

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

May 16, 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, Kohn, Kozberg, Lansing, Lee, Marcus, Preuss, and Sayles; Advisory member Seymour

In attendance: Regents Bagley, Connerly, Hopkinson, Miura, Montoya, and Moores, Regents-designate T. Davis and Morrison, Faculty Representative Viswanathan, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice President Mullinix, Vice Presidents Broome, Drake, and Gurtner, Interim Vice President Gómez, Chancellors Bishop, Carnesale, Cicerone, Greenwood, Orbach, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 12:50 p.m. with Committee Chair Kohn presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of March 14, 2001 were approved.

2. REMARKS OF THE COMMITTEE CHAIR

Committee Chair Kohn brought the Board up to date about a briefing that took place recently in San Diego that was developed in response to a request for further information regarding some of the financial activities of the medical centers. It was generated specifically by a question that was raised on the issue of transfers, the movement of funds between the medical centers and the medical schools. Four Regents were in attendance, as well as representatives from the San Diego, Irvine, and Los Angeles academic medical centers. Although the purpose of the meeting was to discuss the transfers, it became clear during the discussion that there was a greater problem to be addressed – the dependence of medical education upon the sources of funding from the hospital and the private practice plans of the medical faculty and the ways in which the funds are being used. It seems that two factors have affected those transfers – managed care, and the Balanced Budget Act that severely cut Medicare reimbursement. The consequences of those two actions have resulted in significant declines in funding availability for the support of medical education both directly and indirectly in terms of the movement of funds from the hospitals. Regent Kohn reported that, in an effort to identify the scope of the problem and perhaps to come up with solutions, Vice President Gurtner will develop a series of white papers, with the assistance of Vice Presidents Broome and Drake, to further clarify the issue. Regent Kohn believed that it would take

a concerted effort by the Board and the academic medical community in order to come up with a strategy, not just for the state of California but for the nation. He observed that, if the situation continues as it is, there will be major negative effects on medical education and research.

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

Vice President Broome reviewed the financial statistics for the first three quarters of the year, noting that major trends have not changed since the previous activity and financial status report. She recalled that the financial information contained in the report pertains primarily to four of the five medical centers, there being no cumulative information available yet for the San Francisco medical center.

Ms. Broome noted that over the last four years there has been a steady growth in patient activity at all the medical centers, which are following the national trend of moving patients to outpatient settings. UC Davis showed a decrease in this area because it closed four of its primary care clinics.

In 2000 there was an enormous drop in overall profits for the medical centers, primarily because the Los Angeles medical center lost almost \$50 million. UC Irvine was the only institution that did not show a drop in profits that year. The decreases were related primarily to poor reimbursements, managed care pressures, and the Balanced Budget Act. This year, the Medical Reform Act has alleviated some of the problem. Individually, Davis, Irvine, and San Diego showed increases over the prior year. Los Angeles is still operating at a loss, but the loss is about \$1 million less than the previous year, and it anticipates finishing the year on a break-even basis. San Francisco, which still has some heavy reorganization costs associated with the merger, anticipates a slightly more than \$10 million loss.

Ms. Broome reported that, compared to projections, actual results at all of the medical centers except Los Angeles were above budget. Los Angeles had a change in its patient mix, and its budget was affected by a retroactive pay increase.

Ms. Broome noted that changes to three of the University's supplemental support programs that would be detrimental to the medical centers are under discussion in government circles. She believed that the Regents and the University administration will need to be active in trying to convince the federal and State governments that these programs are essential to public hospitals. She emphasized that the reduction or loss of the supplemental money from SB1255 and 855 and other support would make it difficult if not impossible for the University's hospitals to show any profit. It remains to be seen how the Bush administration in Washington will react to funding medical education in the coming years.

Ms. Broome discussed financial position indicators, of which cash on hand is the most significant. Days of operations of cash on hand have been diminishing during the last

two years. Davis and Irvine have been affected by the slow distribution of cash from the SB855 and 1255 programs. Los Angeles has zero cash because it is suffering the effects of last year's losses. The Los Angeles medical center has a loan from the campus of \$35 million, about \$8 million of which is outstanding and should be paid by the end of this fiscal year. San Diego has increased its cash position, but San Francisco is very low with 12 days of cash on hand. Days of revenue in accounts receivable is another indicator that bears watching. At Irvine and Los Angeles the figure remained flat, while at Davis, where there were some very slow contract payors, it decreased.

Regent Lee observed that locations that are short of cash generally have the highest receivables. He believed that cash flow could be improved by directing more resources toward collecting the money owed. Ms. Broome responded that Los Angeles and San Francisco are working on the problem and expect to see improvement by year's end.

Regent O. Johnson stated that she had particular interest in the financial activities of some of the clinics associated with the University's medical centers. She requested a future report on the activity and financial status of the clinics, with an indication of how they fit into the total financial picture for the University's hospitals. She asked also what measures are being taken to overcome deficits at the medical centers. Ms. Broome responded that they are trying to control costs. Vice President Gurtner reported that outside consultants are working with the Los Angeles medical center to analyze where costs may be cut and where changes can be made in the building program. It is hoped that filling major staff positions at the San Francisco medical center will improve its chances to meet its projected break-even point by the end of 2003. He indicated that both campuses were planning to provide the Regents with updates on their financial status in the near future.

The meeting adjourned at 1:10 p.m.

Attest:

Secretary