

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**

June 18, 1998

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

Members present: Regents Atkinson, Bagley, Davies, Khachigian, Ochoa, Preuss, and Sayles

In attendance: Regents Chandler, Hotchkis, Johnson, Levin, McClymond, Montoya, Parsky, and Soderquist, Regents-designate Espinoza, Miura, and Willmon, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, Hershman, and Hopper, Chancellors Berdahl, Carnesale, Debas, Dynes, Orbach, Wilkening, and Yang, and Recording Secretary Bryan

The meeting convened at 1:30 p.m. with Committee Chair Davies presiding.

1. **UPDATE ON FINANCIAL PERFORMANCE AND BUSINESS DEVELOPMENT INITIATIVES, MEDICAL CENTER, SAN DIEGO CAMPUS**

Chancellor Dynes introduced Dean Alksne, who discussed UC San Diego Medical Center's financial performance and its business development initiatives and disclosed its budget projections for FY1998.

Dr. Alksne reported that for 1997 the Medical Center had a net gain of \$26.1 million and an average daily census of 253. Based on year-to-date actuals, it is projected that the census will be 269 and that net gain will be \$26.8 million at the end of 1998. This is a change related to better-than-expected disproportionate share and medical education contributions. He reported that the Thornton Hospital operated at a \$1 million loss last year and is projected to end this year with a \$5.9 million contribution to net. The average daily census increased, and there was a dramatic increase in outpatient surgery at Thornton. The Medical Center as a whole remains financially viable. It is expected to continue to have an operating margin of 7.7 percent. Debt service coverage at year's end of 3.0 will be within the target range.

Dr. Alksne noted that the Medical Center cares for 45 percent of the county's inadequately-funded patients. Funds at risk are used to compensate for the disproportionate share of underfunded patients, and those funds are expected to decrease in 1998-99. There may be a significant reduction in inpatient census during

the year, as Medi-Cal patients move to managed care, adversely affecting direct reimbursement and disproportionate share reimbursement.

Dr. Alksne listed several development initiatives to improve the Medical Center's outlook, to stabilize revenue, and to improve the patient base for teaching and research. He reported that the administration is working with the faculty and staff to improve customer service and access, that a new UCSD health plan is being created for seniors, and that a Medicare demonstration project is under way. As part of its response to the Healthy San Diego initiative, the Medical Center has developed a Medi-Cal managed care program with the hope that it will help to retain the Medi-Cal patients it has currently. Contracts have been established with Kaiser to perform inpatient and outpatient surgery in Medical Center facilities, and a relationship has been established with Birthplace, a primary Medi-Cal birthing center that is moving to the Hillcrest site.

Regent Khachigian asked whether the Medical Center's customers are providing positive feedback about the way they are being treated there. Dr. Alksne replied that the responses are inconsistent. Specialty services appear to be the most efficient and patient friendly. Patients seeking primary care are still reporting unacceptable waiting times. The Medical Center is trying to provide its faculty with systems that will be effective in enhancing patient services. He reported also that a training program for staff has begun on patient sensitivity.

Chairman Davies was gratified that Thornton Hospital is profitable. Dr. Alksne believed that a small hospital can be profitable if it can rely on attracting paying patients almost exclusively and does not have the burden of caring for safety-net patients.

2. **UPDATE ON MEDICAL CENTER AND COLLEGE OF MEDICINE, IRVINE CAMPUS**

Chancellor Wilkening presented an update on the UC Irvine Medical Center and College of Medicine, recalling that many options have been explored during the past four years in an attempt to address the problems caused by the changing healthcare market. For the past two years, the administration has pondered long-term strategies for UCIMC that have included the suggestion of leasing the Medical Center to another institution. She thanked the Regents for being willing during those years to consider options that were controversial.

Ms. Wilkening was pleased to report that she viewed the Medical Center's future with optimism. She believed that the morale of the faculty and staff was higher than at any point during her tenure as Chancellor. Research grants, including major ones, have increased substantially, the quality of medical students is the highest ever, and Dean Cesario has been able to recruit some of the best faculty in the college's history. The Medical Center has improved its quality of care and patient services and scored very highly on a recent survey of academic medical centers, and it will report a small but positive bottom line this year. Orange County community support has been excellent,

and gifts have increased. She reported that the College and Medical Center are engaged in a second major strategic planning process, the results of which will be reported in the fall.

Dean Cesario reported that during the last few years cultural changes at UCI have made possible the development of very effective collaborative relationships between the Medical Center and the College of Medicine. Research funding has continued to increase. UCI has become a designated comprehensive cancer center, one of only three in California. Its programs in the neurosciences have grown, and it is now one of the nation's leaders in this field. Important faculty experts have been recruited in many fields, and community support has increased. There are five new endowed chairs supported by Donald Bren and other generous individuals, and gifts have increased almost 50 percent. Interest in UCIMC has extended internationally, and unique collaborations with other healthcare institutions around the world have been developed. The Dean believed that the aggressive steps that have been taken to improve internal operations and recruit faculty have made the School and Medical Center strong.

