The Regents of the University of California

COMMITTEE ON HEALTH SERVICES
November 15, 2001

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

Members present: Regents Atkinson, Davies, O. Johnson, S. Johnson, Kozberg, Lansing, Lee, Marcus, Preuss, and Seymour; Advisory member Terrazas

In attendance: Regents Bagley, Connerly, T. Davis, Hopkinson, Lozano, Montoya, Moores, Morrison, Parsky, and Sayles, Regent-designate Ligot-Gordon, Faculty Representatives Binion and Viswanathan, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gurtner, and Hershman, Chancellors Bishop, Cicerone, Dynes, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 1:20 p.m. with Committee Chair Lee presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 18, 2001 were approved.

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

Vice President Broome presented the activity and financial status report for the fourth quarter of 2001. For comparison purposes, she used data for the previous three years for the Davis, Irvine, Los Angeles, and San Diego medical centers and the previous year for the San Francisco medical center, reflecting its de-merge from UCSF Stanford Healthcare. She reported that the past full year reflected little change from the trends of the previous three years. The Davis medical center, which completed several major building projects and closed some unprofitable clinics, surpassed its year-end target and ended with a $34 million profit. The Irvine medical center, which experienced a large increase in outpatient business and negotiated new contract rates, ended the year with a $22 million profit. The Los Angeles medical center's problems of the previous two years continued. Its negative payor mix and reimbursement issues, combined with the cost of a retroactive salary increase, contributed to its bottom-line loss. The San Diego medical center exceeded its year-end projection, which was slightly below that of the previous year. The San Francisco medical center, which had expected to lose almost $10 million, lost $10.7 million. Ms. Broome emphasized that only the Irvine and San Diego medical centers had exceeded their budgeted targets and that this was due mainly to their receipt of governmental supplements.

The financial reports for the first quarter of the current year continued the overall trends. Ms. Broome reported that the Davis medical center, which experienced increased inpatient activity, nevertheless returned less money to its bottom line as a result of high costs. The Irvine medical center was twice as profitable as it was for the first quarter of the previous year, mainly because it is less dependent on Medicare than some of the other hospitals and so was not as affected by low reimbursement payments. The Los Angeles medical center, which in the first quarter of the previous year made about $5 million, this year lost over $4 million in that quarter. Its swing from quarter to quarter of over $9 million is due to a combination of changes in payor mix and its decline in the number of transfer procedures. The San Diego medical center also experienced a decrease from the previous year's comparable quarter. It is losing patients who are moving into lower-priced types of healthcare. The San Francisco medical center, which is recovering from the effects of its split with the Stanford Medical Center, had a profit of about $3 million versus a loss last year of $2 million. Ms. Broome noted that the Davis, Irvine, and San Francisco medical centers exceeded their budgeted targets, while the Los Angeles and San Diego medical centers were below budget, due mainly to changes in the payor mix. Days of revenue in accounts receivable improved at Davis and Irvine. Days of cash on hand, disproportionate share funding, and delayed supplemental payments caused reduced cash positions at Davis, Irvine and San Diego. Irvine has the least cash on hand, with San Francisco holding steady and Los Angeles depending on a loan from the campus, $5 million of which is outstanding.

Regent O. Johnson asked how the medical centers with insufficient cash positions intend to remedy their situations. Vice President Gurtner reported that his office works continuously with the campuses on their recovery plans. He recalled that the Los Angeles medical center, which has been the most seriously affected, employed The Hunter Group to analyze a series of issues and approve a two-year plan for recovery. The cash issue remains a short-term problem, and he noted that the medical center's expenses are the lowest in the system. The San Francisco medical center is positioned to improve its standing, Director Laret's having finished assembling his management team.

Dr. Karpf, Director of the Los Angeles medical center, recalled that at the July meeting he had indicated that this would be an important turnaround year for the medical center, which, although it had budgeted for a positive bottom line at end of the fiscal year, has experienced losses during the first five months. He was optimistic that, given the patient volumes and the terms of contracts not yet in effect and in the absence of any unexpected events, the medical center will end the year with a $10 million profit. He noted that getting on track in terms of cash on hand was an ongoing process that must be handled carefully in order not to damage academic programs that have been built up over time. He indicated his intention to provide an update on the progress of the recovery plan in a few months.

