

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**

September 13, 2000

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

Members present: Regents Atkinson, Davies, S. Johnson, Khachigian, Kohn, Kozberg, Lansing, Lee, Preuss, and Sayles; Advisory member Seymour

In attendance: Regents Bagley, Connerly, Hopkinson, Leach, and Montoya, Regents-designate T. Davis and Morrison, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gomes, Gurtner, Hershman, and Saragoza, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 10:15 a.m. with Committee Chair Kohn presiding.

**1. APPROVAL OF THE MINUTES OF THE MEETING OF MAY 17, 2000**

Upon motion duly made and seconded, the Committee approved the minutes of the meeting of May 17, 2000.

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

Vice President Broome presented the activity and financial status report for the year ending June 30, 2000 for four of the University's five medical centers, noting that comparable numbers are not available for UCSF Medical Center because it was involved in the merger with Stanford Medical Center and its dissolution. She emphasized that the results that were presented were unaudited. Any significant adjustments that are made during the audit will be addressed at the November meeting.

Ms. Broome recalled that factors affecting the current operating performance of the country's academic medical centers have been discussed by the Regents many times. The managed care environment, which remains extremely competitive, has had the effect of flattening Medicare reimbursements, keeping revenues flat or in decline. She pointed out that the University's patient population has gone from 25 percent to 48 percent managed care during the past decade. The primary system for delivering and financing health care has become the managed care structure. The change in the level of commercial business is also dramatic. Fee-for-service and self-pay business during the same period has declined from 27 percent to 3 percent. On the expense side, there

have been some cost increases in specific areas such as pharmaceuticals and labor, but there have also been increases in volume. Patient loads at all of the University's medical centers have increased, generating higher costs. Outpatient levels have increased significantly also. A major component of the medical centers' cost strategy is to move patient care to an outpatient setting, where costs are less.

Ms. Broome recalled that the reports had begun to restate the operations of prior years in order to provide consistency and make it easier to track trends. She noted that the medical centers have begun to report separately any payments to the medical schools or to other aspects of the clinical and medical enterprise. She observed that operating income continues its general decline. UC Davis had a small drop because, although cuts in labor and other costs reduced its expenses, its depreciation increased because of new projects that came on line in the last year or two. UC Irvine experienced a drop in operating income because it received less disproportionate-share funding than in the previous year, although it had some increases in other aspects of revenue operations and price increases in some contracts mid-year. UCLA suffered from an adverse payor mix; 85 percent of its revenue comes from Medicare or from managed care contracts. It has experienced the greatest decrease in revenue on an adjusted discharge basis of any of the University's medical centers. It also has the lowest adjusted cost on a discharge basis. UC San Diego may close the year with an increase, with the help of SB 1723 funds.

Ms. Broome reiterated that any health systems support payments are shown separately in the reports. These payments are for various programs. UCSF has been included in these figures, although the information covers only the three months that it has been back within the University system. Support payments from the medical centers to other parts of the health system range from \$11.8 million annually at UC Davis to \$78 million at UCLA.

In answer to a question from Committee Chair Kohn, Ms. Broome explained that the category labeled "health system support" could include different things at each medical center. One of these is the development of a primary care network. Although the benefits of a strong primary care network are widespread, it is not considered a specific cost of the medical center. Certain programs in the School of Medicine also qualify for the category, and it may include salaries for faculty from the medical school who develop research programs that help patients in the hospital. These programs and initiatives may be necessary for the success of the health system, but they are not specifically expenses of the hospitals.

Regent Leach asked when more detail will be available on what the category includes. Ms. Broome indicated that she would provide that information after the numbers have been audited.

Regent Leach asked whether there is a financial forecast available for UCSF. Director Laret reported that the medical center expects a loss of \$8 million for the fiscal year.

He believed that the trend is toward improvement. It will be necessary to increase expenses while trying to improve the underlying operations such as billing and registration that affect financial performance. He predicted a rise in performance within three years.

Ms. Broome then compared the budgets of the medical centers with their actual financial performance. She noted that UC Davis was close to its budgeted target, having done an excellent job of controlling costs. UC Irvine received more subsidy funds than expected and had a 10 percent increase in outpatient visits and some improvement in contract prices that put it ahead of budget. As stated above, UCLA suffered from an adverse payor mix that put it behind its projections. UC San Diego also received unexpectedly high subsidy funds that put it ahead of budget.

Ms. Broome reported that a Council on Teaching Hospitals report had shown that the operating margins of the University's medical centers are higher than the national average. Although margins are decreasing generally, the University is helped by its \$164 million in extra support in the form of government subsidies. She emphasized, however, that continued receipt of these funds is always at risk.

The amount of cash on hand is related to the level of operation at each medical center. Cash levels declined slightly at all the medical centers except UC San Diego and significantly at UCLA. UCLA is using its cash for capital and other health system needs.

Regent Lee asked about the reliability of the data available for the UCSF Medical Center since the merger was dissolved. Ms. Broome reiterated that the numbers are unaudited. Data that were merged previously with Stanford's are not retrievable. It will be necessary somehow to isolate the figures for UCSF in order to provide the Regents with an indication of how the medical center is doing financially.

Regent Kohn noted that days of cash are an expression of liquidity or profitability. Programmatic increases are predicated on money coming from the medical center to cover debt service. He asked whether the fact that UCLA reportedly has no cash on hand is a cause for concern. Ms. Broome stated that, generally, low cash levels are a cause for concern. In the case of UCLA, the campus is making up for any shortfall in medical center funds as a stop gap. The medical center expects to get out of its difficult cash position. She noted that the Treasurer believes that having about 60 days of cash is a comfortable position in which to be.

Regent Bagley observed that the Clinton administration expects to add as much as \$50 billion in surplus funds to this year's budget. He asked how this could affect the medical centers. Assistant Vice President Sudduth reported that his office, along with a delegation of Regents and administrators from UC and other academic medical centers, had been working to secure additional funds for the nation's teaching hospitals. He was optimistic that the outcome of its efforts will be beneficial for the University. Chairman Johnson complimented his office and the University's 21-member health task

force, which visited all representatives in Washington who are in a position to affect the budget cap.

The meeting adjourned at 11:00 a.m.

Attest:

Secretary