Hospital Director Laret recalled that in September he had informed the Regents that UCI had terminated discussions with Tenet about leasing UCIMC. The financial and political benefits of remaining as it is outweighed those of the planned business affiliation. Since that time, management has focused on improving the security of State and federal funds at risk, on pursuing service arrangements with other medical groups and hospitals in Orange County, and on improving its quality of care and service to patients. He believed that all these efforts have paid off. Payments from disproportionate funds-at-risk have been stable for two years. The University has been aggressive about securing their stability and assuring that the University receives its appropriate share. Productive relationships have been developed with other health care providers in Orange County, resulting in more patients being admitted who will support the University's educational programs. Quality improvements have resulted in acclaim from outside agencies and in an improvement in malpractice insurance rating levels. As a result of very aggressive attention, the number of open hospital medical professional liability claims at UCI is the lowest in eight years.

Mr. Laret recalled that the Medical Center has for years treated the highest number of indigent and Medi-Cal patients in Orange County and in the UC system. Because the reimbursement for this care is so low, UCI's practice plans and the Medical Center have suffered. Disproportionate share funds at risk help, but the long term goal is to decrease reliance on these by serving more commercially-insured patients. Three years ago, 19 percent of UCI's patients were private or commercially insured. Today that figure is almost 30 percent. This has contributed an 11 percent increase in commercial reimbursement. Based on these improvements, Mr. Laret was optimistic about the Medical Center's future and was prepared to develop a new strategic plan to ensure its continued clinical and academic success.

Faculty Representative Weiss asked what the strategies are for answering the challenges presented by the inadequacy of clinical teaching support. Dean Cesario responded that support of the teaching mission is critical. It will be necessary to find ways beyond philanthropy and collaboration with local industry to improve the cash flow that is necessary to provide students with the finest equipment and facilities. Mr. Laret observed that for years the communities that UCI serves have benefitted from the services of the doctors it has trained. The assumption has been that the margins that can be made on providing clinical, hospital, or doctors' office care would somehow cover the cost of that training. He believed that no health plan today is prepared to pay the cost of medical education. The administration will need to continue working to convince the government that medical education is worthy of comprehensive support.

3. **AUTHORIZATION TO EXECUTE AGREEMENTS FOR STRATEGIC ALLIANCE WITH ORTHOPAEDIC HOSPITAL, MEDICAL CENTER AND SCHOOL OF MEDICINE, LOS ANGELES CAMPUS**

The President recommended that:

- A. In consultation with the General Counsel and the Vice President for Clinical Services Development, he be authorized to execute the Master Alliance Agreement, a Groundlease, Tenancy in Common Agreement, Design and Construction Management Agreements, and a Public Services and Education Affiliation Agreement necessary to create a strategic alliance between UCLA Medical Center/School of Medicine and Orthopaedic Hospital.
- B. The Regents, based on consideration of the Environmental Assessment, adopt the Findings indicating that the Master Alliance Agreement is exempt from the California Environmental Quality Act.

[The Environmental Assessment and Findings were mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

It was recalled that at the March 1998 meeting of the Committee, the Regents were advised that discussions were in progress between the UCLA Medical Center/School of Medicine and Orthopaedic Hospital (OH) to create a strategic alliance for the development of a comprehensive combined program in the field of orthopedics. The parties have now reached a substantive agreement on the principal terms and conditions.

The proposed strategic alliance with OH was prompted by two principal factors. First, although OH had received a FEMA grant totaling \$30.5 million to repair damage caused to its facility in the 1994 Northridge earthquake, its board decided to explore alternatives to renovating the existing structure. Second, OH administration recognized that an affiliation with a general acute care hospital would be important to its long-term

market strategy. Following extensive discussions with UCLA, preliminary agreement was reached on an alliance which would address both of these issues.

On March 12, 1998, UCLA and OH submitted a joint application for conversion of their Damage Survey Reports from the Northridge earthquake pursuant to a federal program sponsored by FEMA entitled Seismic Hazard Mitigation Program for Hospitals. The application was a single application combining OH's replacement inpatient hospital with the Santa Monica/UCLA Replacement Hospital. The purpose of the application was to receive federal FEMA funding for the inpatient hospital improvements necessitated by the Northridge earthquake damage. FEMA works with the Governor's Office of Emergency Services on the Hazard Mitigation Program. On February 4, 1997, the Governor's Office of Emergency Services determined that the Santa Monica/UCLA Medical Center qualified for a total grant of \$62,466,782, of which the federal share, after deduction of insurance proceeds, totaled \$41,695,150. On July 5, 1996, the Governor's Office notified OH that it qualified for a grant of \$34,751,151, of which the federal share was \$30,491,031. The Hazard Mitigation Program is pursuant to federal legislation, the "Stafford Act," 42 United States Code, section 5172. The legislation authorizes the President to make contributions for repair, restoration, reconstruction, or replacement of public facilities damaged or destroyed as a result of disaster. In order to qualify for the program, the new project must be part of the same "primary use" which existed before the disaster. In addition, at least 50 percent of the floor area must be replaced in the new facility. The new construction of approximately 250,000 gross square feet, including 85,000 gross square feet for the New Orthopaedic Hospital, meets the regulatory requirements. Further, the tenancy in common provides that the same basic services and medical departments that previously existed at the Santa Monica Medical Center as well as at the Orthopaedic Hospital are recreated in the Santa Monica/UCLA Replacement Hospital. The joint application was approved on March 31, 1998.

#### Principal Terms of the Alliance

Under the terms of the Alliance, the existing orthopedic programs of OH and UCLA will be combined to form a comprehensive program which would be located at the Santa Monica/UCLA Replacement Hospital. It is proposed that these facilities will include the New Orthopaedic Hospital at Santa Monica/UCLA, which would consist of an inpatient orthopedic unit fully integrated and licensed as part of the Santa Monica/UCLA Replacement Hospital. The New Orthopaedic Hospital is not a separate physical structure nor separately licensed, but rather is operated by The Regents pursuant to the terms of the Alliance under The Regents' general acute care hospital license. The Santa Monica/UCLA Replacement Hospital will also house the academic and administrative offices and the outpatient clinical activities of the consolidated UCLA/Orthopaedic Hospital Department of Orthopedics. OH will apply the \$30.5 million federal share of its FEMA grant toward the construction of the New Orthopaedic Hospital. The Regents will retain ownership of the land for the new

facility, which will be groundleased to a Tenancy in Common comprised of The Regents and OH.

OH and UCLA are to remain separate and independent legal entities, with independent control and responsibility for their own assets and liabilities. Subject to jurisdiction of the respective governing boards, OH and UCLA will create an Alliance Council, consisting of three representatives from each party, to manage the operation and provide strategic direction to the Alliance, including policy decisions and dispute resolution. The Santa Monica/UCLA Replacement Hospital will remain licensed to The Regents, and the governing body of the hospital will be The Regents.

Once the New Orthopaedic Hospital has been established, it is proposed that the existing OH facility, which the Orthopaedic Foundation will continue to own, at 23rd and Flower Streets, will provide outpatient services, including pediatrics, women's health, and family medicine, with annual financial support to be provided by the UCLA Medical Center and the UCLA School of Medicine which will be the greater of \$1 million or an amount equal to 25 percent of the contribution margin of inpatient acute orthopedic care provided at the Sante Monica/UCLA Replacement Hospital.

It is proposed that an additional facility, the Orthopaedic Hospital -- J. Vernon Luck, Sr. M.D. Research Center, will be constructed on the UCLA/Westwood campus to provide the primary location for research activities in orthopedics and related fields, such as molecular cell biology, developmental biology, and biological chemistry. OH will contribute \$30 million towards the total estimated cost of \$40 million for the research center. Research activities will occupy 20,000 assignable square feet, and UCLA will provide access to an additional 10,000 assignable square feet in orthopedics research if reasonably requested. It is anticipated that the balance of project costs will be funded from UCLA School of Medicine reserves. The Regents will wholly own the research center.

The Orthopaedic Hospital Foundation will provide approximately \$2 million in annual funding for research conducted by the combined programs. The Executive Chair, the Executive Vice Chair, and the Vice Chair for Research of the new UCLA/Orthopaedic Hospital Department of Orthopedics will lead a panel of scientists which will provide advice and counsel as to the priorities for the use of these research funds. All research will be conducted under standard University of California protocols.

The Provider Services Agreement stipulates that the University will treat indigent foreign national patients covered by the Orthopaedic Hospital International Children's Program at preferred rates, equal to the lowest rate charged to any payor, as part of the University's charitable activities under the Master Alliance Agreement.

Following are summaries of the purpose and key provisions of each of the agreements.

#### Master Alliance Agreement

The Master Alliance Agreement is the primary document establishing the Alliance and delineating its principal terms, with references to the other relevant documents. The terms of the Master Alliance Agreement include the following:

- **New Orthopaedic Hospital:** The Santa Monica/UCLA Replacement Hospital project is proposed to consist of new construction of approximately 250,000 GSF of acute care hospital space and renovation of approximately 30,000 GSF of acute care hospital space in the Merle Norman Pavilion. The New Orthopaedic Hospital would comprise approximately 85,000 GSF of the total 280,000 GSF.
- **Design and Construction:** UCLA proposes to design and construct the Santa Monica/UCLA Replacement Hospital in accordance with the terms of the Design Management Agreement and the Construction Management Agreement, which will contain preliminary design specifications and projected costs of construction.
- **Costs of Construction:** Subject to continuing FEMA approval, OH will apply the \$30.5 million federal share of its FEMA grant to the design and construction of the New Orthopaedic Hospital. UCLA will bear all remaining costs of the hospital project. The total cost of the project is currently estimated to be \$131 million. Of the \$100.5 million to be funded by UCLA, \$77.5 million is currently in place in the form of FEMA grants, insurance proceeds, funded depreciation, hospital reserves, and gifts. The remaining \$23 million will be externally financed.
- **Allocation of Space:** To the extent that the Parties agree that the program and clinical requirements of the New Orthopaedic Hospital necessitate the construction of more than 85,000 gsf, the parties will share equally the cost of the additional construction, up to a limit of \$10 million. It is anticipated that UCLA's share of the additional costs, and any costs which exceed the \$10 million limit, will be funded from hospital reserves.
- **Operations:** UCLA will operate the Santa Monica/UCLA Replacement Hospital under its license. UCLA will be entitled to all inpatient revenues and will be responsible for expenses of operation, insurance, and liabilities associated with the facility. OH will have representation on the Advisory Board of the Santa Monica/UCLA Replacement Hospital, and its current CEO will be appointed as Chief of Staff in Orthopedic Surgery. UCLA will appoint, subject to consultation with OH, an Associate Director for the Orthopedic Service, who will report to the Hospital Director and work with the hospital administration and department to develop budgets and staffing plans, resource acquisition plans, strategic goals and initiatives, and coordinate the Orthopedic Service with other hospital services. OH will have the right to occupy certain administrative space within the Santa Monica/UCLA Replacement Hospital as

its corporate headquarters and will manage the facilities used in the delivery of certain ancillary medical services related to the outpatient and office practices in orthopedics.

