

APPENDIX B

Louisiana State University

State Funds Flow Analysis Presentation to Board of Regents

April 23, 2008

ECG

MANAGEMENT
CONSULTANTS

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Agenda

- I. Brief Introduction to ECG
- II. Rationale for Evaluating State Funding Levels
- III. Project Organization
- IV. State Funds Flow
- V. Benchmarking Analysis
 - Selection of Statistics
 - Selection of Peer Groups
 - Key Findings and Conclusions
 - Recommended Next Steps

I. Brief Introduction to ECG

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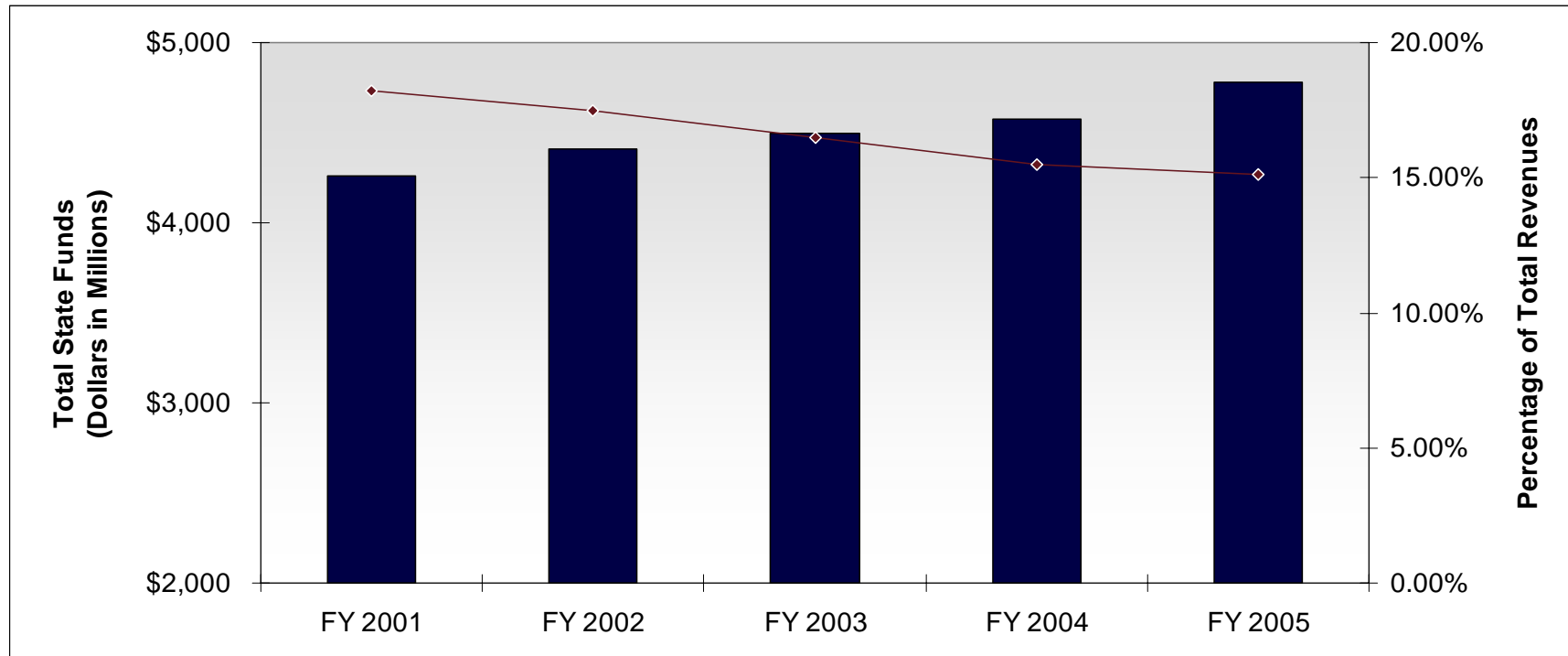
- Was founded in 1973.
- Has offices in Seattle, Boston, San Diego, St. Louis, and Washington, D.C.
- Employs more than 70 consultants.
- Client base includes universities, academic medical centers (AMCs), schools of medicine (SOMs), teaching hospitals, health systems, and FPPs.
- Specialized expertise encompasses:
 - » Funds flow and financial arrangement design.
 - » AMC organization restructuring.
 - » Strategic and business planning.
 - » Physician group development.
 - » Ambulatory care operations.

II. Rationale for Evaluating State Funding Levels

II. Rationale for Evaluating State Funding Levels

In recent years, state funding for public medical schools (which commonly represent the primary component of a health sciences center) has ranged between \$4 billion and \$5 billion and composed 15% to 20% of total revenues.

State Funds for Public Medical Schools, FY 2001–2005¹



¹ Source: AAMC Data Book April 2007: Medical Schools and Teaching Hospitals by the Numbers, Table D3: All U.S. Public and Private Medical School Revenue by Category. For purposes of this chart, state funds include state and local government appropriations, tuition and fees, and parent university support.

II. Rationale for Evaluating State Funding Levels *(continued)*

Various factors have compelled health sciences centers and their key stakeholders to more closely examine the level of investment by the state.

- Reductions in or maintenance of historical allocations of state appropriations.
- Increased scrutiny by state legislatures regarding the use of appropriations.
- Limited ability to increase tuition and fees.
- Flattening of available NIH funding.
- Continued pressures on clinical reimbursement from commercial and government payors.

II. Rationale for Evaluating State Funding Levels *(continued)*

Given the current environment, the LSU Board of Supervisors requested assistance in conducting the following initiatives for both LSU Health Sciences Center in New Orleans (LSUHSC-NO) and LSU Health Sciences Center in Shreveport (LSUHSC-S):

- Documenting the flow of state funds within each institution.
- Establishing benchmarks for state funding of the academic mission at each institution.

III. Project Organization

III. Project Organization and Approach

The project has been conducted through a steering committee with the following members:

Board of Regents

- Mr. Donald Vandal, Deputy Commissioner for Finance and Administration.
- Ms. Wendy Simoneaux, Associate Commissioner for Finance and Administration.

LSU System

- Fred Cerise, M.D., Vice President for Health Care and Medical Education
- Mr. John Antolik, Assistant Vice President, Budget, Finance, and Comptroller.
- James Firnberg, Ed.D., Special Assistant to Vice President, Academic Affairs.

III. Project Organization *(continued)*

LSUHSC-NO

- Mr. Ronnie Smith, Vice Chancellor for Administration and Finance.
- Mr. Terry Ullrich, Assistant Vice Chancellor for Administration and Finance.
- Mr. Patrick Landry, Executive Director for Financial Services.

LSUHSC-S

- Andrew Chesson, M.D., Associate Dean of Academic Affairs.
- Joseph McCulloch, Ph.D., Dean, School of Allied Health Professions.
- Mr. Harold White, Vice Chancellor for Business and Reimbursement.

The steering committee has provided general project oversight, including validating key assumptions and reviewing results from various analyses.

IV. State Funds Flow

IV. State Funds Flow

Based on BOR and other financial reports provided by LSUHSC leadership, we developed an overview of state allocations to each campus.

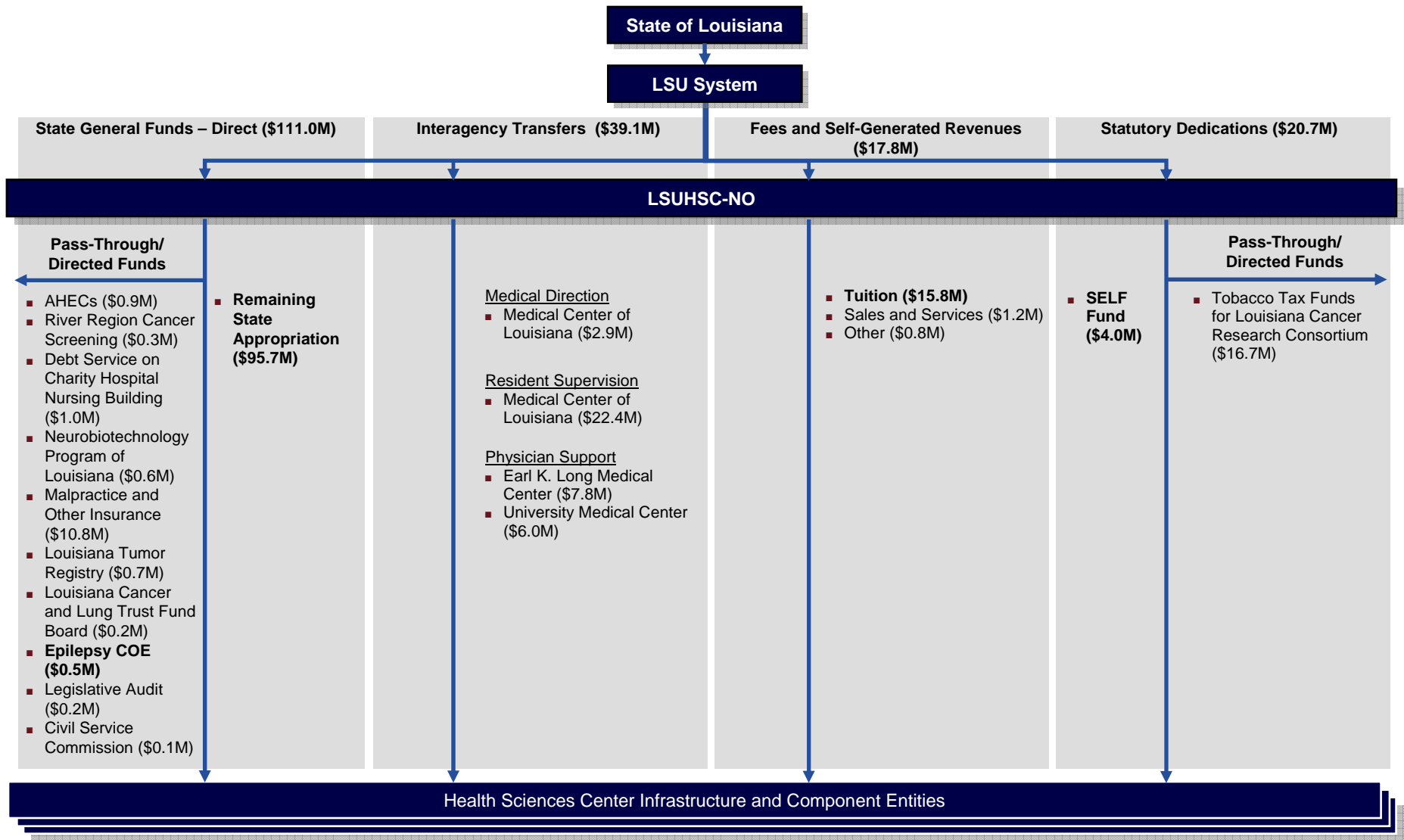
- The overviews for the New Orleans and Shreveport campuses are provided on subsequent slides.
- In general, state allocations are categorized as:
 - » Direct.
 - » Interagency transfers.
 - » Fees and self-generated revenues.
 - » Statutory dedications.
 - » Federal funds (Shreveport only).
- Reports from FY 2005 were utilized to depict pre-Hurricane Katrina funding levels.

