant challenges our system faces and how we are rising to meet them as Northeast Florida's largest safety net healthcare provider.

UF Health Jacksonville is an efficient, high-quality, highly-specialized teaching hospital operating the region's only Level 1 trauma center. Recently, the national accounting firm of Dixon Hughes Goodman – in partnership with the Jacksonville Civic Council – reviewed our operations and concluded we are one of the most cost-effective academic medical centers in the United States (copy attached with permission). Indeed, according to data from the University Health System Consortium (UHC), we have the third lowest cost per admission, adjusted for case-mix severity, among the 130 university-affiliated hospitals in their data base. Additionally, in 2008 and again in 2011 – under your administration – we were honored to receive the Governor's Sterling Award for Sustained Performance Excellence.

One of our guiding principles is to treat all patients with dignity and respect, regardless of their ability to pay. Given that roughly 18 percent of Jacksonville residents have no health insurance, we provide large amounts of charity care as part of our commitment to social responsibility. In fiscal year 2014, we provided more than $70 million in unreimbursed charity care and community benefits at cost. As Duval County's fourth-largest private sector employer, and its largest employer of minorities, we view the work of our 5,800 employees as nothing short of heroic – every day, they address life and death situations and provide compassionate care to patients while knowing that the loss of LIP funding without any alternative revenue source could literally force us to close our doors.

To that end, we believe that any meaningful response to your inquiries can only be provided by placing into broader context the largely low-income community we serve, the highly-specialized

health services we offer that simply aren't available elsewhere in the region and our significant teaching hospital mission, which benefits the entire state of Florida.

A good place to start is related to your request for an explanation of why other hospitals can serve a similar Medicaid population without being as dependent on LIP funds. The simple answer is that there is no other Florida general acute care licensed hospital in Florida that faces as large a payer mix challenge as UF Health Jacksonville. Our most current financial information submitted to AHCA shows that nearly 52% of our patient days are Medicaid or charity care. Only one other hospital in the state, a small rural hospital in Union County, has a higher percentage of charity care patients than UF Health Jacksonville. It is important to note that patient care can only be classified as charity if the hospital can substantiate that the patient earns less than 200 per cent of the federal poverty level. Therefore, charity care does not include any unpaid services related to bad debt.

If LIP funding is eliminated, our Medicaid reimbursement will drop to 48% of cost. Such a dramatic drop in reimbursement will fiscally threaten most hospitals serving large numbers of Medicaid patients, but will financially cripple a large urban hospital such as ours with such a large population of Medicaid and uninsured patients. Under these circumstances, the payment for hospital care for 52% of our patients would range from 0% of cost to a high of 48% of cost..

Our high proportion of charity patients is one of the reasons that UF Health Jacksonville receives the third-largest net appropriation among all hospitals receiving LIP funds. It is also a significant part of the answer as to why our short-term financial viability relies so heavily on the continuation of LIP funds.

During the 2014-15 fiscal year, the City of Jacksonville provided $26 million to UF Health Jacksonville. This support, for which we are grateful, is crucial to our operations, fiscal continuity and credit ratings. There is an important distinction, however, between the local tax support we receive and other large safety net hospitals that receive local funds. The city's contribution is provided as an appropriation within the county operating budget and millage cap. Other safety net hospitals that receive local funding support derive it from a broader tax base specifically approved for health care services. Examples of these are independent hospital and health care districts with ad valorem taxing authority and dedicated optional sales taxes. Jackson Memorial Hospital does receive a significant amount of support from the Miami-Dade County Commission, but that contribution was capped in 1992 when a dedicated one-half cent optional sales tax was passed by voter referendum.

Given the cost of running a large urban county government, the Jacksonville City Council is limited to the extent that it can significantly expand financial support to UF Health Jacksonville. In recognition of this constraint, our hospital worked closely with the Duval County legislative delegation to pass a local bill in 2009 that would have authorized an optional local sales tax referendum for the purposes of supporting the hospital. However, then-Governor Charlie Crist vetoed this legislation.

I also want to address your request to identify differences between UF Health Jacksonville and Jackson Memorial, which realized a $97.5 million profit this past year. First, I want to recognize that Jackson Memorial is not only a premier health care asset to Miami-Dade County and the state, but it is also a nationally-renowned tertiary teaching facility. The current management team there has laudably transitioned operations from a $178 million deficit several years ago to a positive margin in the current year. There are major differences between Jackson Memorial and UF Health Jacksonville, however, which are important to note.