- **Research Center:** UCLA proposes to construct the Orthopaedic Hospital – J. Vernon Luck, Sr. M.D. Research Center (90,000 gsf), partial funding to be provided by a \$30 million gift from the Orthopaedic Hospital. Payment of \$5 million of the pledge will be made when certain agreements are executed. The remainder will be paid upon OH's approval of working drawings, a constructive schedule, and demonstration of 20,000 asf of research space for combined research activities, provided that the pledge will be fully funded on or before July 1, 2000. The distribution of the gift funds will occur in accordance with the construction schedule. Although the research will be carried out by UCLA faculty and researchers, an additional 10,000 asf may be devoted to orthopedic research if reasonably requested. UCLA will operate the Research Center in cooperation with OH, which will provide \$2 million per year in grants to support orthopedics research.
- **Charitable Commitment:** UCLA will carry on educational and public service activities at the current OH site by participating in the operation of an outpatient clinic to provide family medicine, pediatric, and women's health services in concert with outpatient orthopedic services provided by OH. UCLA has agreed to support this activity with an annual commitment which is the greater of: (a) \$1 million or (b) an amount equal to 25 percent of the contribution margin of inpatient acute orthopedic care provided at the Santa Monica/UCLA Replacement Hospital. Space at the current OH site to be occupied by UCLA employees and students shall conform to the University seismic safety policy.
- **Department of Orthopedics:** The UCLA Department of Orthopedics will be renamed the UCLA/Orthopaedic Hospital Department of Orthopedics. The current CEO of OH will be appointed as the Executive Vice Chair of the Department, and will have primary responsibility for the orthopedic residency program. Eligible members of the current OH medical staff will be appointed as clinical faculty. OH will have representation on the School of Medicine Board of Visitors.
- **Dispute Resolution:** Either party has certain rights to initiate dispute resolution proceedings in an effort to resolve obligation of the parties under the Master Alliance Agreement or the other Alliance Agreements. These procedures include efforts at dispute resolution through senior management of the respective parties, the Alliance Council, and a conflict resolution organization. If otherwise unable to resolve a dispute, either party may seek alternative dispute resolution in accordance with rules to be suggested by the individual adjudicating the dispute and agreed upon by UCLA and OH. Automatic



termination occurs if UCLA terminates its support for the UCLA clinic at OH or its charity care commitment, if there is a failure in governance of the alliance, if the tax-exempt status of either party is jeopardized, or if conditions of any governmental approval, including conditions imposed by FEMA, require a change or prohibition in the contemplated project that is materially adverse.

- Termination: In the event of a termination of the Alliance, UCLA will acquire the OH interest in the Santa Monica/UCLA Replacement Hospital in accordance with a formula which reflects the OH contribution to construction of the replacement hospital and the Research Center inflated or deflated by an index reflecting cost of construction and discounted by the remaining life of the facility (based on a 30-year useful life).

In the event of damage or destruction to the Santa Monica/UCLA Replacement Hospital which is a covered loss under the University's self-insured and excess policies, UCLA will repair and restore the premises to its original condition or replace it with an equivalent facility, provided that UCLA may instead determine, if such a determination is reasonable, not to rebuild the Santa Monica/UCLA Replacement Hospital. In this event UCLA would be required to acquire the OH co-tenancy pursuant to the formula, reducing the value of OH's interest over 30 years. In the event that the research facilities are damaged or destroyed by a covered loss, UCLA will at its sole cost and expense repair and restore the research facilities to their original condition. In the event that the damage or destruction to the hospital or research facilities is not covered by UCLA self-insurance and excess insurance (such as an earthquake), The Regents will consider in good faith, within a reasonable time following the damage or destruction, replacement or relocation of the hospital or research facilities. To the extent The Regents determines to rebuild, replace, or relocate the clinical operations, The Regents will include OH as a co-tenant in orthopedic space. To the extent The Regents authorizes construction of facilities for orthopedic research on the Westwood campus, a comparable facility for such orthopedic research shall be provided.

#### Groundlease

The Groundlease creates a leasehold estate as a basis for the co-tenancy relationship between the University and OH in the new construction at Santa Monica/UCLA Replacement Hospital, which is financed in part by OH's FEMA grant. The groundlease, which is for a term of 99 years or until termination of the Alliance, preserves the University's exclusive ownership of the land. The University intends to acquire two parcels on Wilshire Boulevard to complete its ownership of the block on which the replacement hospital will be developed.

#### Tenancy-in-Common Agreement

The Tenancy-in-Common Agreement defines the relationship between the University and OH as to the improvements constituting the New Orthopaedic Hospital and sets forth the responsibilities of the parties. The OH ownership interest created by the Tenancy-in-Common Agreement is required by FEMA as a condition of its grant to OH, since the grant is intended to provide a replacement for the current OH facility. The University is responsible for overall management and operation of the space. OH will have no right to sell or transfer its interest, except to the University in accordance with the terms of the Master Alliance Agreement.

#### Design Management Agreement

The Design Management Agreement sets forth the rights and obligations of the parties pertaining to the design of the Santa Monica/UCLA Replacement Hospital. It calls for the University to retain an Executive Architect and other consultants as required to prepare schematic design and design development documents for the Santa Monica/UCLA Replacement Hospital. The agreement also provides for review and approval by OH to ensure that programmatic, space, and access requirements of OH with respect to the New Orthopaedic Hospital have been incorporated, and that the exterior design of the Santa Monica/UCLA Replacement Hospital is acceptable to OH. UCLA shall also allow OH to participate in design review meetings, to ensure that OH has an opportunity to provide meaningful input related to the design of the new Orthopaedic Hospital. All direction of the Executive Architect, its consultants, and any other consultants retained by the University to provide design or other services related to the Santa Monica/UCLA Replacement Hospital shall be solely by the University.

#### Construction Management Agreement

The Construction Management Agreement sets forth the rights and obligations of the parties pertaining to the preparation of plans and specifications for, and the construction of, the proposed Santa Monica/UCLA Replacement Hospital. It calls for the University to retain, following receipt of all required environmental approvals, an Executive Architect and other consultants as required to prepare plans and specifications for the new Santa Monica/UCLA Replacement Hospital. The plans and specifications will be subject to review and approval by OH to ensure that programmatic, space, and access requirements of OH with respect to the New Orthopaedic Hospital have been incorporated. The Construction Management Agreement also calls for the University to retain a licensed construction contractor(s) to construct the proposed Santa Monica/UCLA Replacement Hospital, and for OH to participate in construction review meetings, to ensure that OH has an opportunity to provide meaningful input related to the construction of the New Orthopaedic Hospital. However, all direction of the Executive Architect, the construction contractor(s), the subconsultants and subcontractors of either, and any other consultants retained by the University to provide design, construction, or other services related to the Santa Monica/UCLA Replacement Hospital shall be solely by the University.

Public Service and Educational Affiliation Agreement

The Public Service and Educational Affiliation Agreement governs the placement of UCLA School of Medicine faculty and trainees at a community clinic to be operated at the OH location in downtown Los Angeles. The clinic will provide pediatric, women's health, and family medicine services. The University will provide financial support for the clinic's operations as part of its charitable activities under the Master Alliance Agreement.

Financial Analysis

Under the Alliance, the inpatient orthopedic services of the UCLA Medical Center at Westwood, Orthopaedic Hospital, and the current services at Santa Monica/UCLA Medical Center will be consolidated upon completion of the New Orthopaedic Hospital at the Santa Monica/UCLA Replacement Hospital. This consolidation will generate a significant increase in net income for the Santa Monica/UCLA Replacement Hospital. The orthopedic unit is projected to have an average daily census of 42 in FY 2003-04, and outpatient services are projected to increase by approximately 36,000 visits annually. Net income for UCLA/Santa Monica Replacement Hospital in FY 2003-04 is projected to be \$8.2 million, as compared to \$2.5 million without the Alliance.

Given the proposed smaller scale of the replacement UCLA Medical Center at Westwood, a transfer of services to the Santa Monica/UCLA Replacement Hospital had been planned. The financial projections for UCLA Medical Center at Westwood take into consideration the transfer of orthopedic cases to the Santa Monica/UCLA Replacement Hospital.

Financing

Total costs for construction of the Santa Monica Replacement Hospital, including the New Orthopaedic Hospital, and the OH – J. Vernon Luck, Sr. M.D. Research Center are estimated to be \$171 million. Funding of \$148 million is currently in place, with the remaining \$23 million to be externally financed.

Environmental Review

Potential environmental effects of the Alliance have been analyzed in accordance with the California Environmental Quality Act and University of California procedures for implementation of CEQA. Environmental analyses contained in the Environmental Assessment, and summarized in the Findings, conclude that the proposed action is exempt from CEQA and will not have a significant effect on the environment.

It has been determined that CEQA does not apply in this instance because the proposed action does not constitute “approval” of a “project” under CEQA and is therefore exempt from CEQA pursuant to Public Resources Code Section 21065. The proposed action serves only to create an administrative structure for the implementation of the programs and activities identified in the Master Alliance Agreement. Approval of the proposed action would not directly or indirectly lead to a physical change in the environment and would not irretrievably commit The Regents or UCLA to any particular course of action that may have a significant impact on the environment, either directly or indirectly.

Future activities related to the proposed action which may cause direct or indirect physical change in the environment may be subject to additional review under CEQA. The University will prepare appropriate environmental documents in accordance with CEQA with respect to any future activities related to the proposed action that could result in any significant adverse change in the physical environment.

Vice President Gurtner observed that the proposal represented a unique and exciting opportunity to bring together the private sector and UC in innovative ways. The alliance is expected to enhance both facilities.

Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board.

4. **APPROVAL OF UCLA MEDICAL FACULTY PARTICIPATION IN INDEPENDENT PRACTICE ASSOCIATION, UCLA HEALTH NETWORK, MEDICAL CENTER, LOS ANGELES CAMPUS**

The President recommended that, in consultation with the General Counsel and the Vice President for Clinical Services Development, he be authorized to execute documents necessary to allow UCLA medical faculty members to participate in the Community/UCLA Oncology Network, an independent practice association.

It was recalled that the participation of Los Angeles campus medical faculty members in the Community/UCLA Oncology Network, an independent practice association (IPA), would deliver managed-care, capitated, and case-rated medical oncology, radiation oncology, and bone marrow transplant services to enrollees in health plans in Southern California. The objectives of the IPA are to enhance existing relationships with community oncologists who refer cancer patients to the UCLA Medical Center, improve the quality of patient care, expand the availability of physician services, and provide professional and ancillary health care services to plan enrollees in a more cost-effective manner.

The agreements between the IPA and The Regents (on behalf of the UCLA Medical Group) would include the following terms:

- Capitation would be paid to the UCLA Medical Group for each enrollee assigned to a UCLA participating physician under a managed care contract. In addition to such capitation payments, UCLA may also receive fee-for-service payments for enrollees who are not covered by capitation agreements but are eligible to receive professional medical services under non-capitation agreements into which the IPA may enter. Rates for UCLA services will be consistent with rates for other IPA participants but will be dependent upon contracts the IPA negotiates.
- Individual faculty members, who are members of the UCLA Medical Group, will participate in the IPA Board of Directors, committees, and operational activities and may serve as officers of the organization.
- The initial term of the integration agreement will be through December 31, 2008, with automatic renewal for successive one-year terms. Either party may stop the automatic renewal by providing written notice on or before June 30 of the immediately preceding year. Standard provisions have been included in the contract allowing for early termination with cause. Either party may elect to terminate the integration agreement immediately upon the sale or dissolution of the IPA. Upon termination, each party will be free to compete for payor contracts and enrollees.

- UCLA representatives will participate in the selection of a management services organization to operate the IPA.
- With the exception of the use of "Community/UCLA Oncology Network," the IPA will not use the name of the University of California or UCLA without the prior written consent of UCLA.
- All revenue generated by the faculty participating in the IPA, whether fee-for-service or capitated business, will be part of the Faculty Practice Plan. Although the IPA will bill on behalf of the physicians, all revenue will be paid to the UCLA Medical Group and not to individual faculty members. Individual faculty members will not be shareholders in the IPA.

It was recalled that faculty participation in the IPA will provide several important benefits. First, it will provide access to certain oncology patient populations to which UCLA may not be able to gain access on its own in the future. Community oncologists will not only refer surgical and other tertiary/quaternary cases through the IPA but may also refer their non-IPA patients as well. The IPA will also facilitate increased synergy between the research and clinical services of the UCLA Research Network, which provides the infrastructure to enroll non-UCLA patients in clinical trials. In general, the success of cancer services at UCLA benefits many clinical services, and building strong relationships with community oncologists will benefit all cancer-care providers at UCLA.

Some risks are associated with authorizing individual UCLA faculty members to participate in a private, for-profit IPA. The representatives of the UCLA Medical Group serving on the IPA Board of Directors will, of course, be subject to the conflict of interest provisions of the Political Reform Act of 1974. This may require an individual to disqualify himself or herself from certain University decisions while acting as a Director of the IPA. In addition, there are risks associated with the Medical Center component of reimbursements, and to receive the maximum benefit of the relationship with the IPA, UCLA must also be able to successfully negotiate corresponding Medical Center agreements. As with all managed care agreements, the UCLA Medical Center must be competitive in its rates in order to participate.

UCLA has concluded that the proposed participation in the Community/UCLA Oncology Network offers strategic and financial benefits that far outweigh possible risks. The IPA is intended to enhance existing relationships with community oncologists who refer cancer patients to the UCLA Medical Center, and it will provide UCLA with access to capitated lives that might otherwise be lost. Anticipated results include expanded availability of physician services, improved and more cost-effective patient care, and financial benefits to UCLA.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

**5. SALE OF DIALYSIS PROGRAM ASSETS, MEDICAL CENTER AND SCHOOL OF MEDICINE, LOS ANGELES CAMPUS**

The President recommended that, in consultation with the General Counsel and the Vice President for Clinical Services Development, he be authorized to approve and execute documents necessary to effectuate a Management Services Agreement and the sale of certain of the assets of the UCLA Medical Center/School of Medicine Dialysis Program to Total Renal Care, Inc.

It was recalled that the Los Angeles campus proposes to enter into a long-term Management Services Agreement with Total Renal Care, Inc. (TRC) for the management of the UCLA Medical Center/School of Medicine Dialysis Program (Program), with the objective of maintaining the quality of the Program while providing its cost-effectiveness. In addition, the UCLA Medical Center proposes to sell certain of the assets of the Program to TRC. The proposed transaction is consistent with current trends in which hospitals across the country are reviewing the financial viability of hospital-based, stand-alone dialysis units.

The Health Care Financing Administration (HCFA) is considering changes which will reduce payments for dialysis services. Under the End Stage Renal Disease (ESRD) program, HCFA has financial responsibility for the vast majority of dialysis patients. Recent demonstration projects undertaken by HCFA have investigated payment of ESRD on a full-risk, capitated basis. Such a change is likely to result in further revenue reductions for providers of dialysis services. Due in large part to these changing market forces, the UCLA Medical Center/School of Medicine has experienced a steady decline in the contribution margin for the Dialysis Program over the past three years. The experience at UCLA has been similar to that of other University of California campuses, all of which have already divested their dialysis programs.

The market for dialysis services is increasingly dominated by national firms which develop or acquire regional networks to compete in the managed care marketplace. Because they are nationwide, these firms are able to achieve economies of scale, particularly with regard to purchased services. As a leading national dialysis provider, TRC is able to achieve these competitive advantages and is likely to sustain these advantages under the anticipated reimbursement constraint. Further, TRC has a demonstrated commitment to dialysis research supported by a national clinical data base and decision support infrastructure that cannot be replicated by a stand-alone provider like UCLA.

Based upon the considerations stated above, and after a thorough review, the UCLA Medical Center/School of Medicine determined that the Program can no longer compete successfully in the current marketplace. An RFP process was initiated, leading to the selection of TRC to assume management of the Program.

