

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**

July 18, 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 Sainick

In attendance: Regents Bagley, Connerly, T. Davis, Hopkinson, Montoya, Morrison, Parsky, and Sayles, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, Associate Secretary Shaw, General Counsel Holst, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gómez, Gurtner, and Hershman, Chancellors Berdahl, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, and Vanderhoef, Vice Chancellor Bainton representing Chancellor Bishop, and Recording Secretary Bryan

The meeting convened at 2:10 p.m. with Committee Chair Lee presiding.

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

Upon motion duly made and seconded, the Committee approved the minutes of the meeting of May 16, 2001.

**2. UPDATE ON MEDICAL CENTER, LOS ANGELES CAMPUS**

The Committee was informed that the turbulent health care market in California continues to challenge UCLA's school of medicine and medical center. Though patient volume has consistently increased, in recent years revenue per unit of service provided has declined. In response, the UCLA health system has worked to reduce costs over this period, and the medical center has narrowly avoided operating losses in fiscal year 2000 and the current fiscal year ending June 2001. The projections for the coming fiscal year indicate an improvement in operating income.

Over the past three years management of the medical center has worked to improve efficiency in operations throughout the health system. The number of employees has been reduced, leading to substantial increases in employee productivity. In addition to reducing staff levels, the medical center has vigorously pursued additional cost-saving opportunities, including management of pharmaceutical and supply costs.

The declines in reimbursement experienced in recent years are primarily attributed to contracts with managed care health plans and to changes in Medicare payment levels related to the Balanced Budget Act and have led to a strong focus by management on

improving revenue. Over this most recent year, revenue increases have been achieved in Medicare payment levels and contract rates negotiated with insurers, and as the result of a systemwide effort coordinated by the Office of the President, through an improved contract with Medi-Cal.

In spite of declining revenue, UCLA has continued to invest in program development and has provided substantial resources toward the development of the new Westwood and Santa Monica hospital replacement projects. As a result, cash reserves at the medical center have declined significantly in the past two years. Historically the medical center has operated with minimal cash reserves; however, prudent management practices and the expectations of the external finance community require that cash reserves be rebuilt. During the current fiscal year, the Chancellor's Office has supported the cash needs of the medical center through a line of credit. Reductions in programs supported by the medical center, as well as strong efforts to improve revenue cycle performance and the management of capital budgets, will result in improved cash projections and will eliminate the need for this line of credit in fiscal year 2002.

The investments of recent years have led to a more secure future for the UCLA health system. The volume of patients seen at the three hospitals that comprise the UCLA health system has continued to grow. The health system actively competes in the west Los Angeles marketplace for commercially insured patients and serves more than 200,000 patients through the Primary Care Network (PCN). Referrals resulting from the PCN, regional partnerships, and special programs for tertiary and quaternary care have driven patient volume increases both at the hospitals and for the clinical faculty. Long-term solutions are needed, however, given the delicate balance of funding for research, teaching, and patient care. Future capital needs are significant, and it will be increasingly difficult to fund these through hospital operations. Solutions must be broadly based and will have to be developed at the campus, University, state, and national levels.

In introducing the commentary of Dr. Levey, Provost of Medical Sciences and Dean of the Medical School, and Dr. Karpf, Vice Provost for Hospital Systems and Director of the Medical Center, Chancellor Carnesale emphasized the importance of remembering in the midst of its financial woes that the UCLA medical center provides first-rate service to Californians and others and to future generations. He noted that *U.S. News and World Report* recently voted it the best in the west and the fifth best in the nation.

Director Karpf provided details of the medical center's profitability. He recalled that UCLA was profitable during the first half of the 1990s and that its profits peaked in 1998 after cost-containment measures were instituted and there was a rapid increase in the census. FY 2001 should close with about \$3 million in profits, and 2002 with about \$10 million. He pointed out that serious problems emerged in the second half of 1999, when reimbursement dropped substantially and the payor mix changed. By the end of 2000, fewer than one percent of patients had traditional indemnity

insurance. It is likely that profitability will increase in the coming year as the medical center repositions itself in the marketplace and its supply and pharmaceutical costs are more severely contained.

Director Karpf recalled that the medical center is in the process of rebuilding its cash reserve. Low cash levels have been a problem for many years for the medical center following hospital replacements, physical plant improvements, and investments in the primary care network necessitated by a decline in the hospital census in the early 1990s. Over the last five years UCLA medical center has emerged as a three hospital system with an average daily census of 673 that is rising.

The UCLA health system has been through a major strategic planning process during its redefinition. Dr. Karpf reported that its marketplace breaks down into two distinct groups. The distribution for tertiary and quaternary care is equal; 47 percent is regional and 47 percent is from the primary service area, which is important to the clinical, teaching, and research missions of the University. The acquisition of Santa Monica Hospital in 1995 allowed for the enhancement of regional programs that increased the census. Part of the strategy to reposition the health system was to launch state-of-the-art information and business systems. However, Dr. Karpf observed that in the last several years the major accomplishment of the drive to reinvigorate UCLA's medical center was the emergence of the institution as a health care system rather than disparate hospitals and clinics. The dean has formed a board consisting of chairs of the departments and other senior clinical and administrative leadership that has oversight authority for day-to-day operations. Dr. Karpf reported that as director of practice plan operations he will build a management team that can align the incentives of the hospital and the practice plans in order to enhance the partnership between the faculty and the hospitals.

Provost Levey emphasized the complexity of academic medical centers, stressing that every component, whether the school of medicine, the practicing doctors, or the hospitals, engages in research, teaching and training, and patient care. If one part of the academic medical center is having difficulty, it reverberates throughout the system. He recalled that when he became Provost in 1994, at the height of the recession, the medical center was not functioning optimally. Since then, 15 department chairs and many faculty have been recruited, four new departments have been established, and millions of dollars have been invested in renovating hospital and laboratory space and building research space, all necessary requirements for sustaining the academic mission. