



**TO:** Wisconsin Governor Tony Evers  
UW System Board of Regents President Andrew Petersen  
DOA Secretary Joel Brennan  
Senate Chief Clerk Jeff Renk  
Assembly Chief Clerk Patrick Fuller

**FROM:** Alan S. Kaplan, MD, CEO, University Wisconsin Hospitals and Clinics (d/b/a UW Health)

**DATE:** November 11, 2019

**RE:** REPORT REQUIRED UNDER 233.04(1)

Attached please find a copy of the UWHC Authority report on patient care, education, research, community service activities and a draft audited financial statement, as required by state law.

Please feel free to contact me if you have questions or desire additional information.

Thank you.

CC: Connie Schulze, Director, Government Affairs, UW Health & UW School of Medicine and Public Health

## UNIVERSITY OF WISCONSIN HOSPITALS AND CLINICS 2018-2019 Annual Report

Fiscal Year 2018-2019 was another milestone year for UW Health. Over the past year, UW Hospitals and Clinics (d/b/a UW Health) continued to *advance health without compromise through service, scholarship, science and social responsibility*. This is our mission, and we work to fulfill it each day.

Despite momentous changes and challenges throughout the year, UW Health continued to garner national recognition as a high-performing healthcare organization, workplace of choice and leader in quality, safety, patient satisfaction and equity. As Wisconsin's premier academic medical center, this year's awards and honors included:

- Listed among the top 50 hospitals nationwide in ten medical specialties, according to *US News & World Report*, "America's Best Hospitals." Ranked as high-performing in two additional specialties, and for the seventh year in a row, rated the #1 hospital in Wisconsin.
- American Family Children's Hospital ranked among the top 50 children's hospitals nationwide, according to *US News & World Report*, "Best Children's Hospitals Guide." AFCH received this ranking in six pediatric specialties.
- UW Health received Two National Awards for Achievements in Sustainability from Practice Greenhealth, the nation's leading organization dedicated to environmental sustainability in healthcare.
- UW Health once again named as a "Leader in LGBTQ Healthcare Equality" by the Human Rights Campaign Foundation (HRC), the educational arm of the nation's largest lesbian, gay, bisexual, transgender, and questioning (LGBTQ) civil rights organization.
- Named One of the Nation's 50 Top Cardiovascular Hospitals by Watson Health.
- University Hospital was awarded a Platinum Performance Achievement Award from the American College of Cardiology Foundation and the American Heart Association for implementing a "higher standard of care" for high-risk heart attack patients.
- Named by *Becker's Hospital Review* as one of "100 Great Hospitals in America."
- Named by *Becker's Healthcare* as one of "150 Great Places to Work in Healthcare."

While we are honored to receive these designations, we remain committed to working to fulfill our vision: *Remarkable Healthcare*.

## FY19 STRATEGIC ACCOMPLISHMENTS

### FIVE YEAR STRATEGIC PLAN

Now in its third year, UW Health’s strategic plan continues to define the organization’s priorities over the next 3-5 years.

### FOUNDATIONAL COMPETENCIES

Separate from our strategic plan, we have identified four foundational competencies. These areas of focus are essential to achieving our vision. They are too important to be identified as a “strategy,” which has the potential to change every three to five years as the world around us changes. These foundational competencies will not change. They require an enduring focus. These foundational competencies include:

- **Quality and Safety:** UW Health must continually improve the quality and safety of our care to best serve our patients and their families.
- **Staff and Physician Wellbeing:** UW Health must ensure that staff and physicians have what they need to effectively care for the people and families we serve while also caring for their own wellbeing.
- **Information Management and Analytics:** Comprehensive, reliable, secure and accessible information is integral to the management and growth of UW Health.
- **Financial Performance:** In order for UW Health to continue to have the privilege of caring for patients and delivering remarkable healthcare, we need to maintain a strong bottom line.

### STRATEGIC PLAN DOMAINS

To advance our new vision and strategic plan, we identified five strategic areas we call “domains” where we will focus our work. Our five strategic domains are illustrated below:



#### PATIENT EXPERIENCE

**Goal:** Exceed expectations of our patients and families  
**Why the strategic focus:** Being available and accessible when needed is essential to the patients, families and the communities we serve. We must provide easy access to our inpatient and outpatient services in order to provide remarkable healthcare.

#### POPULATION HEALTH

**Goal:** Distinguished value for patients, payers, and partners  
**Why the strategic focus:** We have a unique opportunity and obligation to deliver high value care for the populations we serve. This requires that we deliver the right care at the right time and right place while, at the same time, providing a great experience and exceptional outcomes at the lowest possible cost.

