

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**

January 19, 2000

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

Members present: Regents Atkinson, Davies, Khachigian, Kozberg, Leach, Montoya, Preuss, and Vining; Advisory member Kohn

In attendance: Regents Bagley, Connerly, Hopkinson, S. Johnson, Lee, Nakashima, Pannor, Parsky, Taylor, and Villaraigosa, Regent-designate Miura, Faculty Representatives Coleman and Cowan, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 9:15 a.m. with Committee Chair Khachigian presiding.

**1. UPDATE ON PROPOSED WINDING UP OF THE UCSF STANFORD MERGER**

It was recalled that at the November 1999 meeting The Regents took the following actions:

- A. Approved the winding up of UCSF Stanford Health Care in accordance with those procedures for unwinding the merger as described in Article IX of the Consolidation Agreement.
- B. Authorized the President, in consultation with the General Counsel, the Vice President of Clinical Services, and the Chancellor of UCSF, to execute all agreements and to take all such steps as necessary to carry out the procedures for winding up the merger.
- C. Authorized the President, in consultation with the General Counsel, the Vice President of Clinical Services, and the Chancellor of UCSF, to either dissolve UCSF Stanford Health Care or to use the 501(c)(3) public benefit corporate structure for purposes of those joint activities which the Members may elect to retain at some future date.
- D. Authorized the Treasurer to take such steps as may be necessary for The Regents either to become a replacement borrower for the 1998 Series A Bonds issued by the California Health Financing Authority for the benefit of UCSF Stanford

Health Care or to negotiate external financing to defease the 1998 Series A Bonds.

- E. Required regular reporting to the Board of Regents regarding the status of those activities necessary to achieve a timely wind up of the merger.

#### March 1, 2000: Transfer of Financial, Management, and Operational Responsibility

Representatives from UCSF, UCOP, and Stanford University initially had resolved simultaneously to wind up the operations of UCSF Stanford Health Care in order to transfer to the respective parent institutions by March 1, 2000 the financial responsibility, management, hospital and clinical operations, employees, and all other matters of the acute care hospitals and clinical enterprises of UCSF and Stanford. The process is complex and time consuming, however, and in some cases, circumstances beyond the control of either parent institution may delay the wind-up process. For example, UCSF, Stanford, and UCSF Stanford Health Care are currently working with the California Department of Health Services to relicense the UCSF and Stanford hospitals as separate entities. Likewise, each hospital must be recertified by Medicare and Medicaid in order to be reimbursed for health care services provided to the beneficiaries of these government programs. Typically, recertification takes longer than the three-month time frame allowed under these circumstances, and simultaneous recertification may not occur. Also, while all parties are cooperating on all aspects of the wind-up, each entity must address a different set of circumstances and problems in order to be fully operational. For example, returning employees to the University of California poses problems different from returning employees to Stanford University.

It was anticipated that if either parent university failed to achieve the March 1, 2000 date, the other party could commence its separate operations while the other hospital and its respective clinical enterprise would remain within the corporate body of UCSF Stanford Health Care under a management agreement until it could achieve all of the steps necessary to operate on its own. Based on the complexities of the relicensing requirements and the retirement system, the wind up date has been moved forward to April 1.

#### UCSF Work Plan

In order to expedite the complex wind-up process for UCSF, the Chancellor's office has developed a detailed work plan which is a dynamic document that will guide the process and incorporate tasks as they are identified.

Vice President Gurtner reported the process was progressing at a reasonable pace. He reported that the two groups have been unable to come to an agreement regarding the possibility of combining children's programs that would have been funded by the Packard Foundation. It is hoped that the possibility may be reexamined in the future.

Regent Leach asked whether the process is far enough along that it is possible to project how UCSF's assumption of its share of the debt will be handled. Mr. Gurtner responded that it would take a few more weeks to determine that.

Regent Preuss observed that there is a danger of learning the wrong lessons from the failure of the UCSF-Stanford merger. He believed that the Regents must continue to examine new opportunities for collaborations and judge each on its own merits.

Regent Hopkinson noted that it would be appropriate to inform legislators about how the assets of the two parties will be divided upon wind up. Mr. Gurtner responded that there have been meetings with all interested parties from San Francisco, Sacramento, and Washington, including Senator Feinstein. The assets will be redistributed using percentages that were fixed prior to the merger. A post-dissolution budget will be prepared before the next Regents meeting.

Regent Kozberg asked whether the Packard Foundation could play a role in holding together the children's initiative. Mr. Gurtner applauded the foundation for the role it had played in bringing the groups together initially, but he believed that the level of cooperation necessary to move the initiative forward does not exist, although it may in the future. The foundation's promise of financial backing still exists. Regent Leach noted that the Packard Foundation has shown a tremendous commitment to children's health generally and will likely be helpful to both the University and Stanford in the future.

Regent Lee advocated completing the wind up as quickly as possible in order to enhance morale and retain key employees. Mr. Gurtner agreed but noted that the process is slowed somewhat by requirements of the State and federal governments. Chancellor Bishop added that some faculty and key staff reportedly are feeling a sense of pride at being on their own again.

Regent Hopkinson noted that the November financial reports for UCSF Stanford Health Care have not been received. Vice President Broome reported that they would be mailed soon and would show a loss of about \$20 million for the first three months of the year. Chancellor Bishop pointed out that an appreciable portion of the loss is due to one-time costs involved in reconfiguring the Mt. Zion and Parnassus Heights locations. Regent Leach reported that the year-to-date loss for the north campus is \$11 million in the face of a projected break-even status. It is possible the loss will be less when the figures for December are compiled. He emphasized that Mt. Zion's long history of running at a large deficit had a negative effect on the merged entity. He warned the administration against letting similar problems go uncorrected in the future.

Chairman Davies emphasized that administrators at the University's medical centers should not assume, based on the unfortunate outcome of this merger, that the Regents would never again support a merger. He believed that the UCSF-Stanford merger was not a mistake and that any new proposals involving mergers should receive individual consideration.

## 2. **STRATEGIC INITIATIVES IN RESPONSE TO CURRENT FINANCIAL SITUATION, MEDICAL CENTER, DAVIS CAMPUS**

It was recalled that the UC Davis Health System was created in 1996 by integrating the UC Davis School of Medicine and the UC Davis Medical Center. Today, the health system has 8,000 employees and operates clinical sites throughout the region – as far north as Colusa and east to Auburn, with many in the greater Sacramento and Davis areas. Through the development of regional affiliations and telemedicine programs, UC Davis Health System has reached out into rural areas of the state, improving access to health care in medically underserved communities. The medical center is ranked among the top 50 hospitals in the nation, and the school is ranked among the top 17 primary care medical schools in the nation by *U.S. News and World Report*. UC Davis Health System is the preferred provider in the region. It has inland northern California's only trauma center with level-1 designation for both adults and children, and its telemedicine program is the only one in the United States to earn top-ten ranking four years in a row. The hospital is widely known for the excellence of its nursing care and is one of only two hospitals on the west coast to earn designation as a "magnet hospital" for nursing. The commitment of the health system has allowed the School of Medicine to support research priorities that include cancer biology, genetics and functional genomics, neuroscience, and nutrition. Over the last several years, health system dollars have helped support the recruitment of seven new chairs, with five more under way, and the recruitment of several prominent researchers. UC Davis Health System is having a major positive impact on the northern California region.

Throughout these years of growth, the UC Davis Health System has faced significant challenges and, like others across the state and nation, must address them in order to survive. The Balanced Budget Act will cost UC Davis approximately \$5.5 million annually. Pharmaceutical costs rose last year approximately 15 percent. Supply costs are increasing rapidly. Compliance with seismic safety laws will be extremely costly with the addition of new facilities. UC Davis continues to provide the majority of the region's uncompensated care, last year equating to approximately \$123.4 million.

UC Davis Health System has embarked on an aggressive mission to address these challenges, enabling the institution to thrive while maintaining its position as the premier health care provider in the region. With a strong vision statement to guide decisions, the health system has created organizational review teams to look at areas where cost savings can be achieved and operating expenses reduced. Physicians and management leaders are committed to continuing UC Davis's tradition of strong financial results balanced with growth and development of clinical, research, and teaching programs.

Ms. Martha Marsh, Director of the UC Davis Medical Center, reported that the UC Davis Health System is young and dynamic. While it is an integrated system with one budget, decisions and priorities are made jointly between the medical school and the hospital. Its network includes primary physicians in the community and 17 affiliated hospitals in the region. She listed numerous awards and commendations the health

system has received recently. Over half of its training programs are committed to primary care, and it is committed heavily also to expanding research.

Ms. Marsh described the medical center campus, highlighting the fact that a hotel will be built on University land that will be an important component of the educational, conference, and research facilities. The medical center serves an area of over 4 million people. She noted that admissions have increased by 84 percent since 1986 and that the average length of stay has dropped to 4.5 days, making it one of the most efficient medical centers in the country. Average daily census and occupancy have remained high. Since 1996 the medical center has gained a 23 percent increase in its market share in Sacramento County.

Ms. Marsh reported that the medical center has placed major research emphasis on cancer biology, genomics, neuroscience, and basic sciences. Women's health, organ transplantation, and cardiovascular services are expanding. The State's seismic mandates will have an impact in coming years, and it will be necessary to increase the number of operating rooms and intensive care beds. Many areas need upgrading, and new research facilities need to be built. The impact of these demands is that, although over \$500 million has been spent from 1977 to 1999 to expand facilities, during the next eight years \$386 million will be required, \$150 million of which will be needed to meet seismic requirements.

Ms. Marsh reported that to control costs, FTEs were reduced by 100 for the first six months of the fiscal year. Most of the 29 employees who were laid off during that reduction were placed in other positions. The reduction in staffing will continue through next year.

Ms. Marsh noted that continued development of the community hospital network is planned, to include the establishment of cancer centers in Yuba City and Marysville. Expanding telemedicine is improving the quality of medical care in outlying areas, and the feedback that physicians are receiving from the specialists with whom they are consulting during these exchanges is valuable.