IV. State Funds Flow *(continued)*

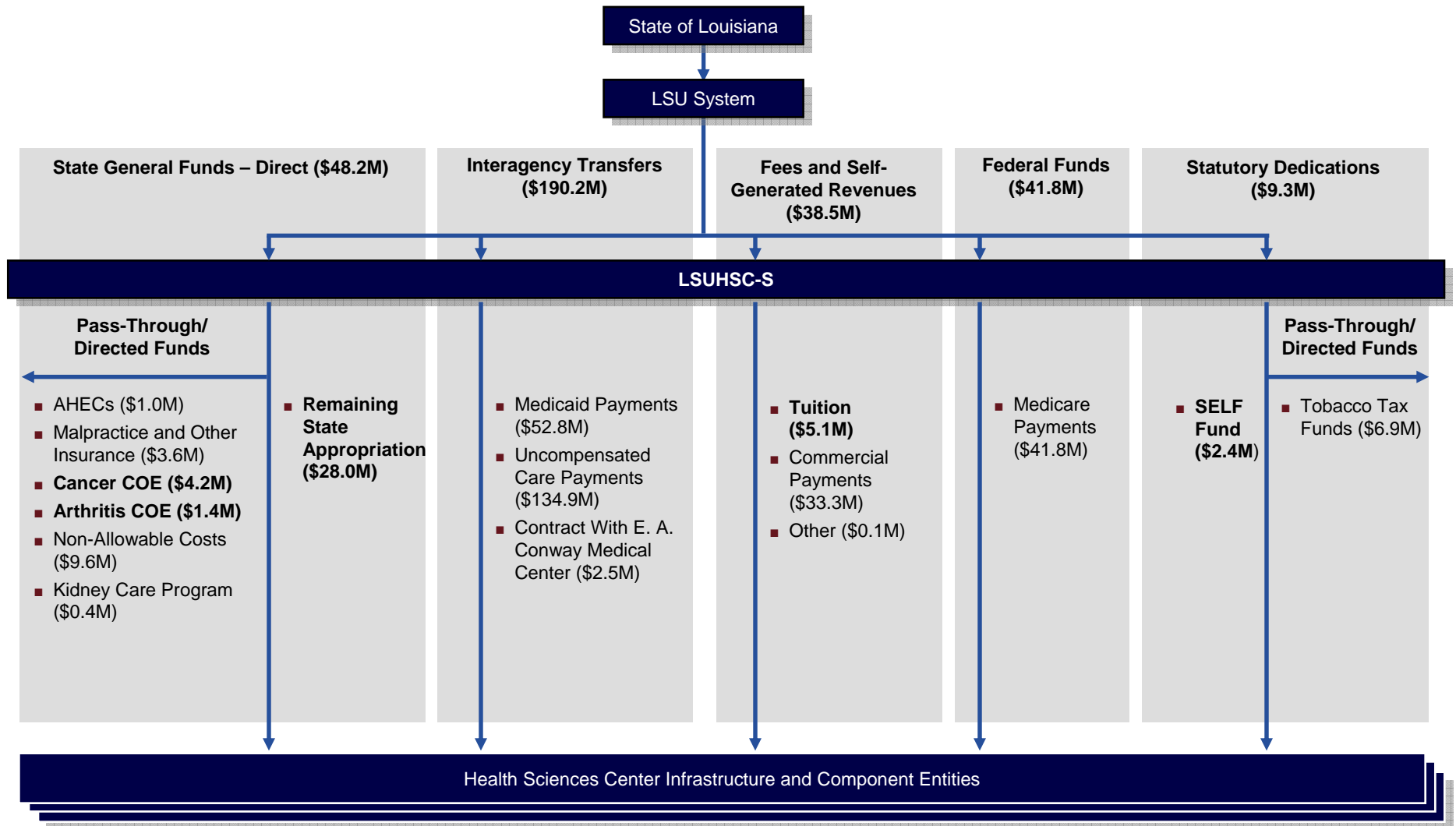
To develop appropriate comparisons and conclusions regarding the utilization and overall adequacy of state financial support for the two campuses, the steering committee considered the following:

- Which state funds should be included in the benchmarking analysis (i.e., inclusion/exclusion of revenue generated from patient care activities, contracts with affiliated hospitals, etc.)?
- What is the intent/purpose of state funds identified as pass-through or directed funds (i.e., support for clinical or academic-related activities)?
- What are the appropriate metrics for analyzing the levels of state support and subsequent utilization of those funds?
- Which institutions should be targeted as peers for comparative purposes?

IV. State Funds Flow (continued)



IV. State Funds Flow (continued)



V. Benchmarking Analysis

V. Benchmarking Analysis

Selection of Statistics

The steering committee identified various statistics to examine the sufficiency and subsequent utilization of state allocations to the health sciences campus in support of academic endeavors.

- Key objectives in developing these statistics included:
 - » Balancing the need to evaluate state funding from various perspectives with the level of effort required by peer institutions to provide data.
 - » Providing the steering committee with an understanding of:
 - The magnitude of state funds relative to other revenue sources.
 - The relative investment of state funds given the number of faculty, staff, and students.
 - The relative utilization of state funds to support faculty, staff, and infrastructure/nonlabor expenses.
 - The role of state funds in supporting faculty compensation, staff compensation, and infrastructure/nonlabor expenses relative to other funding sources.
 - Potential outcomes of the investment of state funds in the academic mission.
- An overview of these statistics is presented on subsequent slides.

V. Benchmarking Analysis

Selection of Statistics (continued)

Category	Benchmarking Statistic	Objective
State Funding Relative to Other Revenues	<ul style="list-style-type: none"> ■ State funding as a percentage of total revenue. 	<ul style="list-style-type: none"> ■ Indicates the extent to which the institution relies upon state dollars as a funding source.
Relative Investment of State Funding	<ul style="list-style-type: none"> ■ State funding per faculty FTE. ■ State funding per employee FTE. ■ State funding per enrolled student. 	<ul style="list-style-type: none"> ■ Indicates investment of state dollars relative to the primary drivers of the institution's mission.
Prioritization of State Funding Utilization	<ul style="list-style-type: none"> ■ Percentage of state funds utilized for faculty salary and benefits. ■ Percentage of state funds utilized for staff salary and benefits. ■ Percentage of state funds utilized for nonlabor expenses. 	<ul style="list-style-type: none"> ■ Indicates institutional prioritization in utilization of state dollars.

V. Benchmarking Analysis

Selection of Statistics (continued)

Category	Benchmarking Statistic	Objective
Relative Use of State Funding to Support Key Expenditures	<ul style="list-style-type: none"> ■ Percentage of faculty salary and benefits funded by state allocations. ■ Percentage of staff salary and benefits funded by state allocations. ■ Percentage of nonlabor expenses funded by state allocations. ■ Faculty compensation from state funds per faculty FTE. 	<ul style="list-style-type: none"> ■ Indicates the extent to which the institution utilizes state dollars to support key expense categories. ■ Indicates the level of state dollars committed to supporting a given full-time faculty member (i.e., state base).
Return on Investment	<ul style="list-style-type: none"> ■ Total grant funding received per dollar of state funds. ■ Total grant funding received per faculty FTE ■ NIH research funding received per dollar of state funds. ■ NIH research funding received per faculty FTE 	<ul style="list-style-type: none"> ■ Indicates the extent to which investment in the academic mission returns grant funding from all sources. ■ Indicates the extent to which investment in the academic mission returns grant funding from the NIH.

V. Benchmarking Analysis

Selection of Peer Groups

The steering committee reviewed assorted financial and other data for various health sciences centers to finalize a list of targeted peer institutions.

- Scope of component health sciences schools and colleges.
- Reported levels of overall state funding.
- NIH funding and number of awards across all health sciences schools and colleges.
- SOM data.
 - » Number of basic science and clinical faculty.
 - » Number of students.
 - » NIH funding and number of awards.
 - » Percentage of students entering primary care and in-state residencies.

As depicted on the next slide, distinct peer groups were identified for each LSUHSC campus, with submission of data for benchmark development noted.

V. Benchmarking Analysis

Selection of Peer Groups (continued)

LSUHSC-NO Peers		LSUHSC-S Peers	
Medical College of Georgia	Yes ¹	State University of New York (SUNY) Upstate Medical University	No
Medical University of South Carolina	Yes	The University of Arizona Health Sciences Center	No
University of Alabama at Birmingham	No	The University of Kansas Medical Center	Yes
University of Cincinnati	No	The University of Mississippi Medical Center	Yes
The University of Iowa	Yes	University of Missouri-Columbia	No
University of Minnesota	Yes	University of Missouri-Kansas City	Yes
The University of Oklahoma Health Sciences Center	Yes	University of Nebraska Medical Center	No
The University of Tennessee Health Science Center	Yes	University of Nevada, Reno	No
The University of Texas Health Science Center at Houston	No	University of New Mexico Health Sciences Center	No
The University of Texas Health Science Center at San Antonio	No	University of South Florida	Yes
The University of Utah	Yes	West Virginia University Health Sciences Center	Yes

¹ "Yes" indicates active participant in the state funds flow benchmarking survey.