The RFP for the purchase of the Program or the contract for the provision of dialysis services was issued in June 1997, and five qualified responses were received. They were evaluated based on financial benefit, quality and delivery of care, commitment to research, governance and compatibility with mission, and references. An evaluation committee comprised of two physicians and five representatives of Medical Center administration independently scored the proposals using these criteria, and narrowed the potential candidates to three finalists. After follow-up presentations by the three finalists, TRC was selected as the firm which best met the established criteria.

Under the terms of the Management Services Agreement, TRC will manage and operate the dialysis program associated with UCLA Medical Center. In addition to management and staffing, TRC will provide billing and collection services, dialysis-specific information systems, and access to national purchasing contracts. The UCLA Medical Center/School of Medicine will retain clinical control over the program, its facility license, Medicare certification, and provider identification number. TRC will be wholly responsible to UCLA for the management of the Program for a period of ten years, or until such time as TRC begins to operate the Program under its own license, Medicare certification, and provider number. TRC will be responsible for all of the costs and revenues associated with the Program.

In addition, the transaction would involve the sale of certain assets of the Program, including inventory, prepaid services, fixed assets, and all other tangible and intangible assets, to TRC for a total of \$8,500,000. This payment to UCLA is in exchange for the right of TRC to operate the outpatient program and the obligation of TRC to convert the Program to TRC's license, Medicare certification number, and provider ID in the future. At that point, the Management Services Agreement will terminate.

Other key provisions of the transaction include the following:

- UCLA will retain all cash and cash equivalents and accounts receivable on the balance sheet as of the closing date, as well as all liabilities of the Program as of the closing date.
- TRC will enter into a ten-year Medical Director Agreement with the UCLA Medical Center on behalf of its faculty designees for an aggregate fee of \$190,000 annually. The UCLA Medical Center will designate its current Program Medical Directors as the faculty designees.
- UCLA will enter into ten-year Non-Competition Agreements with TRC for a radius of 25 miles from the facility. UCLA will covenant that any faculty member with privileges in the Program will be bound by the covenants of the Non-Competition Agreements while said physician remains a member of the faculty.



- At the end of seven years, UCLA shall have the right to require TRC to relocate the adult outpatient Program, with the understanding that UCLA will use its best efforts to ensure that the new outpatient facility remains in an on-campus or near-campus location.
- TRC and UCLA will enter into an exclusive ten-year Acute Dialysis Services Agreement for patients at the UCLA Medical Center, at rates set forth in the TRC response to the RFP. The rates for such services shall be increased each year by an amount equal to the increase in the Consumer Price Index for the Greater Metropolitan Los Angeles Area, subject to a maximum increase of 3 percent per year.
- TRC will provide offers of employment to all current Program employees, at their current University salaries. Should employees opt not to accept these offers, they will have preferential re-hire rights in accordance with standard University policy. Qualified employees will be internally reassigned to alternative available career positions should they elect not to accept the TRC offer.

#### Environmental Review

The proposed transaction has been classified as categorically exempt under the provisions of the California Environmental Quality Act.

Vice President Gurtner commented that end stage renal disease is now paid for almost exclusively by Medicare, and it has become a patient care service based on volume. TRC has an available patient population and the access to service that allows it to consolidate equipment and service costs. He noted that whether the University manages services directly or as part of a service agreement, there is always concern about maintaining the quality of those services. In this arrangement, the Medical Center will continue to have a degree of control and will be as responsive as possible to the concerns of patients. He noted that other UC medical centers have similar arrangements. TRC has substantial experience with university hospitals, including USC and Harbor and is committed to maintaining quality in patient care.

Regent Levin noted that patients and staff members had expressed concerns about the efficacy and safety of reusing dialysis filters. Hospital Director Karpf observed that the reuse of filters is an issue under discussion nationally. He stated that TRC patients are free to request that filters not be reused, but he added that non-reuseable filters may be less efficient. He added that TRC is committed also to outcomes research and will provide valuable data on its patients.

In response to questions from Regent Johnson about the quality of care, Vice President Gurtner indicated that the arrangement with TRC will be monitored during the coming months and its progress will be reported the Committee. In response to a question by

Regent Montoya concerning the process of choosing TRC as management partner, Director Karpf stated that it was public knowledge that TRC was under consideration and that staff and patients were not excluded from the decision-making process.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

[For speakers' comments, refer to the minutes of the Committee of the Whole for the afternoon of June 18, 1998.]

6. **AUTHORIZATION TO DEVELOP A SYSTEMWIDE HEALTH SCIENCES CLINICAL ENTERPRISE COMPLIANCE PLAN**

The President recommended that, in consultation with the General Counsel and the Vice President for Clinical Services Development, he be authorized to develop a systemwide health sciences clinical enterprise compliance program (Program) to include the following principles:

- A. Policy guidelines shall be provided that recognize the need for Universitywide monitoring of health sciences clinical enterprise compliance while allowing for significant flexibility at the campus level through the development of a campus-specific health sciences clinical enterprise corporate compliance plan (Plan) at each academic health center.
- B. Each Plan's objectives shall be consistent with the University's tripartite mission.
- C. Health sciences, clinical enterprise governance, risk management, information management, and financial and operational activities shall reflect the Plan's objectives.
- D. The effectiveness of the Plan shall be monitored periodically.
- E. Annual reports to The Regents shall be provided regarding the status of compliance with the Plan.
- F. The current policy and procedures for professional fee billing compliance approved by The Regents in the *Health Sciences Campus: Professional Fee Billing Compliance Plan Guidelines* (October 1996) shall be incorporated.