Committee Chair Khachigian asked how the dramatic drop in the average length of stay was achieved. Director Marsh responded that physicians and nurses have examined the clinical pathways patients follow at the medical center. They have made sure there is the continuity of care that allows patients to receive appropriate home health support following their hospital stays. Regent Khachigian asked why the net gain had dropped. Ms. Marsh noted that the biggest change for this fiscal year is \$11 million in bonds to be paid for the Tower addition. Also, there are high facilities costs associated with the building program. She projected that this year's profit will be about \$27 million. She noted, however, that cash flow has been impaired by payors who do not pay some or all of what they owe. Often, the medical center has to sue to get the money it is owed from contracts. She mentioned a recent settlement with Healthnet as an example. Mr. Gurtner pointed out that all the University's medical centers are losing ground on profitability

per unit. There is continued growth in admissions and outpatient activity, but revenue per unit is declining.

Regent Connerly remarked on the positive impact the University can have on a community, noting that the development of the Davis medical center has enhanced what was a declining area and has attracted other businesses and State offices.

Regent S. Johnson also remarked on how beautifully the Davis medical center area has been developed. She asked for some detail about how telemedicine works. Ms. Marsh explained that doctors use the internet to communicate with patients and doctors in outlying areas. Medical instruments such as fetal monitors are capable of transmitting information onto computer screens for analysis by specialists at the medical center. In this way, medical center doctors can conduct virtual consultations with patients and their personal physicians in real time, freeing patients from having to drive long distances for appointments, and primary care physicians can have the benefit of hearing first hand the opinions of the specialists on preferred courses of treatment.

Regent Davies wondered whether the medical center is fulfilling its compact with the State to educate a certain number of primary care physicians. Mr. Gurtner reported that the medical center is in compliance with the agreement, but he noted that pressure is mounting to reestablish as a priority the training of specialists.

Regent Lee recalled that for some time he had encouraged the development of a systemwide negotiation process for purchasing that could take advantage of volume discounts. Mr. Gurtner reported that the hospitals belong to national purchasing groups, but he agreed that more opportunities for saving money need to be found. Regent Preuss requested that at the March meeting the Regents be provided with an update on systemwide purchasing efforts. Regent Leach agreed about the importance of investigating all opportunities for cost savings. He hoped that there would be campus support for any initiatives designed to take advantage of large-scale purchasing.

Regent Davies asked how well affiliating with primary care networks is working for the Davis medical center. Ms. Marsh explained that the Davis primary care network consists of employees of the UC Davis Health System and not physician partnerships. She believed this method of affiliation is very successful and has resulted in improved patient satisfaction. In response to a question from Regent-designate Kohn, she explained that some of the primary care practices were purchased and some were expanded from existing groups of faculty who had gone out into the community. Mr. Gurtner noted that various arrangements with primary care networks have been tried at the University's medical centers. Some have been successful, and some have been disastrous. He believed that all bear careful monitoring to make sure that the standards by which they are meant to operate are being adhered to.

Regent Hopkinson recalled that the challenges facing the University's medical centers had been discussed often since she came on the Board. She requested a description of how those challenges have changed in the past year and how each medical center is

planning to handle them. Mr. Gurtner noted that the trends have not changed, but he agreed that such a presentation would be timely and could be prepared for the March meeting. He noted that the UC Davis Medical Center is in a unique position in that it has been able to cut expenses and build programs simultaneously. He emphasized that, even so, it is experiencing the same declines in per-unit revenue as the other medical centers. Each medical center is developing a plan to address the challenges of its individual environment.

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

Vice President Gurtner reported that the campuses are deeply involved in trying to reverse their current financial trends. He believed that it will be difficult for the Los Angeles and Irvine medical centers to meet their projections, and he pointed out that the San Francisco medical center is not expected to break even for two years. The downward trends are consistent across the board.

Regent Hopkinson believed that the reports should show year-to-date figures. Mr. Gurtner agreed that it would be helpful to revisit with Vice President Broome the content of the financial status reports to determine what figures are important to track in the current healthcare environment. Vice President Broome agreed that it would be helpful to revise the format used for budgets and projections, particularly in view of the anticipated tightening of profit margins.

4. **REMARKS OF SPEAKER VILLARAIGOSA**

Speaker Villaraigosa stated that he was excited about the new Governor's budget and was elated about the additional revenues that the Legislative Analyst has indicated will be available. He noted that the Governor has done a good job of keeping his commitment to make education his first priority, which he has demonstrated particularly for UC through his support of the Merced campus and his effort to provide more money for student aid and teacher development programs.

Mr. Villaraigosa commented on an article in the *Los Angeles Times* about the S.A.T. in which it was stated that students from private schools and schools in affluent areas account for a disproportionate number of requests for more time to complete the test and that the number of requests is escalating. President Atkinson responded that he had been alerted also by Regents to the situation of students' receiving additional time on the S.A.T. and that he would investigate the matter further.

The meeting adjourned at 10:50 a.m.

Attest:

Secretary