V. Benchmarking Analysis

Key Findings and Conclusions

Key conclusions based on subsequent discussions with the steering committee and system leadership include:

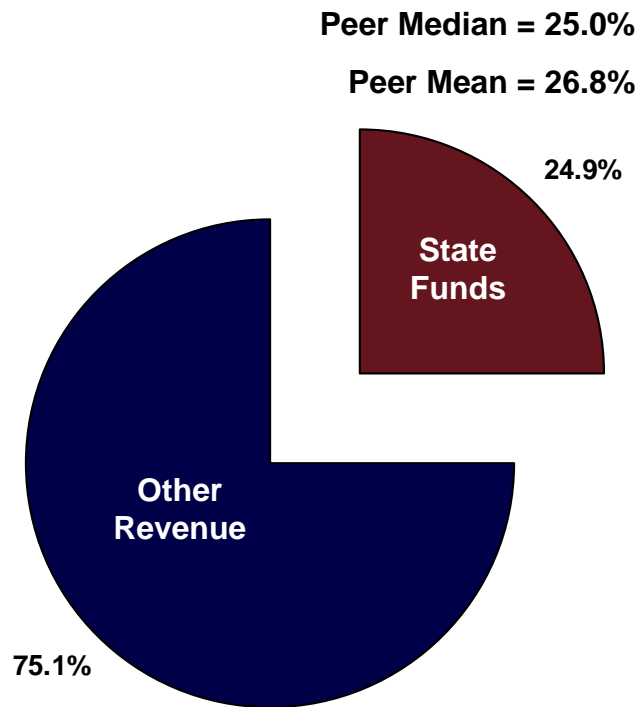
- As with other surveys of this nature, this is a management (not a “scientific”) analysis that provides directional information to system, LSUHSC, and other leaders.
- Therefore, senior leadership must be wary about basing any decisions regarding the investment, allocation, and utilization of state funding solely on peer benchmark data and comparisons.
 - » Varying degree of participation from identified peers.
 - » Differing strategic and funding priorities from institution to institution.
 - » Institution-specific factors that influence the availability and use of state funds and other revenues.
 - Payor mix.
 - Reimbursement rates from insurers.
 - Availability of clinical, academic, and research space.
 - » Baseline infrastructure/resource requirements.
 - » Comparability of accounting standards.

V. Benchmarking Analysis

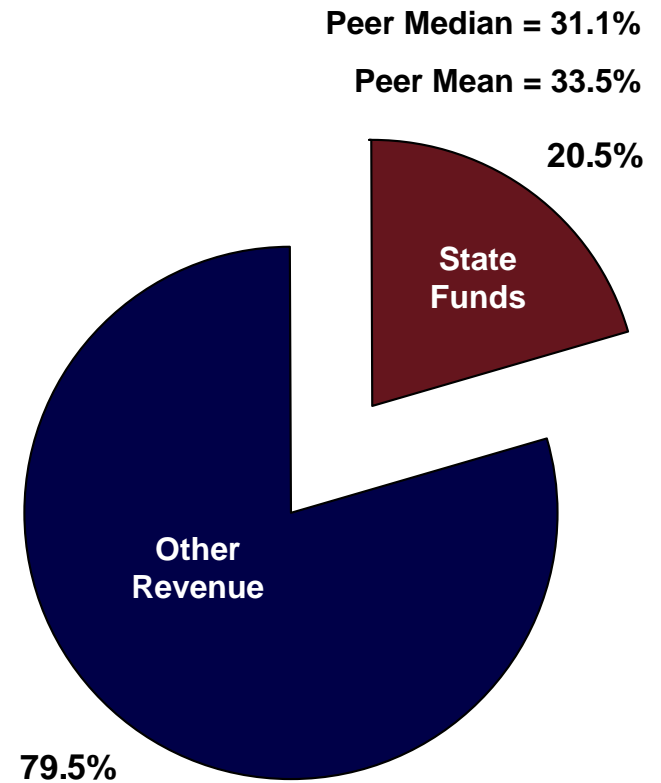
Key Findings and Conclusions (continued)