Mr. Gurtner emphasized the volatility of the health care environment, noting that a good financial report in any one quarter may be misleading. He believed that without aggressive day-to-day management, all the medical centers could quickly find themselves in financial difficulty. They are very dependent on a series of federal and State programs that can change at a moment's notice.

Regent Hopkinson expressed her concern that the administration is attempting to handle the problems facing the medical centers on a day-to-day basis rather than through a long-term strategy. Regent Davies shared that concern, noting particularly that whatever the recovery strategy was for the Los Angeles campus, it did not seem to be working. He requested an update on the recovery plan. Director Karpf reported that The Hunter Group had evaluated the medical center and determined that its recovery plan was a viable strategy. He noted that UCLA happens to be trapped in the worst reimbursement environment in the state. He reiterated his belief that it would turn a profit by the end of the year. Its census and activity over the last several years have increased substantially, and he believed that it is a much more viable clinical entity than it was five years ago. He recalled that in his July presentation to the Regents he had indicated that the medical center was investing resources in building its clinical base, and he reported that the effort was paying off; the medical center has been able to negotiate much better contracts with its major payors. Those increases came into effect in October 2000 and January 2001, which is why the budget was in negative numbers for the first half of the year and positive for the second. He believed that the financial picture will improve over the next several months.

Mr. Gurtner commented that the recovery plan for the Los Angeles medical center is demanding, but he believed it would succeed. He reported that his office and the Chancellor monitor its progress against a set of specific targets. He indicated that a formal presentation on the recovery was slated for the January Regents meeting. Much of the recovery in Los Angeles is in two areas. The first is to move substantial business from the Westwood to the Santa Monica campus; in other words, to move much of the fixed-price business to the lower-cost facility. The second is to increase revenues and collections so as to replenish cash.

Regent Davies believed it would be helpful for the Regents to receive monthly updates on the Los Angeles medical center's progress toward recovery.

Regent Marcus observed that if financial results deviate from the recovery plan targets by some given amount, that should trigger a deeper analysis and possibly a reforecasting. Such extended deviation indicates failure either of the execution of the plan or its basic strategy. He suggested that the monthly reports include a brief analysis of any deviations and a description of what actions would be taken to correct them. Mr. Gurtner agreed that this analysis would be made a part of the updates.

Regent T. Davis asked whether environmental and societal issues are taken into account when changes such as the moving of services from one hospital to another are contemplated. Mr. Gurtner responded that each campus has a marketing division that researches environmental and societal issues related to projects not only before they are approved but also while they are implemented. The broader societal issues such as how health care and medical education are to be paid for and delivered tend to be addressed on a systemwide level.

3. **UPDATE ON IMPACT AND IMPLICATIONS OF UPPER PAYMENT LIMIT CHANGES**

Vice President Gurtner provided a brief update on the upper payment limit changes. He noted that the five medical centers are largely dependent on sources that are not in the University's control. These are funding for medical education that derives from AB 1255 and AB 855, which during the past five years have delivered more than $50 million per year to the medical centers but which are due to sunset this year.

Mr. Gurtner reported that the administration is working with Assistant Vice Presidents Arditti and Sudduth on strategies to address the problems in which the medical centers find themselves. It is hoped that an anticipated reduction in federal support will be implemented over a period of years in order to allow the University time to formulate new ways of funding medical education. A coalition of organizations is working at both the state and federal levels to develop a series of alternatives to the previous funding program that will enable teaching hospitals to supplement their revenues for the long term as traditional revenue streams change. He noted that individual Regents may be in a position to help with the political aspects of this effort.

Committee Chair Lee observed that the University makes very little profit considering the large amount of business it conducts in the field of health care. He suggested that, in order to improve their cash positions, all the medical centers attempt to emulate the success of the San Diego medical center in reaching a goal of below 60 days for collecting receivables.

The meeting adjourned at 2:05 p.m.

Attest:

Secretary