Jackson Memorial is about twice the size of UF Health, with 85,964 annual admissions in 2013 compared to 42,498 at our hospital. However, its local tax support of $360 million is 13 times larger than our current level of $26 million. While Jackson Memorial's Medicaid and charity care caseload is considered high by any standard, at 35% it is still 17 percentage points lower than our level of 52%. Additionally, Jackson Memorial's patient case mix of 1.55 as reported in the Florida Hospital Uniform Reporting System is indicative of the expensive, medically-complex population the system serves. By comparison, however, UF Health Jacksonville's patient case mix is even higher, at 1.71.

I know there are other cost drivers, not mentioned here, that are unique to Jackson Memorial Hospital, its community and its mission - and it is not my intention to grade each other's operation. While we are both large teaching hospitals that serve as the primary health care safety net provider for our communities, I hope that it is apparent from the information above that comparing our margins does not highlight any operational deficiencies that provides a financial solution for UF Health Jacksonville. Lastly, I want to highlight that both hospitals will experience serious financial problems if LIP funds are lost. Without the LIP funding support, Jackson Memorial's financial condition would plummet from profitability to an overall operating deficit of $145 million, while UF Health Jacksonville would be hit with an operating deficit of $98 million. In addition, the UF College of Medicine in Jacksonville currently receives $25 million in Upper Payment Limit funds through the LIP program. The net impact to our combined operations if LIP funds are lost would be an operating deficit of roughly $123 million.

As I noted earlier, UF Health Jacksonville has been recognized, both nationally and statewide, for the operational efficiencies it achieves and the quality of healthcare it provides, despite the patient mix and financial challenges it faces. While the Dixon Hughes Goodman review found that we are one of the most cost-effective academic medical centers in the country, it also found the hospital operates at the "break even" point and typically has very low levels of operating cash reserves on hand. Despite that precarious financial footing, UF Health Jacksonville has received numerous national, state and local awards and accreditations. To give you just one example, *U.S. News & World Report's 2014-15 America's Best Hospitals* recognized UF Health Jacksonville as a high-performing hospital in nine-specialties: cancer; cardiology and heart surgery; diabetes and endocrinology; geriatrics; gynecology; nephrology; neurology and neurosurgery; pulmonology; and urology. Overall, out of more than 260 hospitals, UF Health Jacksonville was ranked 11th in the State in 2014-15.

As one of the state's leading teaching hospitals, we recognize and sincerely appreciate your strong support for Graduate Medical Education and increasing the number of medical residency slots in Florida. As you know, the Teaching Hospital Council of Florida, in conjunction with the Safety Net Hospital Alliance of Florida, recently released a first-of-its-kind study with the assistance of IHS Global that examined supply and demand among physician specialists over the next decade. The study found Florida will face a critical shortage of some 7,000 physicians spanning 19 specialties by 2025 and needs to create a projected 13,568 new medical residency slots within teaching hospitals over the decade to meet that demand.

The demand for new physician specialists to meet the needs of our state's growing population is one of the greatest healthcare challenges Florida faces. UF Health Jacksonville is helping to meet that challenge and is a crucial institution for training the next generation of home-grown Florida physicians. Today, we are Northeast Florida's only academic medical center. Our 350 UF faculty physicians are training more than 350 medical residents in 46 specialties. This level of commitment to medical education is very expensive and has taken decades to develop. Clearly, this is another reason why LIP funding or a similar alternative is so critical to maintaining the financial viability of UF Health Jacksonville and its invaluable contribution to the state's medical education needs.

In regards to our residency programs, we have extensive relationships with Baptist / Woflson's Children's Hospital for pediatric and neonatal care residents. We also have residency rotation agreements with the Mayo Clinic, the VA, and HCA. These arrangements typically involve the reimbursement of the total cost of the residents rotating through those facilities commensurate with their applicable time. As far as additional collaborations with Baptist Medical Center, it would not be a benefit to the community for them to duplicate some of our unique services such as our Level I trauma program. Specific to your suggestion of "profit sharing," responses have been submitted to the Commission by many within the industry.

Our increase in hospital acquired infections was largely driven by the implementation of our electronic medical record system and resulting failure to capture within the new system patient conditions that were present upon admission. We have retrained clinicians as to the appropriate way to document these issues and have significantly improved their capture rate. In addition, we have launched several new quality improvement initiatives - including the appointment of a 100% dedicated full-time physician as Chief Quality Officer - that have dramatically improved most of our quality indicators over the past year. Our current year Medicare penalty for hospital acquired conditions is $937,000. It has been clearly documented that safety-net hospitals, which serve large numbers of patients who lack the financial resources or family support structures to optimize their post-discharge care, along with academic medical centers that treat the most complex cases, are significantly disadvantaged in terms of readmissions rates. There is a nationwide effort underway to try to address this measurement disparity related to those issues. It should also be noted that a readmission is counted against a hospital if it occurs within 30 days of discharge, regardless of whether the second admission is in any way related to the diagnoses of

the first admission. Facilities such as ours that treat large numbers of uninsured patients who don't have sufficient resources to address their medical conditions prior to them becoming chronic experience higher levels of readmissions for this reason as well. Our current Medicare readmission penalty is $237,000. It should also be noted that we received a $135,000 bonus for our favorable Medicare Value Based Purchasing score in the current year.

Our level of admissions, payer mix, and patient care expenses have remained relatively constant over the last 10 years. Our executive compensation packages are tied to patient satisfaction scores, quality outcomes, and financial results. Our organization's Executive Compensation Committee reviews these arrangements annually and also engages Mercer Consulting to benchmark executive compensation and ensure its reasonableness. Finally, we have spent approximately $126 million over the last 10 years on facility upgrades.

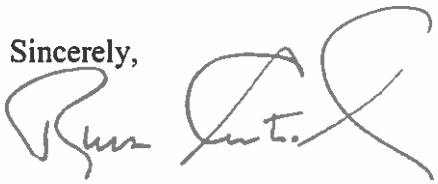
UF Health Jacksonville does have outstanding liabilities to UF Health Gainesville for historical investments in the enterprise (currently at a balance of $37 million) and other amounts that arise in the normal course of business between our entities. An example is our shared electronic medical record system that UF Health Gainesville paid for in total and for which we are reimbursing them for our appropriate allocation of the system's cost.

Recognizing the realities of the current healthcare industry, UF Health Jacksonville, in partnership with our UF College of Medicine faculty, has continued to expand our services strategically across the area to attract more commercially insured patients to help fund our core mission and reduce our reliance on government funding to support the care we provide to the uninsured residents of Northeast Florida. Collectively we now have over 30 primary care and specialty clinics throughout the area. Just recently, we opened the first phase of our first major off-campus expansion of services in Jacksonville's underserved north side to great success. The first phase of this expansion included a hospital-based emergency department, advanced imaging services and outpatient surgical center, in addition to 80,000 square feet of physician office space. Due to our weak balance sheet position, the first phase of this project was developer-financed and we have entered into a long-term lease arrangement for the facility. Ultimate success of this expansion project is dependent upon the addition of inpatient beds, for which we have an approved Certificate of Need. The continuation of our current level of LIP funding or similar alternative is critical for our ability to finance the inpatient beds that will ultimately lead to an improved payer mix and less reliance on governmental funding.

In closing, I want to thank you again for your interest in learning more about UF Health Jacksonville's financial and operational challenges. Our community's leadership and hospital management have worked in close collaboration for years to ensure we operate as efficiently as possible. Together, we have also evaluated funding alternatives and partnerships that will help sustain our mission as Northeast Florida's primary safety net healthcare provider and as one of Florida's leading academic medical centers. We appreciate and support your ongoing efforts to secure an alternative LIP funding model from the federal government that protects the financial viability of UF Health Jacksonville and other safety net hospitals, and we look forward to working with you and legislative leaders to help resolve Florida's most pressing healthcare

challenges, including the high percentage of uninsured residents and the need for additional medical residency slots.

Sincerely,



Russell E. Armistead
Chief Executive Officer
Shands Jacksonville Medical Center, Inc. d/b/a UF Health Jacksonville

Attachment

A FRAMEWORK ANALYSIS OF THE FUNDING GAP FACING UF HEALTH JACKSONVILLE AND THE JACKSONVILLE COMMUNITY

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DHG HEALTHCARE
The national healthcare practice of DIXON HUGHES GOODMAN LLP

January 2015

Objectives

- Interview a short list of related stakeholders
- Map the current local issue against our knowledge of similar issues around the country
- Perform certain reimbursement analyses in development of our view of the perceived funding gap
- Facilitate a meeting where we would read-out our final perspectives to the Council

Process Deployed

- Interviewed approximately 15 individuals including leaders from UF Health Jacksonville as well as the Civic Council and the Task Force
- Completed three distinct benchmarking / financial analytics exercises
- Completed select reimbursement analyses comparing UF Health Jacksonville to other similar institutions
- Compared outcomes of Foundation efforts to other comparative organizations
- Convened certain internal DHG Healthcare leaders to discuss situational comparatives with other institutions similar to UF Health Jacksonville
- Note: UF Health Jacksonville based programs where revenues flow elsewhere (Gainesville for example) not assessed in detail

A FRAMEWORK ANALYSIS OF THE FUNDING GAP FACING UF HEALTH JACKSONVILLE AND THE JACKSONVILLE COMMUNITY

EXECUTIVE SUMMARY

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DHG HEALTHCARE
The national healthcare practice of DIXON HUGHES GOODMAN LLP

Executive Summary – Interview Themes

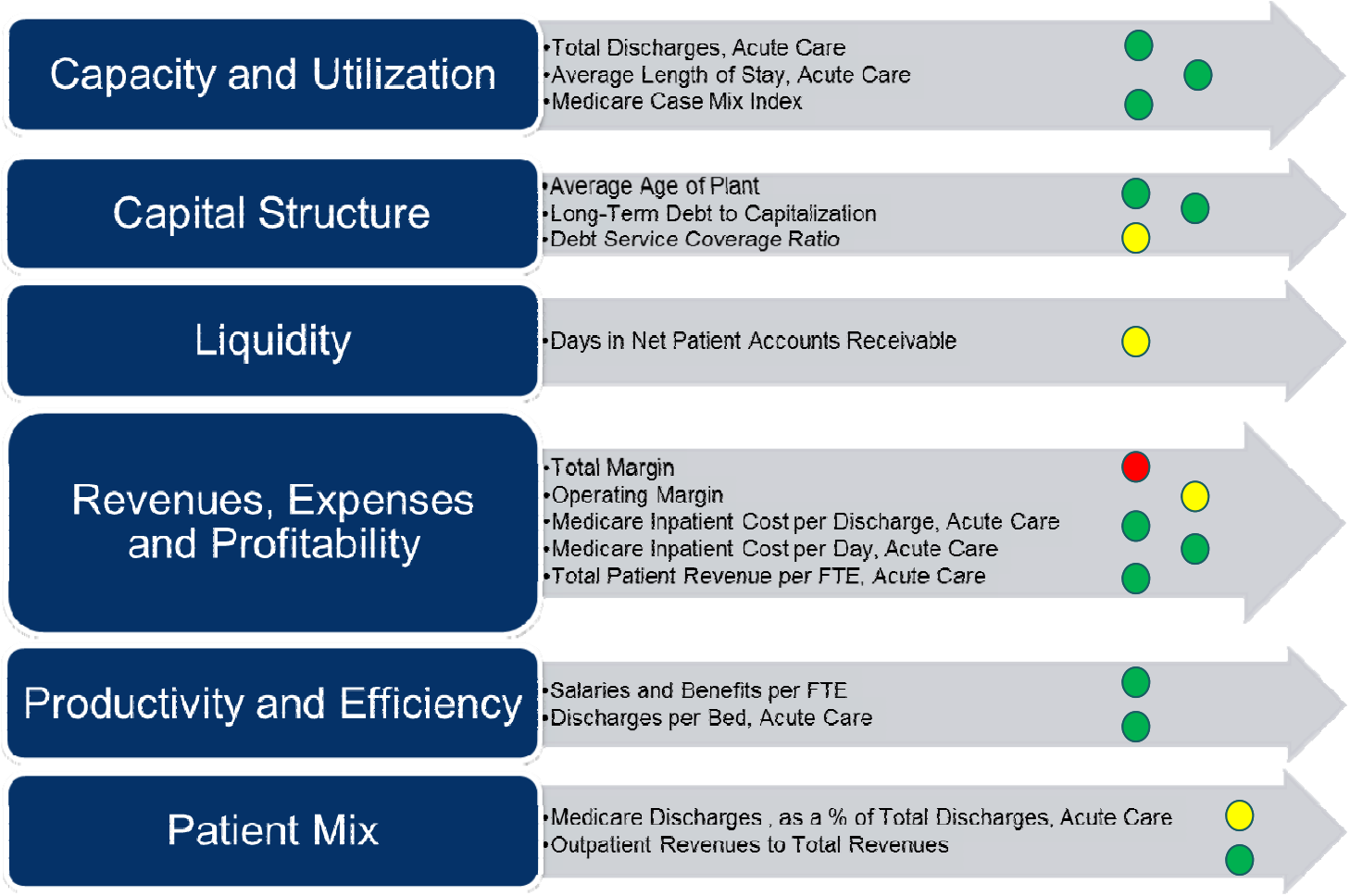
- Funding gap generally believed to be a revenue issue, not an expense issue: expected to get worse
- UF Health Jacksonville's survival is a must – critical care need for community; Medical School couldn't be supported by other providers
- 6th largest employer – including higher paying jobs
- 'Taxing' option not likely to be widely supported
- New facility viewed both as opportunity and risk – "how can it work"?
- Significant knowledge and understanding gap with community
  - UF Health Jacksonville situation not unlike what other tertiary care facilities face
  - Requires comprehensive and consistent new messaging
  - Business community involvement is a must – philanthropic leadership ?

Executive Summary – Benchmarking

- We benchmarked UF Health Jacksonville against the following institutions:
  - Broward Health Medical Center
  - Erlanger Medical Center
  - Grady Memorial Hospital
  - Jackson Hospital – Miami
- 16 different components were compared, in three distinct areas: Revenues and Expenses, Balance Sheet and Service Makeup

Executive Summary – Benchmarking

UF Health Jacksonville to Compare Group



Executive Summary – Reimbursement

- Medicaid LIP payments anticipated to end in 2015
- CMS wants state Medicaid programs to provide upfront coverage via Medicaid expansion
- At this point Florida has decided not to expand Medicaid
- Jacksonville community leadership perceives there is a $40 million safety-net funding gap
- UF Health Jacksonville is in the top 5 for Total Medicaid Costs in the state (see next slides)
- UF Health Jacksonville is in the top 5 for % of Medicaid funding payments to Total Medicaid costs
- UF Health Jacksonville is not in the top 10 for % of IGTs to Total Medicaid costs → Should Duval increase taxes to cover funding gap?

Executive Summary – Reimbursement

- Top 10 hospitals % Medicaid distributions to total Medicaid costs

Provider Name	Net Medicaid Payments	Total Medicaid Costs	% Mcd Pymts/Total Mcd Costs
BAY MEDICAL CENTER	**12,825,220**	**33,337,243**	38%
UNIVERSITY OF MIAMI HOSPITAL & CLINICS	**10,079,550**	**26,850,590**	38%
UF HEALTH JACKSONVILLE	**103,213,344**	**294,520,779**	35%
MT. SINAI MEDICAL CENTER	**19,541,999**	**56,689,624**	34%
H. LEE MOFFIT CANCER CENTER	**20,301,535**	**61,267,669**	33%
JACKSON MEMORIAL HOSPITAL	**270,514,847**	**882,483,751**	31%
MEMORIAL HOSPITAL MIRAMAR	**11,777,748**	**39,669,645**	30%
TAMPA GENERAL HOSPITAL	**90,854,205**	**309,153,661**	29%
ALL CHILDREN'S HOSPITAL	**55,947,148**	**204,004,358**	27%
LEE MEMORIAL HOSPITAL	**38,275,813**	**141,131,472**	27%