State Funds as Percentage of Total Revenues

LSUHSC-NO



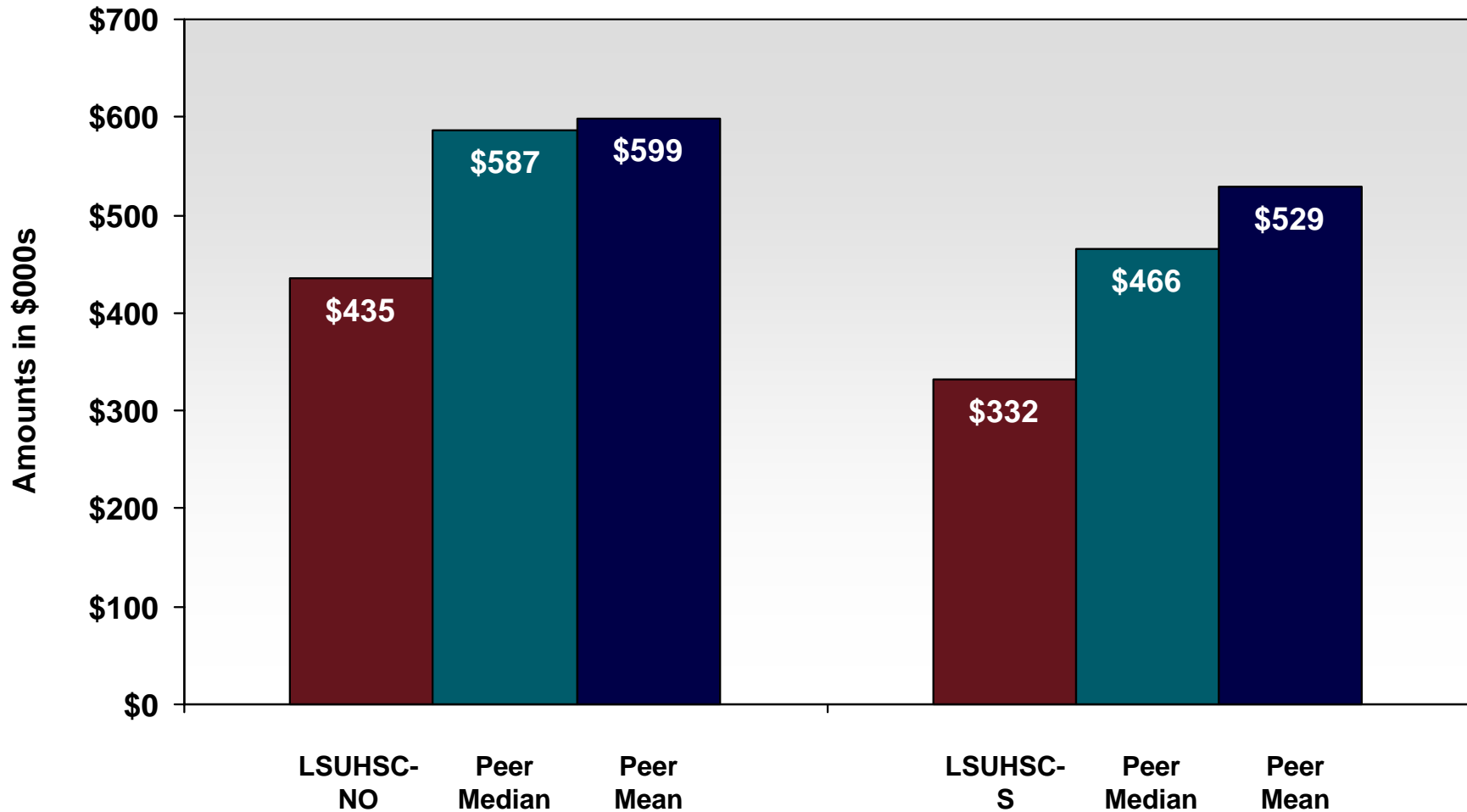
LSUHSC-S



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

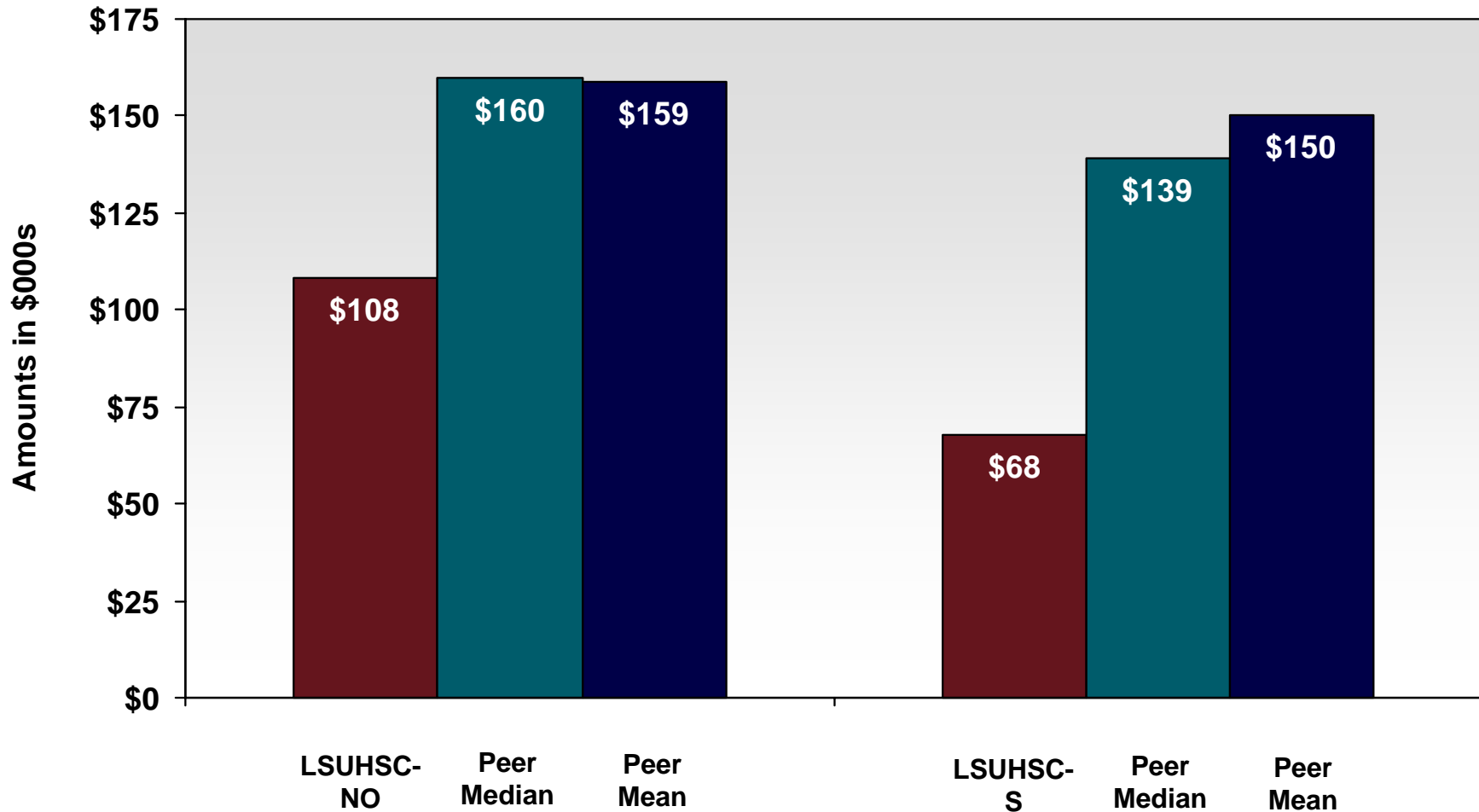
Total Revenue per Faculty FTE



V. Benchmarking Analysis

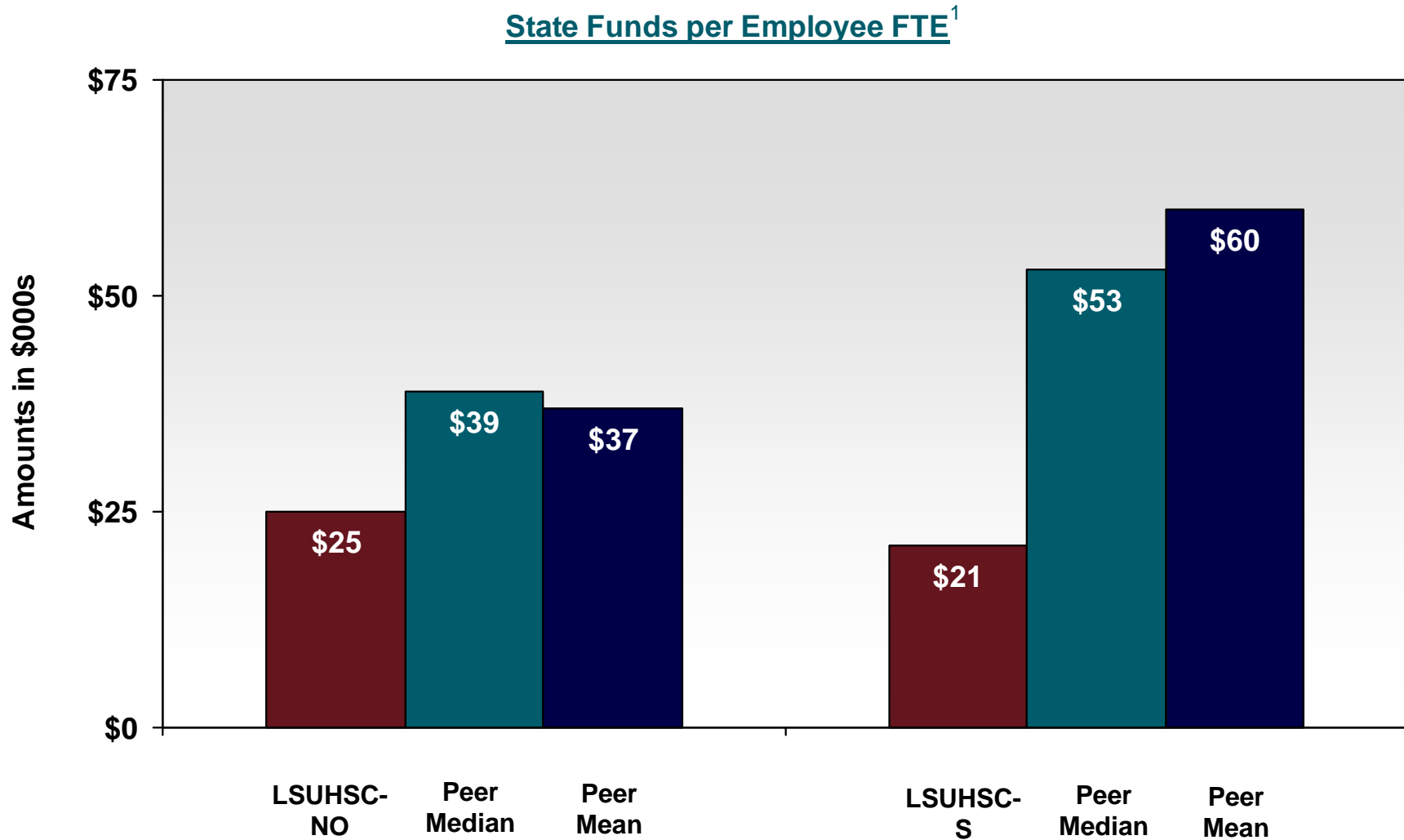
Key Findings and Conclusions (continued)

State Funds per Faculty FTE



V. Benchmarking Analysis

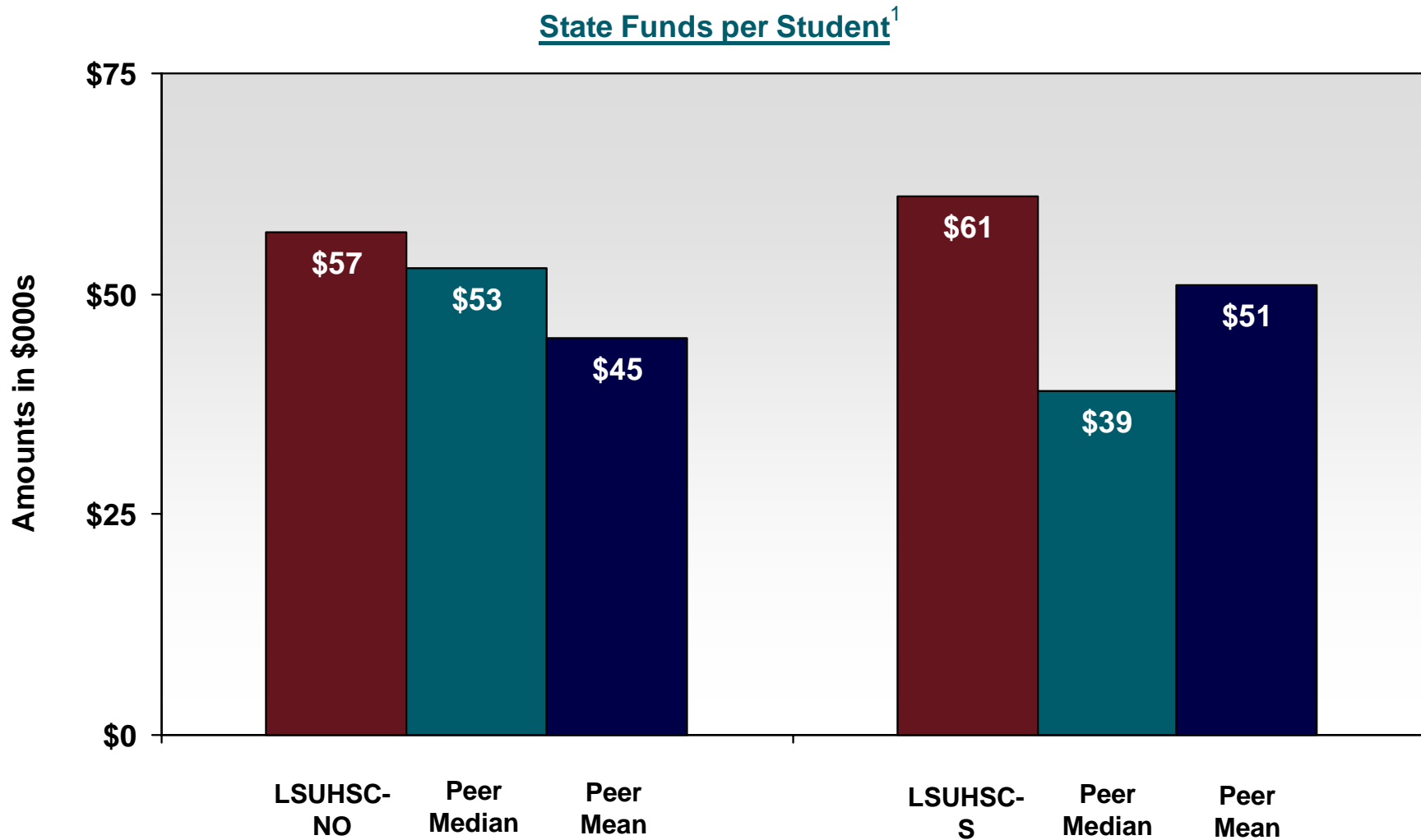
Key Findings and Conclusions (continued)



¹ Includes faculty and support staff.

V. Benchmarking Analysis

Key Findings and Conclusions (continued)