#### DISTINCTIVE PROGRAMS

**Goal:** Acclaimed clinical programs with national profile

**Why the strategic focus:** Our capabilities and expertise position us to offer nationally recognized programs that provide remarkable health outcomes for patients locally, regionally and nationally. Fully tapping this potential will move us toward our vision.

## **TRANSLATIONAL RESEARCH AND INNOVATION**

**Goal:** Preferred partner to take innovation from discovery to the people we serve

**Why the strategic focus:** Our relationship with the UW School of Medicine and Public Health and broader UW System uniquely positions us to leverage the power of our academic partners to make significant contributions to science and healthcare innovation.

## **GEOGRAPHIC REACH**

**Goal:** Smart growth to serve more communities

**Why the strategic focus:** We aim to develop meaningful partnerships and serve more communities. In doing so, we will reach the larger population necessary to sustain the full range of services we provide, and to effectively train the next generation of clinicians.

## **JOINT OPERATING AGREEMENT WITH UNITYPOINT HEALTH – MERITER**

The business relationship between UW Health and UnityPoint Health – Meriter closely links the state’s largest academic medical center with a highly respected community hospital. The resulting relationship, unique among healthcare systems, has strengthened Meriter’s community mission while allowing UW Health to expand its leadership in high-level care.

The joint operating agreement (JOA) between UW Health and Meriter formalizes and expands their already significant collaboration in caring for patients. Their partnership dates back more than 50 years and includes a shared destination mother-baby care program, the Madison Surgery Center, Wisconsin Sleep, the UW Health Rehabilitation Hospital, Generations Fertility Care, and more.

The insurers (Physicians Plus, Unity and Gundersen Health Plan) have integrated to create broader network choices. In the future, UnityPoint Health – Meriter, UW Health and Gundersen Health System providers and facilities, along with many local independent doctors, will be combined into integrated health plan networks.

- **Healthcare Provider Integration**

Meriter and UW Health are creating a unified clinical enterprise. While each will remain independent, the organizations have aligned finances, clinical operations and strategy, which are led by UW Health.

Strong consumer demand for care at UW Health inpatient and outpatient facilities will be managed over time by coordinating access and care among all facilities, including Meriter hospital and clinics. Over a period of several years, specialty care providers employed by Meriter will join UW Health, and primary care providers at both organizations will collaborate closely.

Meriter remains a senior affiliate of UnityPoint Health but has updated its logo to include UW Health.

- **Insurance Integration**

In addition to increasing access to broader networks, integrating Physicians Plus, as the newest affiliate under the Quartz brand, with Unity and Gundersen Health Plan will allow the health plans to share best practices that further enhance service to members, increase administrative efficiencies, and create more comprehensive and cost-effective networks of care.

## UW HEALTH WAY INTRODUCTION

In February, UW Health Way, our new lean management system was launched. At UW Health, we aspire towards Remarkable Healthcare, and to be remarkable in all areas of our organization, we need to think the same way about the work we do. How each person's work optimizes patient and employee safety, patient experience, and provider and staff wellbeing, needs to be understood. By using the principles of UW Health Way, we will create a safer, more positive experience for our patients and a more fulfilling workplace for our providers and staff. We want to empower our providers and staff to be problem solvers for the betterment of our patients. The UW Health Way framework includes three parts:

### 1. **Respect for People**

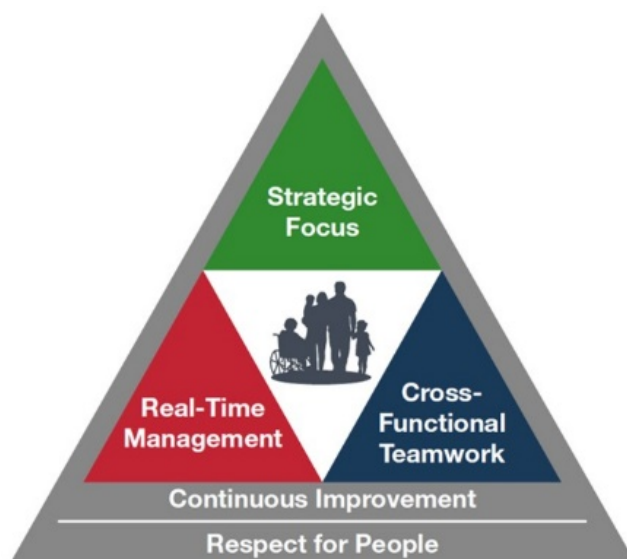
The people who do the work and receive our services are foundational to UW Health Way and our success. This part defines how we treat each other, our patients and families, our customers, and our work. The goal is to enable everyone to engage in delivering Remarkable Healthcare

### 2. **Continuous Improvement**

Everyone plays a part in the services we provide to our patients and customers so everyone has a role in the continuous improvement of our processes. This part outlines the standard tools and methods we use for improvement. The goal is to improve little by little, each and every day.

