#### The Regents of the University of California

#### COMMITTEE ON HEALTH SERVICES

January 15, 1998

The Committee on Health Services met on the above date at UCSF - Laurel Heights, San Francisco.

Present: Regents Atkinson, Bagley, Brophy, Davies, Gonzales, Khachigian,

Leach, Preuss, and Sayles

In attendance: Regents Chandler, Davis, Johnson, Lee, Levin, McClymond, Montoya,

Ochoa, and Soderquist, Regents-designate Miura and Willmon, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Darling, Gurtner, and Hopper, Chancellors Berdahl, Carnesale, Debas, Dynes, Orbach, Vanderhoef, Wilkening, and Yang,

and Recording Secretary Bryan

The meeting convened at 1:45 p.m. with Committee Chair Davies presiding.

1. APPROVAL OF UCSD EXPANSION OF KNOX-KEENE LICENSE TO ALLOW FOR UCSD HEALTH CARE PARTICIPATION IN MANAGED MEDI-CAL PROGRAM IN SAN DIEGO COUNTY

The President recommended that he, in consultation with the General Counsel and the Vice President for Clinical Services Development, be authorized to proceed with UCSD Healthcare participation as a Health Plan in the Healthy San Diego Medi-Cal Geographic Managed Care Project involving:

- 1. Authorization for the President, in consultation with the Vice President for Clinical Services Development and the General Counsel, to execute documents necessary to secure a Medi-Cal "risk" contract directly with the California Department of Health Services under the Medi-Cal Managed Care Division and negotiated with the California Medical Assistance Commission.
- 2. Authorization for the President, in consultation with the Vice President for Clinical Services Development, to approve UCSD Healthcare's pursuit of a material modification to its Knox-Keene license from the California Department of Corporations to operate a health plan in which Medi-Cal beneficiaries will enroll under UCSD's Healthy San Diego Medi-Cal

Geographic Managed Care Project.

3. Authorization for UCSD to increase its designated fund by \$1 million to satisfy the California Department of Corporations' tangible net equity requirement that is a prerequisite to obtaining a material modification to its Knox-Keene license to operate a Medi-Cal contract.

Chancellor Dynes and Vice Chancellor Alksne decribed the proposal. It was recalled that the initiative led by the California Department of Health Services (DHS) to move more Medi-Cal beneficiaries to managed care plans has dramatically changed health care delivery for this population throughout California. This move has also led to significant challenges for academic medical centers and other traditional and safety-net providers for the Medi-Cal population.

In San Diego, a voluntary program has been in place for the past few years to introduce managed care to Medi-Cal recipients. In July 1998 a mandatory program is being introduced. The program, called the "Healthy San Diego Geographic Managed Care Project," defines a large segment of the Medi-Cal population which must choose a health plan in which to enroll. If they do not select a plan when eligible, they will be automatically assigned to a health plan. This group is the mandatory population. A second and smaller segment of the Medi-Cal population, referred to as the voluntary population, may choose to enroll in a health plan or remain in the traditional Medi-Cal fee-for-The third and smallest segment of the service program. Medi-Cal population is not eligible to enroll in a health plan due to individual cost share requirements.

The Healthy San Diego program will increase the number of Medi-Cal beneficiaries covered under managed care plans from approximately 112,000 to 207,000 enrollees within three months of implementation. Following implementation of the mandatory program, less than one-third of the total Medi-Cal beneficiaries will remain "unmanaged." The project will significantly reduce the traditional fee-for-service arrangement as a financing mechanism for the Medi-Cal program.

In fiscal year 1996-97, Medi-Cal fee-for-service reimbursements, including Disproportionate Share payments, represented approximately 26 percent of total clinical revenues for UCSD Healthcare. Under a managed Medi-Cal program, much of this revenue stream is in jeopardy. In previous conversions from fee-for-service to managed care, traditional safety net providers, including University of

California medical centers, have experienced a significant loss of Medi-Cal patients to other community providers.

In addition to the financial aspects of this change, UCSD is likely to face a dramatic drop in patient volume which may affect teaching capacity. Although its Medi-Cal market share is consistent with other key competitors in San Diego County, UCSD's market share has declined between 1991 and 1995, while that of key competitors has increased. Further erosion of the Medi-Cal population will present significant problems in patient volume, particularly for key services such as obstetrics.

DHS forwarded a request for proposal to UCSD Healthcare and the other seven managed health care organizations designated by San Diego County.
UCSD Response

To address these changes, UCSD investigated a number of strategic options and has developed a plan which includes three key components. The first is to develop a partnership with one or more of the medical groups in San Diego serving the managed Medi-Cal population. The second is to pursue contracts with all of the health plan participants in the Healthy San Diego Program. The third component is to become a Medi-Cal contracting health plan, which will provide a critical mass of health plan members. Though there are benefits to each of these pieces, by pursuing all options UCSD has the best chance of maintaining its current Medi-Cal patient population.

## Implementation Time Frames

Participation as a health plan under Healthy San Diego Medi-Cal Geographic Managed Care Project contract requires that UCSD expand its current Knox-Keene license and accept full risk for Medi-Cal enrollees. UCSD Healthcare would contract directly with the California Department of Health Services to offer a medical health plan featuring a primary care physician gatekeeper model and a county-wide provider network that includes the UCSD Medical Group and the UCSD Medical Center, as well as other community physicians, clinics, physician groups, and hospitals.