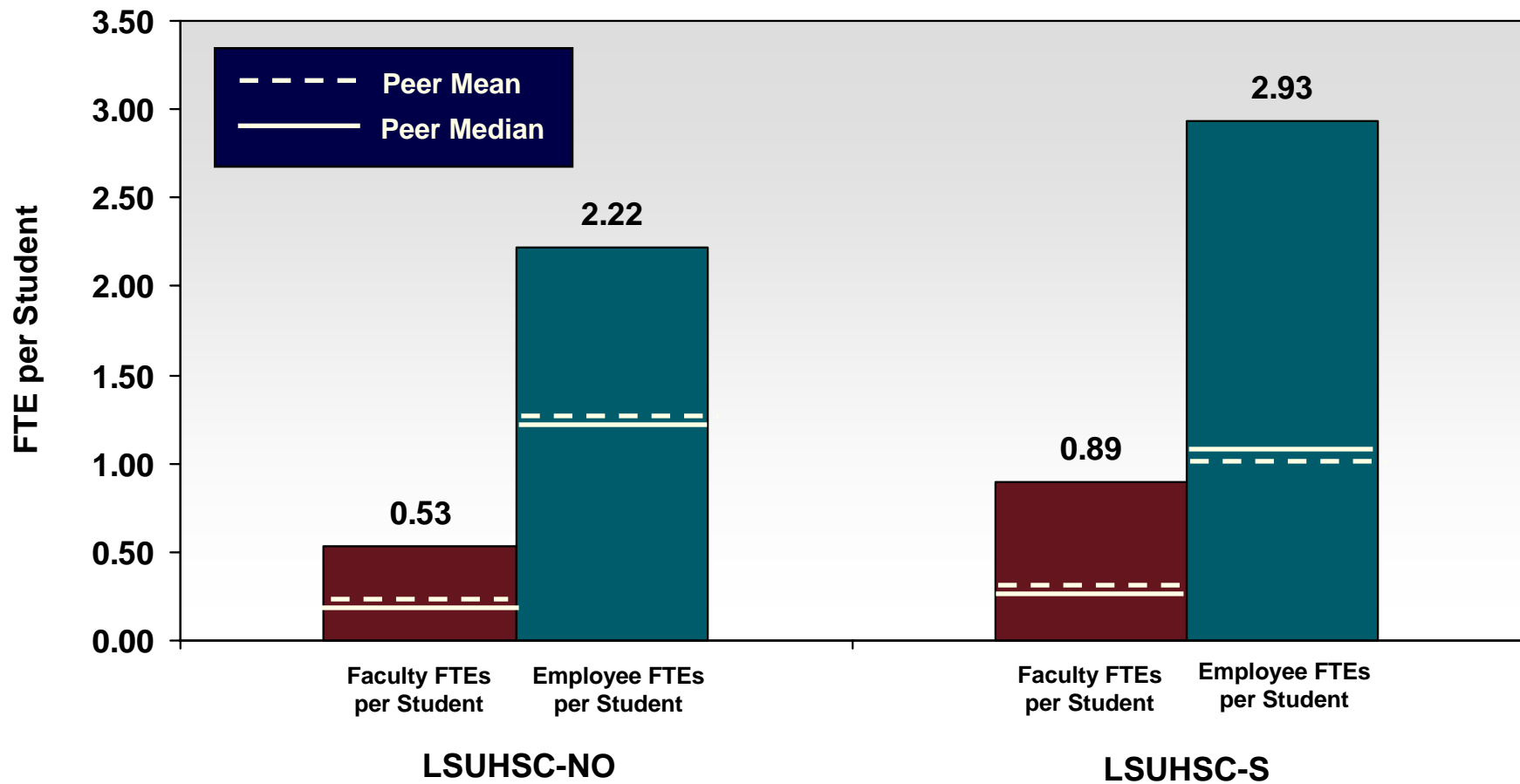


¹ Does not include residents.

V. Benchmarking Analysis

Key Findings and Conclusions *(continued)*

As anticipated, LSUHSC faculty and total employee FTEs per student exceed their peer group benchmarks, which are consistent between the two peer groups.

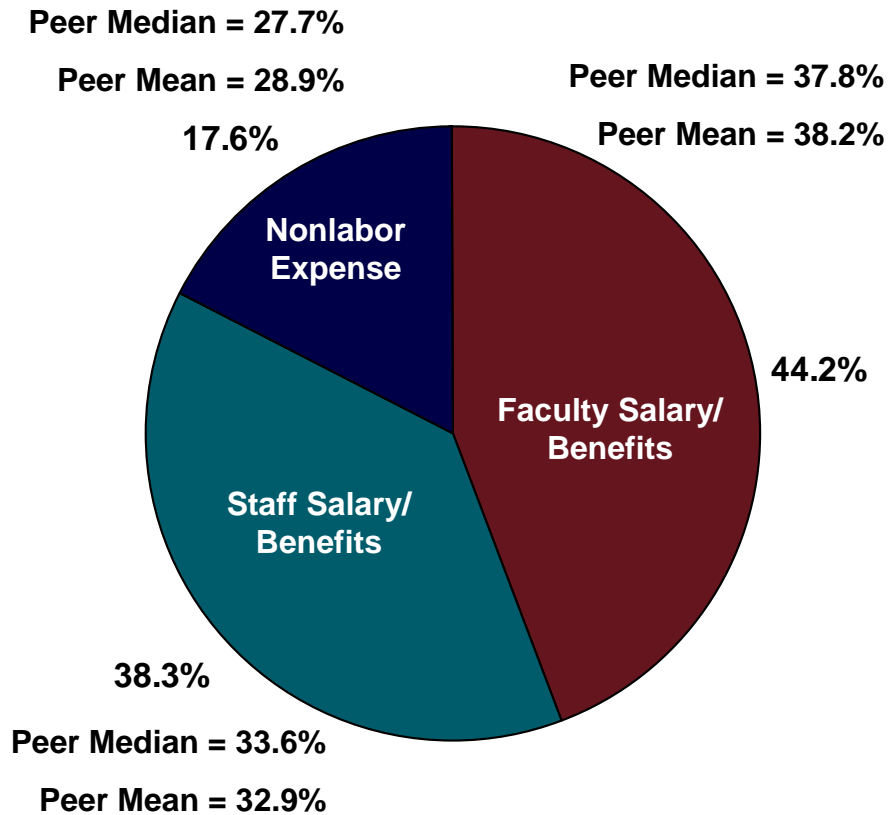


V. Benchmarking Analysis

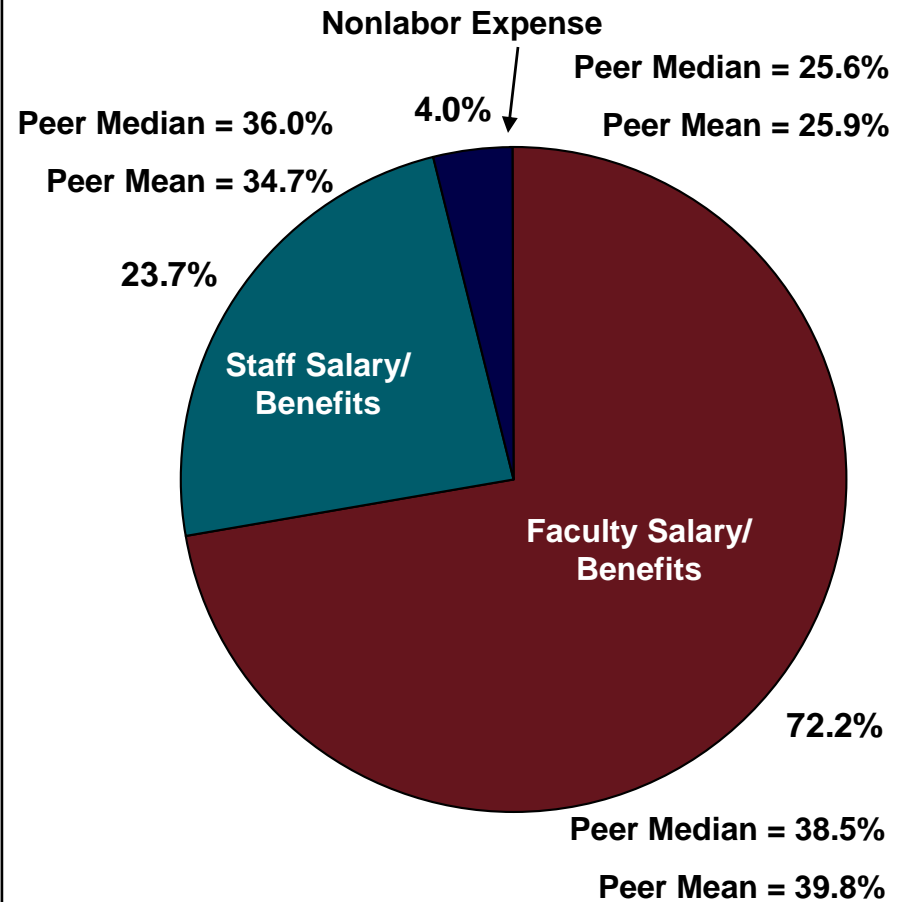
Key Findings and Conclusions (continued)

Percentage of State Funds Used for Key Expenses

LSUHSC-NO



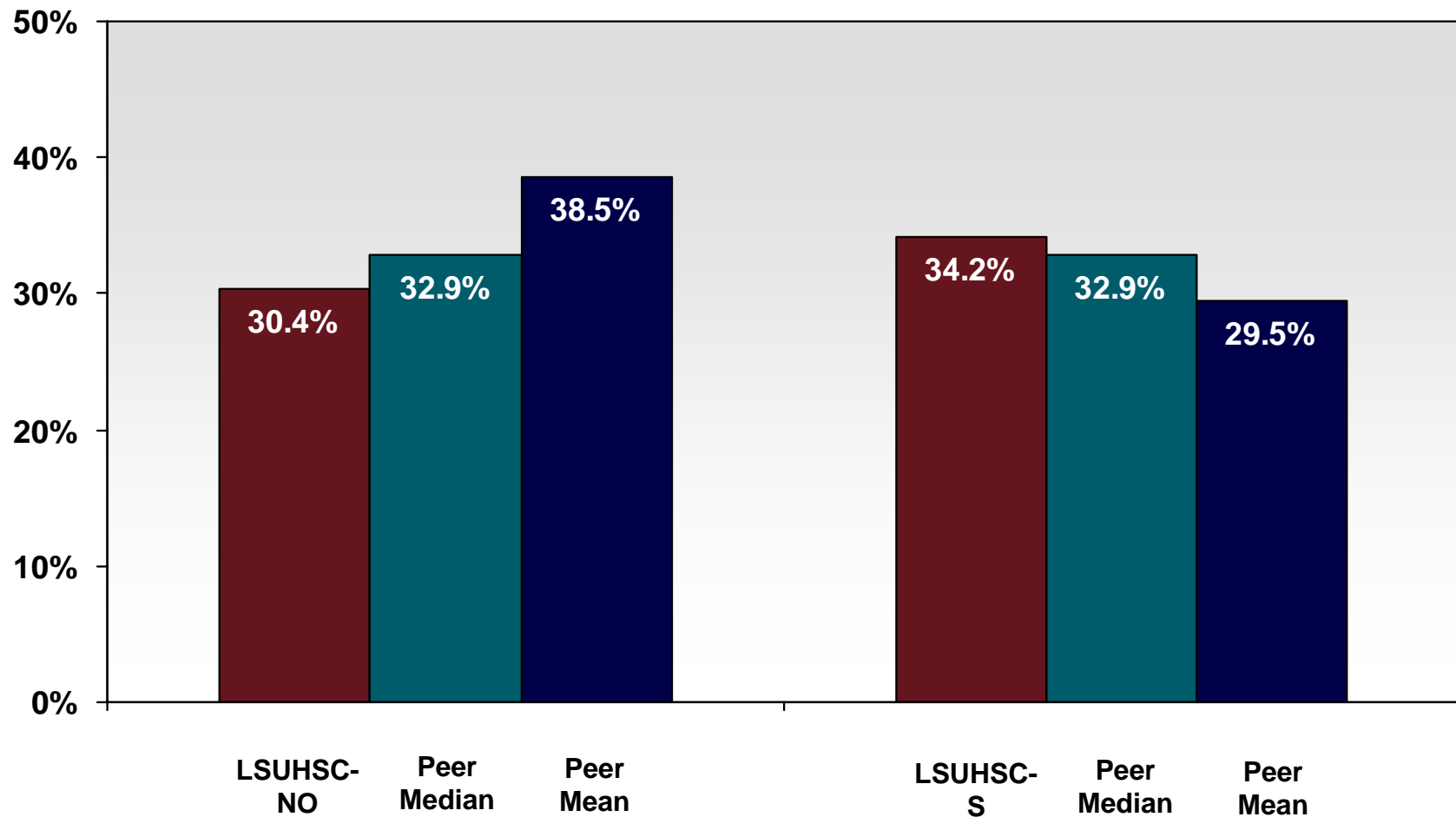
LSUHSC-S



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

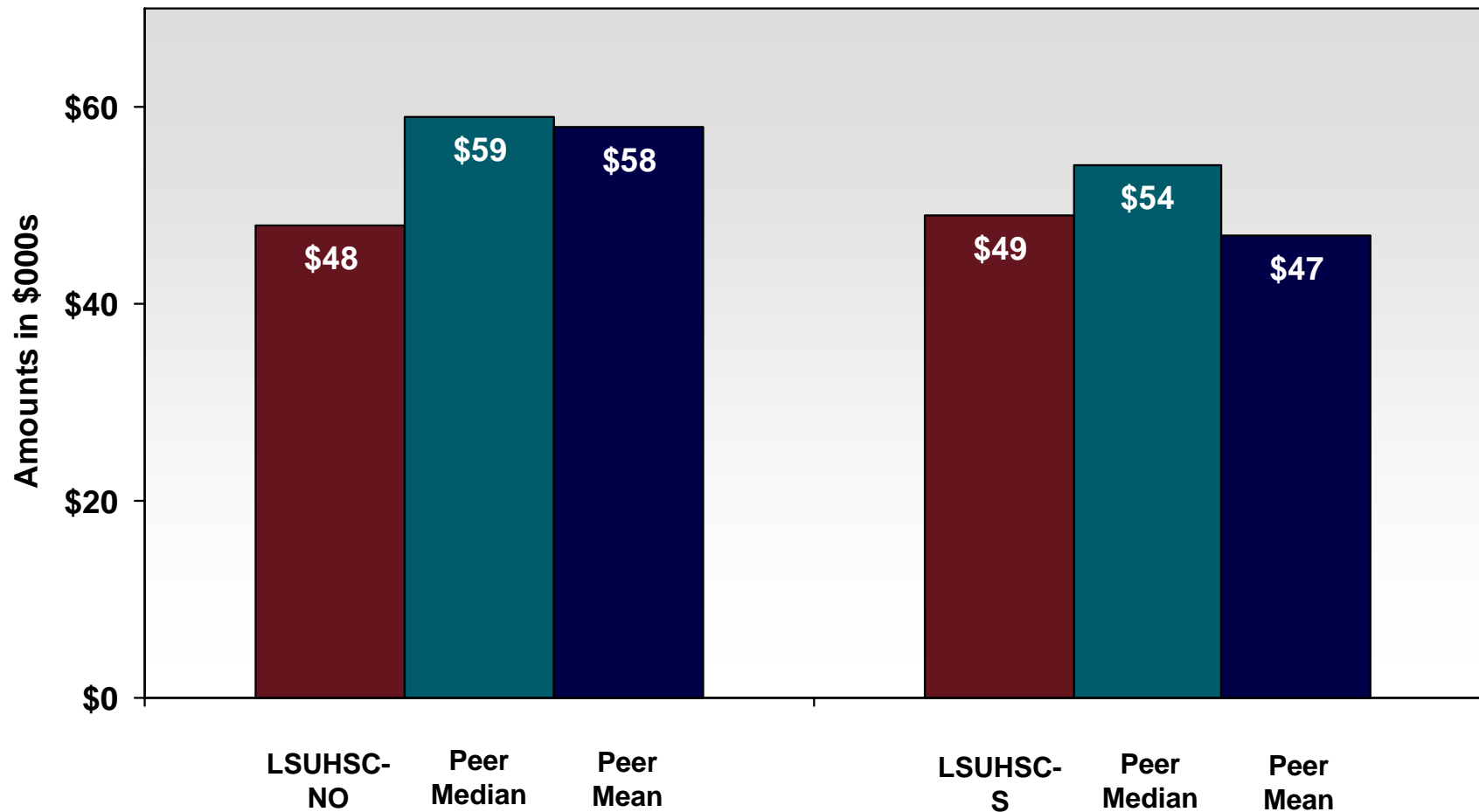
Percentage of Faculty Salary/Benefits Supported by State Funds



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

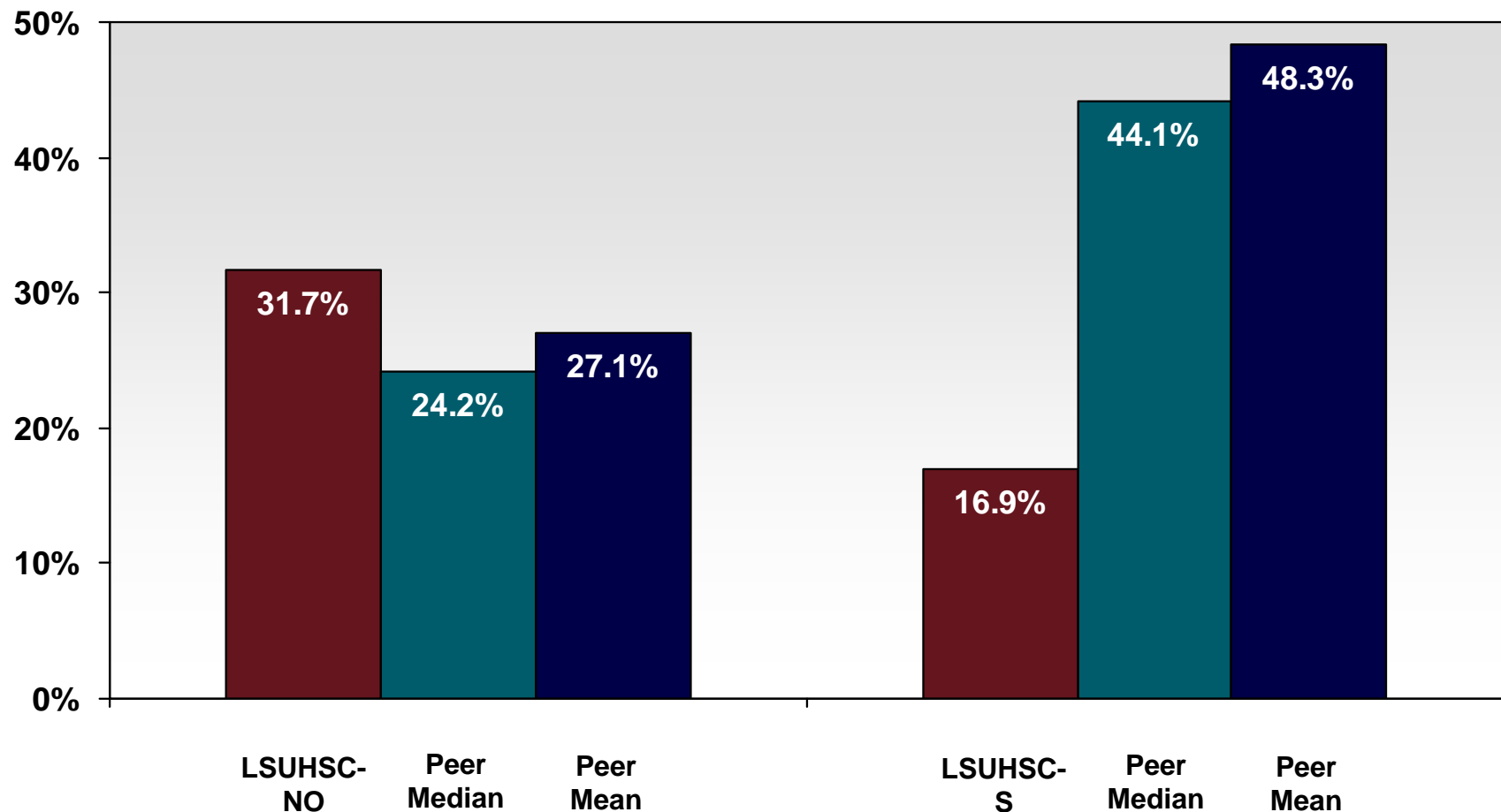
Faculty Salary/Benefits From State Funds per Faculty FTE



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

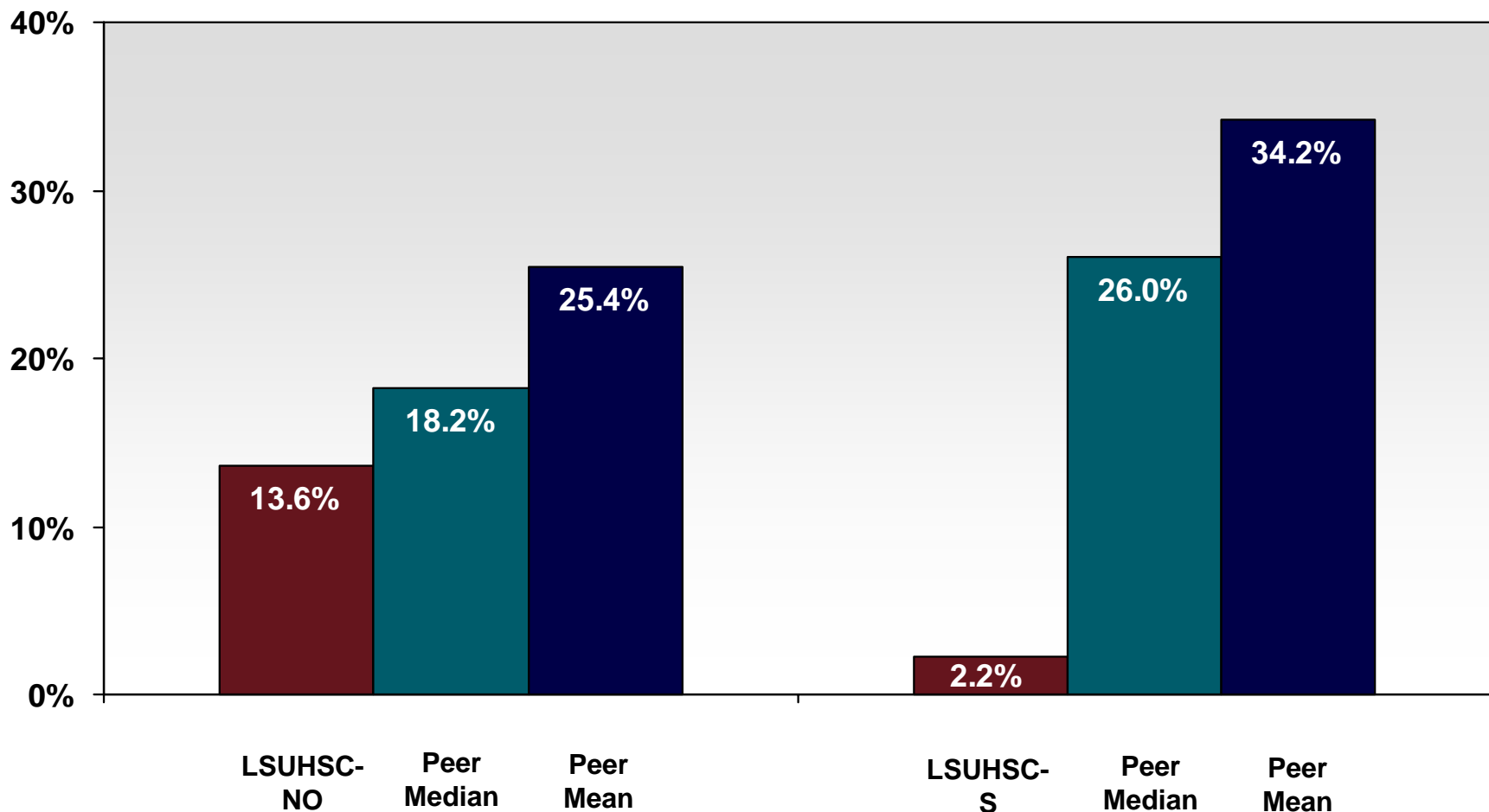
Percentage of Staff Salary/Benefits Supported by State Funds



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

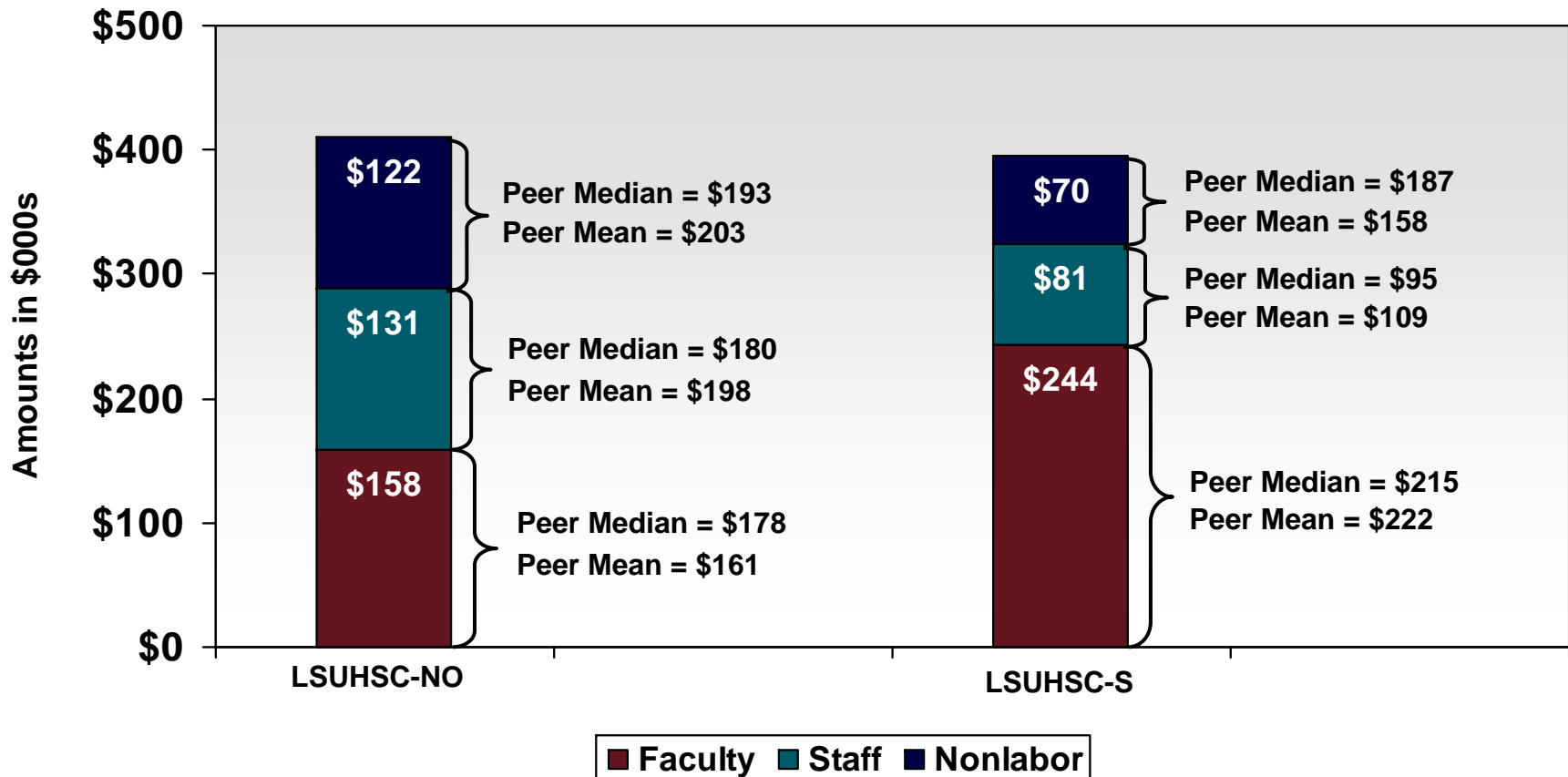
Percentage of Nonlabor Expenses Supported by State Funds