### 3. **Management System**

To be successful, we must align the organization on what problems we are solving for our customers that also achieve our vision. This integrates UW Health Way into our daily work so that we can monitor and improve it real-time, work across the organization instead of in silos, and directly impact strategy through our daily work.



## INTEGRATED FUNDS FLOW MODEL

In March 2017, the faculty physicians of UW Medical Foundation (UWMF) voted to approve amendments to UWMF's bylaws creating a single, integrated funds flow model. The faculty vote was approved by the UWMF Board of Directors at its March 22, 2017 meeting, and the vote was approved by the UW Hospitals and Clinics Authority (UWHCA) Board of Directors on March 23, 2017.

The integration of UWMF and UWHCA in 2015 created the opportunity to redesign the UWMF Funds Flow Model to support an integrated UW Health and to reflect an enterprise-wide budgeting system. The funds flow changes were designed to achieve greater simplicity, transparency, consistency, and rationality of funds flow through UW Health and UW School of Medicine and Public Health. Key elements of the new model include:

- Combining UWMF and UWHCA clinical revenues, thereby aligning UWMF's and UWHC's financial management into a single, integrated model for UW Health.
- Implementing a standardized budget process for Clinical Departments.
- Funding important strategic initiatives by the UW Health enterprise, rather than requiring Clinical Departments to obtain the necessary funds.
- Implementation of the new Funds Flow Model will take place over a 3-4 year transition period.

## UW HEALTH AT THE AMERICAN CENTER

The five -story, 56-bed, 496,000-square-foot structure offers superb inpatient and outpatient care in a welcoming, patient- and family-centered environment. Services and programs offered at The American Center include:

### Inpatient Care

- Bariatric Surgery
- General Surgery
- Hernia Repair
- Neuro Spine Surgery
- Orthopedics
- Plastic and Reconstructive Surgery
- General Surgery
- Hernia Care
- Neuro Spine
- Orthopedics
- Urology and Cystology
- Plastic and Reconstructive Surgery

### Outpatient Specialties

- Bariatrics and Weight Management
- Cardiology
- Integrative Medicine

### Other Services and Programs

- Emergency Department
- Wellness/Fitness/Executive Health
- Imaging, including MRI and CT
- Occupational and Physical Therapy

Orthopedics is the flagship service at The American Center facility, which has become the destination site for total joint-replacement surgeries and other non-trauma adult orthopedic procedures. The orthopedic program brought with it several cutting-edge best practices that had been trialed and readied for the location, including an online support tool, TotalCare, designed to take patients through treatment, rehabilitation and recovery. The program is fully integrated with other points of care -- pre-admissions testing, Joints 101 classes, and physical therapy -- to create a single, streamlined experience. Its patient-centered approach and standardized model of care are an excellent fit with The American Center's philosophy and approach to care delivery.

## UW HEALTH REHABILITATION HOSPITAL

Located on an adjacent parcel of land in The American Center business park, the freestanding rehabilitation hospital has 50 inpatient beds, adding a new post-acute care option for individuals who have experienced stroke, brain injury, spinal cord injuries, neurologic conditions, bilateral lower extremity joint replacements, hip fractures, lower extremity amputation and numerous other conditions.

Patients admitted to Inpatient Rehabilitation Facilities (IRFs) are medically stable and able to tolerate therapy of greater intensity and duration than they would receive at a skilled nursing facility (SNF). With an emphasis on mobility and independence at home and in the community, IRFs have a track record, when compared to SNFs, of discharging more patients home with greater independence and avoiding hospital readmissions.

## CONTINUED INTEGRATION WITH SWEDISHAMERICAN

With the January 1, 2015 merger, SwedishAmerican became part of UW Health's regional division, and is branded: SwedishAmerican, a Division of UW Health. Leaders in Madison and Rockford have been progressing towards integration of the two organizations. The goal is a comprehensive and seamless regional health system, capable of serving larger populations, achieving higher levels of quality and realizing greater efficiencies than either organization could do alone. Working toward regional integration within the same timeframe as UW Health moves forward with internal integration will yield additional opportunities to strengthen all parts of UW Health and improve the health of our communities.

A management council has been established to oversee all UW Health-SwedishAmerican integration activities. Guiding principles and initial strategic direction have been identified. To make the best use of

available resources, we will concentrate on primary care and specialty services with an underlying foundation of population health management and support from information systems to achieve the highest quality, safest, most reliable patient-centered care in the most efficient way.

After three years of process, workflow and IT integration work between SwedishAmerican and UW Health, a single electronic health record called Health Link went live on July 1, 2018. This provides a single patient record and revenue cycle platform to transparently serve the patients within our joint healthcare system.

Planning for Health Link integration and implementation began shortly after SwedishAmerican became a division of UW Health in January 2015, when nearly 800,000 new patient records were added to facilitate the conversion of historical information from SwedishAmerican medical record systems.

This transformation of SwedishAmerican to Health Link is the beginning of more opportunities for system and operational integration between the Wisconsin and Illinois locations.

Further planning continues to translate this broad direction into an implementation plan with clear priorities and measurable outcomes. A primary goal will be to ensure resources are appropriately allocated and to balance commitments asked of individual departments, disciplines and programs.

SwedishAmerican has been a top referral source and partner of UW Health for decades. By integrating with SwedishAmerican, we have grown the UW Health network and population of patients served.

### **EDUCATIONAL MISSION**

With a robust array of Graduate Medical Education offerings, including 687 residents and fellows in approximately 50 accredited programs, UW Health continued in FY19 to improve the quality of learning environments for residents and fellows in ACGME-accredited programs. The goal is to ensure residents are integrated into – and knowledgeable about – UW Health policies and protocols regarding patient safety, quality improvement and transitions in care, as well as GME duty hours and professionalism. Beyond these basics, the focus is on ensuring that residents and fellows are fully included in UW Health's work related to quality improvement, patient and family experience and the interdisciplinary model of care.

As it does every year, UW Health not only welcomed resident physicians and fellows, but also members of residency programs in pharmacy, physical therapy, nursing and hospital administration. Other new trainees include those in dietetic internships, a fellowship in athletic training and training programs in ultrasonography, radiologic technology, emergency medical services and a host of other areas.

The balance of this report summarizes UW Health's major FY19 accomplishments with respect to the UW Health strategic plan, foundational competencies and overall financial performance, including background and context for the regional and internal integration.

In 2018 and 2019, the healthcare landscape continued to evolve at a rapid pace. Many factors are encouraging health systems to collaborate, and UW Health moved forward with several significant new relationships. Some notable developments in FY18 included:

**JOINT OPERATING AGREEMENT WITH UNITYPOINT HEALTH – MERITER**

July 1, 2019, marked the two-year anniversary of the Joint Operating Agreement between UW Health and UnityPoint Health – Meriter. Below are some of our collective accomplishments as we work to develop our unified System of Care to ensure patients get the right care, at the right time, in the right place, at the right cost:

- Developed a long-term ambulatory strategy for our primary and specialty care clinics to provide more convenient and accessible care for our patients - where, when and how they want it.
- Consolidated Pulmonary Rehabilitation programs to the Meriter Wellness Center. Consolidating our programs in one location allows us to collaborate closely and consistently use best practices in our care for patients. We also benefit from maximizing our staffing and clinical resources by consolidating a clinical program such as Pulmonary Rehabilitation.
- Integrated Supply Chain Operations to help reduce the cost of care by developing an integrated contracting process.
- Launched a unified Access Center system to help efficiently and safely admit patients to the best hospital for their needs.
- UW Health Pulmonary Clinic and the UnityPoint Health – Meriter Diagnostic Pulmonary Clinic combined into one clinic in 3 Atrium at Meriter. This integration helped reduce confusion for patients who were often confused as to why there were seemingly duplicative services next-door to one another.
- Shifted many non-chemo infusions to Meriter to provide a better patient experience and increase overall access to infusions in the region
- Electronic Medical Record access has been opened for providers to provide better continuity of care for patients
- Continued shifting surgeries to the most appropriate setting so that University Hospital has space to remodel, add new technology and provide the most specialized care to patients who need it. Surgeries include:
  - Elective orthopedics moving to UW Health at The American Center
  - Most benign gynecological surgeries moving to Meriter
  - Most ENT surgeries moving to Meriter or Madison Surgery Center
  - Eye surgeries moving to Madison Surgery Center



**COMMUNITY BENEFIT**

UW Health follows the community benefit reporting categories and definitions of the Wisconsin Hospital Association. The figures below, reported in May 2019, are based on the most recent available data.