UCSD submitted an application to DHS for consideration as a potential participant, subject to Regental approval, on November 3, 1997. Decisions regarding eligibility to participate are due from DHS on January 19, 1998. Contract negotiations with the California Medical

Assistance Commission (CMAC) are scheduled for completion on February 3, 1998.

### Additional Factors for Analysis

There are a number of outstanding issues which must be resolved before the University can accurately project the financial impact of participating in the program as a health plan. Though extensive work has been completed to determine enrollment and cost estimates, the key missing component is the projected monthly premium per member. This information will not be available until negotiations are completed with CMAC in early February.

In addition, staff from the Office of the President and UCSD are working with State and local legislators to introduce elements in the plan which may improve the campus' financial viability under the program. One change being investigated is the inclusion of risk adjustment factors so that providers enrolling higher-risk patients are adequately compensated. Given the uncertainty regarding the outcome of these negotiations, flexibility will be required to allow for a decision to be made to proceed when complete information is available.

## Financial Projections

UCSF will operate the Medi-Cal contract using a risk-sharing model that capitates primary care physicians, pharmacy, laboratory, and vision expenses, pays Medi-Cal fee-for-service rates to physicians for childhood immunizations, specialty services, and other medical expenses, and pays Medi-Cal per diem rates to hospitals for inpatient and outpatient services.

Services, if any, from the specialty physician and other medical and hospital funds will be split equally between primary care physicians and UCSD. Should these fund sources yield an aggregated deficit, the deficit will be covered from a contingency fund established from contract revenue. Should the contingency fund be inadequate to pay for the deficit, UCSD will offset any remaining deficits.

### Patient Base

As Medi-Cal consumers enroll in health plans, traditional and safety net providers are at increased risk of losing their Medi-Cal patients and revenues. The risk of loss depends on the degree to which the health plans have

expanded their provider networks to include providers who have traditionally been unavailable to Medi-Cal patients.

As a significant safety net provider dependent on Medi-Cal revenues and Disproportionate Share Hospital funding, UCSD Health Care is at significant risk for loss of these funding and teaching sources. UCSF has already experienced a significant loss of its Medi-Cal patient volume over the last two years. This loss is the result of two major factors: (1) a corresponding reduction in the number of Medi-Cal-eligible patients in San Diego County due to the robust economy and welfare reform; and (2) the rapid enrollment growth in Medi-Cal health plans and UCSD's limited contracts with these health plans.

## Shifting to a Consumer-Driven UCSD Delivery System

As the Medi-Cal market becomes more consumer-driven, UCSD Healthcare must adapt its health care delivery system. For many years, UCSD has used clinics in its Hillcrest Ambulatory Care Center (ACC) and Outpatient Center (OPC) to provide health care to the Medi-Cal and other indigent populations. These clinics rely largely on a rotating group of residents to provide care with little continuity between one patient and the same physician during subsequent visits. Several delivery system changes are under discussion to introduce a more managed-care-friendly environment, including revitalizing the ACC/OPC with physicians who can provide continuity of care and the integration of the ACC/OPC patients into other service locations using a more integrated teaching model.

Committee Chair Davies acknowledged the necessity of having the negotiations go forward despite the fact that a positive outcome cannot be predicted. He moved that the President's recommendation be amended as follows:

The President recommends that he, in consultation with the General Counsel and the Vice President for Clinical Services Development and subject to the approval of the Chairs of the Committee on Health Services and the Committee on Finance, be authorized to proceed with UCSD Healthcare Plan in the Health San Diego Medi-Cal Geographic Managed Care Project involving:...

His motion being duly seconded, the Committee approved the recommendation as amended and voted to present it to the Board.

# 2. ACTIVITY AND FINANCIAL STATUS REPORTS ON HOSPITALS AND CLINICS

Vice President Gurtner reported that currently the hospitals are financially healthy across the system. He noted that hospitalization has increased statewide.

#### 3. CLINICAL SERVICES YEAR-END REVIEW AND FUTURE ISSUES

With the help of slides, Vice President Gurtner reviewed programs and projects that were the focus of the work of his office during the year and discussed some plans for future projects. He noted that the primary effort during the previous year was effecting the UCSF-Stanford merger of clinical services. Other activities included the development of a professional team billing compliance policy and the establishment of a systemwide committee to monitor it and make periodic reports to the Regents; a lobbying effort to ensure continued funding for clinical education through the Medi-Cal program; and the completion of the first systemwide review by the Clinical Policy Review Team. Mr. Gurtner noted that he viewed the work of the Clinical Policy Review Team, headed by Dr. Joseph Tupin, as one of the key responsibilities of his office.

Mr. Gurtner reported that his office also spent a great deal of time in support of the ongoing activities and merger discussions at the Irvine and San Diego medical centers. His office is following developments concerning Medicare auditing on all campuses and is working in various ways to take advantage of government funds to support health care for children. It is formulating a reporting mechanism that will track clinical enterprise programs and strategic efforts and will be used to inform the Regents about their progress.

Committee Chair Davies reported that the first public meeting of the board of the newly merged UCSF-Stanford clinical enterprise had taken place earlier in the week. He noted that the members seemed to be working together well.

The meeting adjourned at 2:15 p.m.

Attest:

Secretary