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

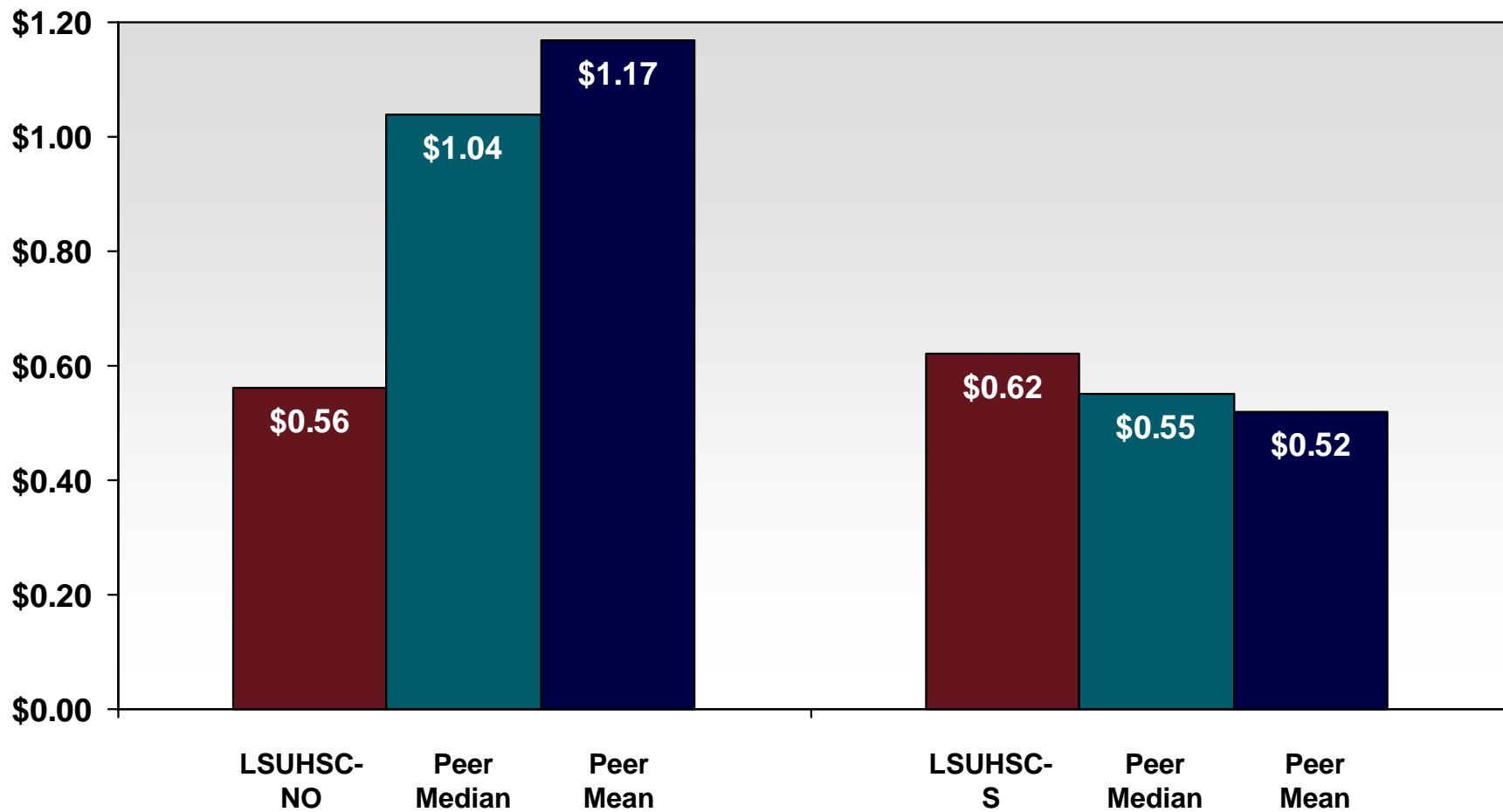
Total Expense per Faculty FTE



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

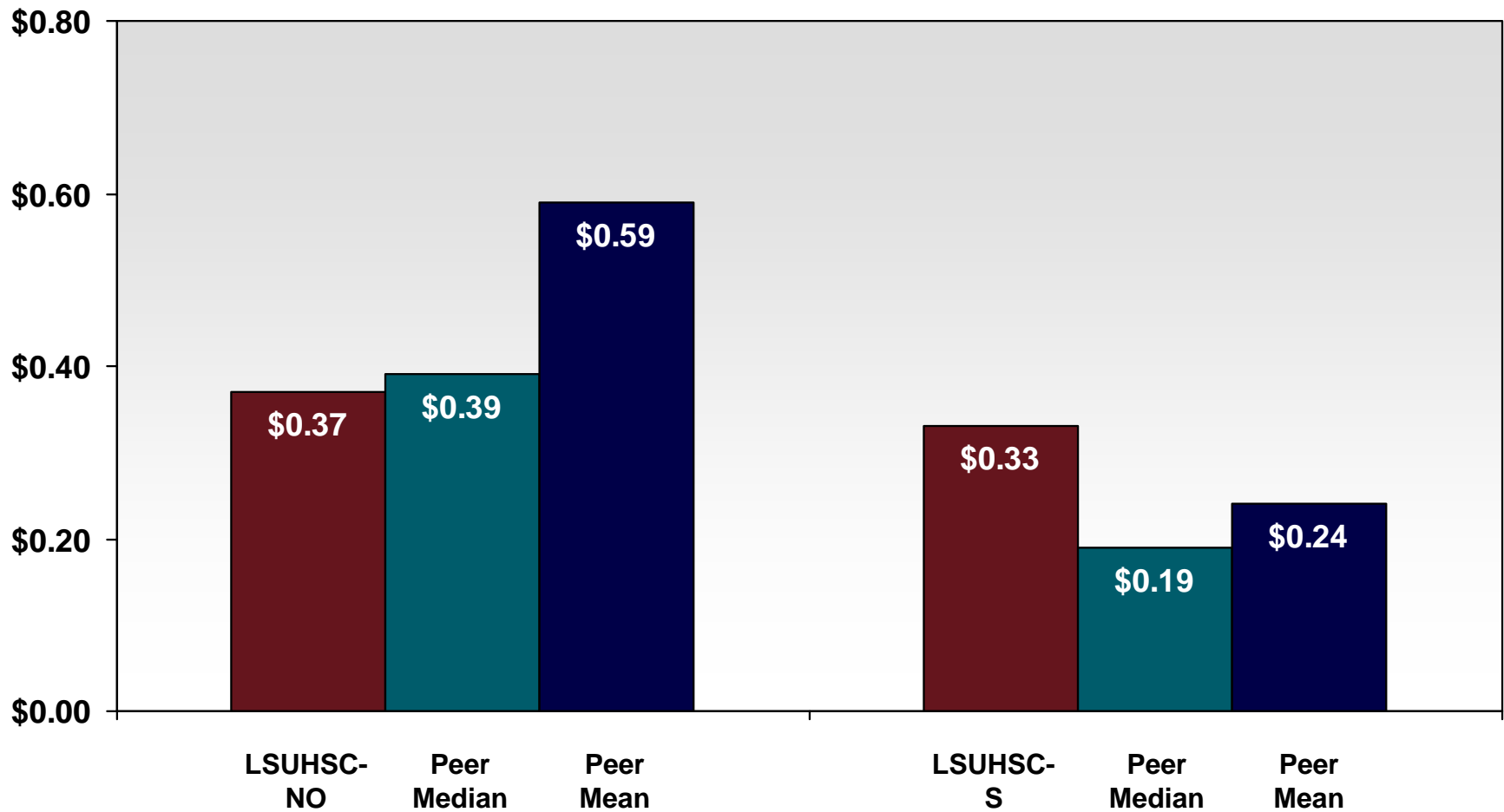
Total Research Funding per Dollar of State Funds



V. Benchmarking Analysis

Key Findings and Conclusions (continued)

Total NIH Funding per Dollar of State Funds



V. Benchmarking Analysis

Recommended Next Steps (continued)

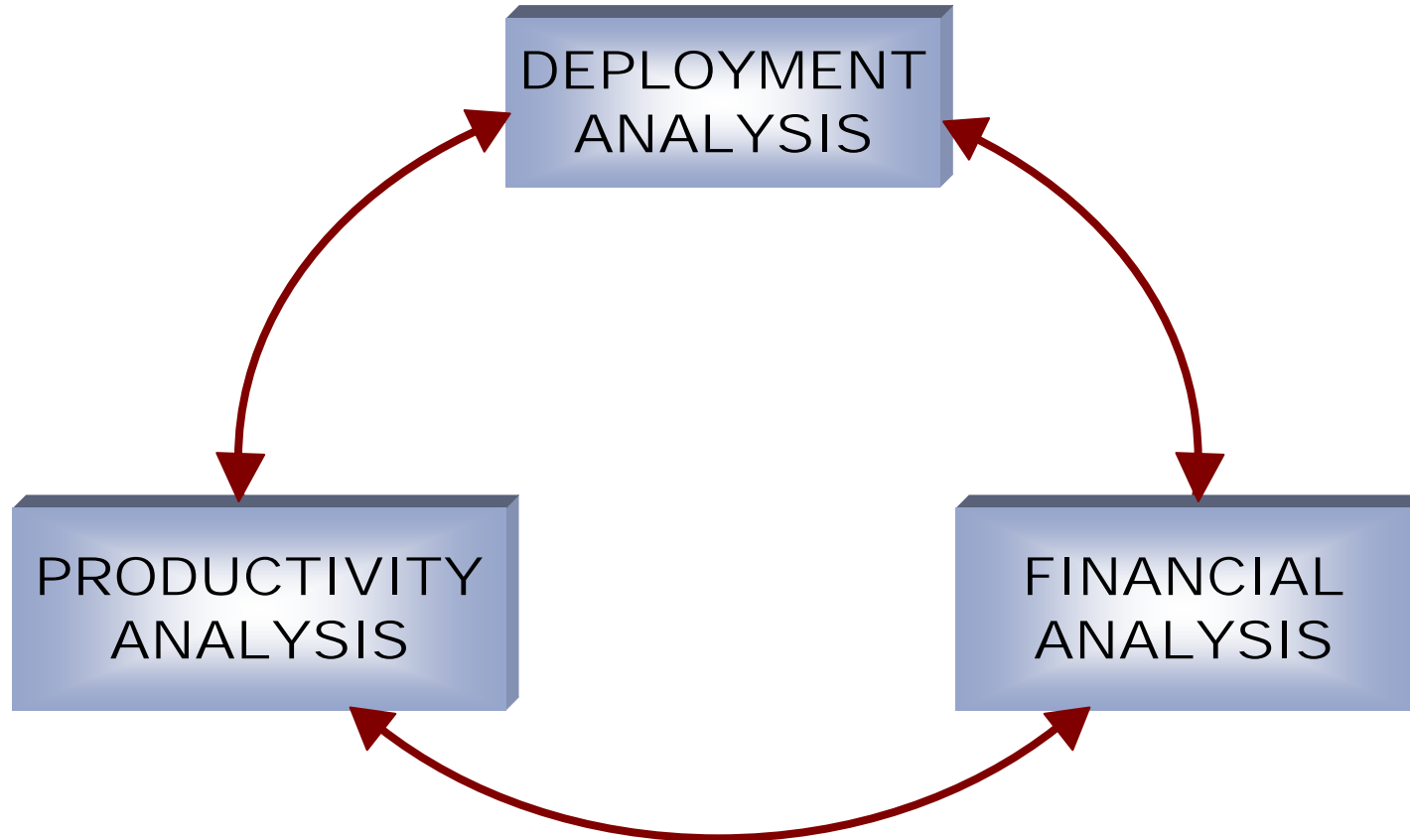
- The results of the analysis engender additional questions, such as:
 - » Are we generating sufficient revenues from our clinical and research activities?
 - » Do our activities in one mission (e.g., patient care) support our activities in another mission (e.g., education, research) and, if so, to what extent?
 - » Is faculty deployment across our core missions aligned with our strategic priorities?

Definitively understanding if state funding levels are sufficient and appropriately utilized requires a comprehensive array of mission-based statistics and analyses for measuring performance against internally determined expectations.

V. Benchmarking Analysis

Recommended Next Steps (continued)

It is recommended that system leadership consider development of a data collection, analysis, and reporting process that examines faculty effort and productivity and the attendant financial impact in a mission-based format.



V. Benchmarking Analysis

Conclusions and Recommended Next Steps (continued)

The rationale for this three-component approach is to provide senior leadership at the system, school, and department level with comprehensive and consistent information to guide their decision-making.

Deployment Analysis

- Provides a basis for allocating salaries and expenses to mission categories.
- Assists in better deployment of faculty among missions.
- Serves as a normalizing factor in identifying outstanding faculty performance.

Mission-Based Financial Analysis

- Identifies how schools, departments, and individual faculty contribute to each mission.
- Provides a basis for the rational analysis and allocation of state and other discretionary funds.
- Explicitly identifies the magnitude of mission cross-subsidies.

Productivity Analysis

- Establishes performance expectations.
- Provides an objective approach to identifying outstanding faculty contribution.
- Assists leadership in identifying areas for improvement or opportunities for redeployment of resources.

V. Benchmarking Analysis

Conclusions and Recommended Next Steps (continued)

Examples of potential metrics that would need to be defined, analyzed, and compared to internally/externally derived targets in a systematic fashion include:

Faculty Deployment

Faculty Effort/FTEs by Mission Category

- Patient care.
- Education.
- Research.
- Administration.

V. Benchmarking Analysis

Conclusions and Recommended Next Steps (continued)

Faculty Productivity

Clinical Productivity

- Net collections per clinical FTE.
- Work and total relative value units (RVUs) per clinical FTE.
- Ambulatory visit volumes, case volumes, and procedure volumes per clinical FTE.
- Faculty clinical compensation as a percentage of net collections.
- Payor mix.
- Average length of stay.
- Days to 3rd available appointment and appointment/case cancellation rates.

V. Benchmarking Analysis

Conclusions and Recommended Next Steps (continued)

Faculty Productivity (continued)

Research Productivity

- Direct and indirect grant revenue received per FTE.
- Faculty salary coverage from grants.
- Percentage of direct grant revenues from federal sources.
- Number of grant submissions and awards.
- Number of peer-reviewed publications and presentations.
- Total grant funding received per square foot of assigned research space.

Teaching Productivity

- Estimated teaching and preparation hours.
- Number of students, residents, fellows, and other learners.
- USMLE and other health profession examination pass rates.
- AAMC Graduation Questionnaire scores.
- Board examination pass rates.
- Residency match rates and accreditation status.

V. Benchmarking Analysis

Conclusions and Recommended Next Steps (continued)

Financial Information

“All Funds” Financial Statements

- Overall departmental, school, and institutional solvency.
- Revenues (total and by source) and expenses per faculty FTE.
- Faculty, staff, and nonlabor expenses as a percentage of total revenues.

Mission-Based Financial Statements

- Available state funds relative to teaching and other academic expenses.
- Magnitude of unfunded research, VA, and administrative effort.
- Magnitude of mission cross-subsidization (particularly from clinical margins).