**Community Health Improvement Services**

Community Health Education	\$631,704
Community-Based Clinical Services	\$114,540
Healthcare Support Services	\$3,461,075
<b>TOTAL Community Health Improvement Services</b>	<b>\$4,207,319</b>
Health Professions Education	\$54,648,021
Subsidized Health Services	\$3,184,776
Research	\$27,729,583
Financial and In-Kind Contributions	\$6,029,438
Community Building Activities	\$965,923
Community Benefit Operations	\$160,400
Financial Assistance (charity care)	\$25,176,084
Government-Sponsored Healthcare	\$107,428,865
<b>TOTAL COMMUNITY BENEFIT</b>	<b>\$230,880,684</b>

**FINANCIAL PERFORMANCE**

Financial performance for the fiscal year ending June 30, 2019, improved over the prior year. Net income as a percentage of revenue, excluding the fair value gain/loss on investments and the fair value loss on swap agreements was 8.1 percent.

Inpatient admissions remained stable from the previous year at 33,537. Clinic visits were 5.0 percent higher than the previous year at 737,942. Emergency department visits came in 3.9 percent higher than the previous year at 80,141. Case mix index, an indicator of the severity of patient conditions, was 2.18 compared to 2.10 in the fiscal year ended June 30, 2018.

Governmental payers (Medicare and Medicaid) continue to grow as a portion of UWHC's overall business. Quartz membership remained consistent with the prior year. Reimbursement from these payers does not cover the full cost of care. At the same time, UWHC saw an increase in numbers of patients with little or no ability to pay, leading to an increase in charity care and bad debt for the year ended June 30, 2019, of \$84.2 million to \$82.6 million, or 1.6 percent of gross revenue.

UWHC is in a strong position compared to other organizations in the health care industry. Days cash on hand finished higher at 236 compared to last year at 225. Days in accounts receivable increased to 49. UWHC's S&P bond ratings improved to AA- with a stable outlook.

The final page of this report presents an additional summary of this year's financial performance.

**FINANCIAL PERFORMANCE 2018-2019****Financial summaries****DRAFT AUDIT FY 2019      AUDITED FY 2018****University of Wisconsin Hospital and Clinics Authority Summary of Financial Results for Fiscal Years Ended June 30, 2018 and 2019 (\$000 omitted)**

Net Revenue	\$2,034,859	\$1,890,201
Expenses	1,885,611	1,776,162

<b>INCOME FROM OPERATIONS</b>	<b>149,248</b>	<b>114,039</b>
Investment and other non-operating income	36,506	5,198
Fair value gain/loss on investments	34,324	2,189
Fair Value gain/loss on swap agreements	(1,189)	1,414
Payment to UW School of Medicine and Public Health for capital expenditure support	(21,268)	(20,142)
	<b>\$ 197,621</b>	<b>\$ 102,698</b>

**NET INCOME**

Net income as % of revenue, excluding fair value gain/loss on investments and fair value loss on swap agreements	8.1%	5.2%
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**University of Wisconsin Hospital and Clinics Summary of Financial Position as of June 30, 2018 and 2019 (\$000 omitted)****CURRENT ASSETS**

Cash	\$233,448	\$214,477
Patient & other accounts receivable	293,339	254,464
Inventories	29,234	32,909
Prepaid expenses	25,275	19,625
Due from related entity	207,882	16,076
<b>TOTAL CURRENT ASSETS</b>	<b>789,178</b>	<b>537,551</b>

Investments	960,433	831,734
Net property & equipment	791,775	784,326
Other assets	86,893	183,674
<b>TOTAL ASSETS</b>	<b>\$2,628,279</b>	<b>\$2,337,285</b>

Deferred outflows of resources	<b>369,349</b>	<b>205,867</b>
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$2,997,628</b>	<b>\$2,543,152</b>

**CURRENT LIABILITIES**

Current installments of long-term debt	\$13,840	\$14,360
Accounts payable & accrued liabilities	259,508	300,085
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$273,348</b>	<b>\$314,445</b>

Long-term debt	\$649,931	\$417,660
Other long-term liabilities	245,429	171,633
Deferred inflows of resources	232,711	246,957
Net assets	1,596,209	1,392,457
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$2,997,628</b>	<b>\$2,543,152</b>

Net days revenue in accounts receivable	49	45
Long-term debt to total capitalization	0.31	0.23