It was recalled that the business of health care is under unprecedented scrutiny and demands for accountability. The complex regulations surrounding reimbursement by government and private payors for health sciences clinical enterprise activities have led to increased legal and government audits of health care practices. In some cases, these audits have resulted in significant financial settlements for the audited clinical enterprise and negative publicity for the institutions and health care providers.

In 1996 the first phase of the Program was implemented with the publication of the systemwide *Health Sciences Campus: Professional Fee Billing Compliance Plan Guidelines* (Guidelines) and the establishment of the Universitywide Compliance Committee (Committee). The Committee has recommended to the Vice President of Clinical Services Development and to the General Counsel that those Guidelines be amended to incorporate the following seven corporate compliance elements outlined in the Office of the Inspector General's "Compliance Program Guidance for Hospitals":

- Adoption of a written code of conduct by the Board of Regents;
- Oversight of compliance activities by the Board of Regents and senior management;
- Due care in the delegation of authority to appropriate individuals;
- Employee training and education on how to comply with the law;
- Monitoring and assessment mechanisms to provide oversight of clinical enterprise corporate compliance activities;
- Consistent enforcement of compliance policies and appropriate disciplinary action;
- Timely response to identified issues or problems and a mechanism for prevention of those offenses.

Upon approval, the Vice President of Clinical Services Development and the General Counsel, in consultation with the systemwide Clinical Enterprise Corporate Compliance Committee, will develop a systemwide corporate compliance program that will be brought to The Regents at a future date for review and approval.

Vice President Gurtner recalled that the Office of the Inspector General has promulgated a series of requirements for institutional compliance. The President's recommendation is a first step in developing a companion compliance program to the physician billing program.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present to the Board.

**7. APPROVAL OF AMENDMENTS TO THE UCSF STANFORD HEALTH CARE BYLAWS CONCERNING THE NAME, POWERS, AND DUTIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT OF THE CORPORATION**

The President recommended that The Regents amend the name of UCSF-Stanford Health Care in the corporate bylaws to remove the hyphen, and to approve the following changes to the bylaws, effective May 31, 1998:

**deletions shown by strikeout, additions by shading**

BYLAWS  
OF  
~~UCSF-STANFORD HEALTH CARE~~  
**UCSF STANFORD HEALTH CARE**

\* \* \*

ARTICLE IV  
BOARD OF DIRECTORS

\* \* \*

Section 4. Powers and Duties of the Board of Directors.

Without limiting the generality of Article IV, Section 1(a), the powers and duties of the board of directors shall include the following:

**(a) To provide coordination and integration among the corporation's leaders to maintain quality patient care, promote performance improvement, and perform risk management.**

~~(a)~~(b) ....

~~(b)~~(c) ....

~~(c)~~(d) ....

~~(d)~~(e) ....

~~(e)~~(f) ....

~~(f)~~(g) ....

~~(g)~~(h) ....

~~(h)~~(i) ....

~~(i)~~(j) ....

~~(j)~~(k) ....

(k)(1) ....

\* \* \*

ARTICLE VI  
OFFICERS OF THE CORPORATION

\* \* \*

Section 5. President of the Corporation.

The initial President shall be appointed by the board of directors at its organizational meeting or as soon thereafter as reasonably practicable. Thereafter, any future President shall be appointed by the board of directors. The President, **qualified by education and relevant experience**, shall have such duties as are specified in these Bylaws and by the board of directors from time to time. He or she shall report to the board of directors. He or she shall be the chief executive officer of the corporation and responsible to the board of directors for implementing all matters acted upon by the board and for administering the operations of the corporation. The President has the authority to do whatever is necessary and appropriate to carry out his or her responsibilities, including the authority to employ and dismiss all persons necessary for the operation of the corporation. There may be designated by the Chair and Vice Chair an Acting President to serve in the absence of the President, provided that nothing herein shall prevent the President from authorizing a delegate to act on his or her behalf during periods of temporary absence. The President shall be subject to removal with or without cause by the board of directors.

\* \* \*

It was recalled that at the May 1998 meeting, The Regents approved an amendment to the articles of incorporation of UCSF Stanford Health Care changing the name of the corporation by deleting the hyphen between UCSF and Stanford. The change recommended in this item deletes the hyphen in the title in the corporate bylaws, the other official document in which the name of the corporation appears.

In addition, under title 22 of the California Administrative Code, as well as the Joint Commission on Accreditation of Health Care Organizations, the governing board is to have responsibility for aspects of quality of care including coordination between the level of professional performance of licentiates, risk management, and quality patient care. Further, the individual selected as president is required to have relevant experience and education. This item proposes to amend language in the bylaws to reflect these regulatory requirements.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

**8. ANNUAL REPORTS ON UNIVERSITY MEDICAL CENTERS**

Vice President Gurtner recalled that his office had undertaken an examination of the annual reporting process for the medical centers. As a result, a new format was developed that breaks the reports into external relations, summary financial data, and government issues. He believed that the reports will now be more readable and useful.

**9. ACTIVITY AND FINANCIAL STATUS REPORT ON HOSPITALS AND CLINICS**

Vice President Gurtner noted that a UCSF Stanford Health Care financial report for the five months ending March 31, 1998 had been distributed. A format is being devised to include the Stanford figures in future routine activity and financial status reports.

The meeting adjourned at 2:55 p.m.

Attest:

Secretary