- The median % Medicaid Payments to Total Medicaid Costs is 14%

Executive Summary – Reimbursement

- Top 10 hospitals % IGTs (Taxes) to Total Medicaid Costs

Provider Name	Total All IGTs	Total Medicaid Costs	% IGTs/Total Mcd Costs
BROWARD HEALTH - IMPERIAL POINT HOSPITAL	32,529,319	**36,757,048**	88%
BROWARD HEALTH - BROWARD GENERAL MEDICAL CEN	124,396,457	**258,807,329**	48%
JACKSON MEMORIAL HOSPITAL	407,806,637	**882,483,751**	46%
MEMORIAL REGIONAL HOSPITAL	113,996,106	**319,534,597**	36%
CITRUS MEMORIAL HEALTH SYSTEM	8,561,920	**26,282,968**	33%
INDIAN RIVER MEDICAL CENTER	11,760,436	**43,153,063**	27%
BROWARD HEALTH - NORTH BROWARD MEDICAL CENTE	23,859,981	**87,833,588**	27%
SARASOTA MEMORIAL HOSPITAL	26,460,414	**100,689,346**	26%
MEMORIAL HOSPITAL MIRAMAR	10,146,635	**39,669,645**	26%
BROWARD HEALTH - CORAL SPRINGS MEDICAL CENTER	17,085,447	**67,974,632**	25%
UF HEALTH JACKSONVILLE	29,923,988	**294,520,779**	10%

- The median % IGTs (Taxes) to Total Medicaid Costs is 7%

Executive Summary – Reimbursement

State Medicaid Funding Examples:

Florida -

- Hospitals divided into county/taxing districts for Medicaid funding
- Provider Assessment Tax=based on legislation and amounts per county/taxing district
- Feds match = 59% (FMAP)
- Medicaid payment components:
  - Inpatient paid on DRG
  - Medicaid DSH
  - Rate Enhancements (IP and OP)
  - Outpatient per diem
  - Lower Income Payments (LIP)

Georgia -

- Hospitals divided into 2 categories for Medicaid DSH funding
- Provider Assessment Tax=1% of hospitals net patient revenue
- Feds match = 66% (FMAP)
- Medicaid payment components:
  - Inpatient paid on DRG
  - Medicaid DSH
  - Outpatient paid on cost

Executive Summary – Reimbursement

State Medicaid Funding Examples (cont'd):

Alabama -

- Hospitals divided into 3 categories for Medicaid funding (state, private and public)
- State/Public - Internal Governmental Transfer (IGT)=payment transfer of 31.8% of Medicaid claims
- Private - Provider Assessment Tax = 5.5% of hospitals net patient revenue
- Feds match = 68% (FMAP)
- Medicaid payment components:
  - Inpatient paid on per diem
  - Outpatient paid on per encounter
  - Access payments
  - Medicaid DSH
- Alabama Medicaid is currently working to revamp the current payment methodology and convert to APR-DRG by October 2015
- Beginning in October 2016, the state will be divided into 5 regions that will be responsible for coordinating the healthcare of Medicaid patients in each region. Community led networks will be developed that ultimately bear the risk of contracting with the state of Alabama to provide care to these patients.

Executive Summary – Reimbursement

North Carolina -

- Hospitals divided into 5 categories for Medicaid funding (Non-Public CAH, Non-Public, Public, Public CAH, and UNC Hospitals)
- Certified Public Expenditures based on projected DSH limit
- Feds match = 66% (FMAP)
- Medicaid payment components:
  - Inpatient paid on DRG
  - Medicaid DSH
  - Outpatient paid on cost
  - Supplemental Payments
  - MRI / Gap

Executive Summary – Foundation Component

- Fundraising not out of line with compare group
- Perhaps some opportunity for special event fundraising
- Additional research required in this area to determine how best to refine approach
- THINK BIG – Philanthropy

Executive Summary – Funding Gap Challenge

- It does not appear the State is going to help with the Medicaid funding gap.
- Healthy Florida Works (HFW) is a business coalition fighting for the uninsured Florida population. The program is designed to increase access to high-quality, affordable health care while promoting personal accountability. HFW should be considered as a possible option to help drive access to a new payment stream for historically categorized indigent patients.
- It is imperative the State understands what providers like UF Health Jacksonville are going to have to do to survive in the future.
- AHCA has hired a consultant to look at the State funding issues.
- Local stakeholders / leaders must engage in re-energized philanthropic efforts.
- UF Health Jacksonville needs to complete a service portfolio analysis in the context of possible future state branding of distinct service offerings.
- New facility will require deliberate brand positioning.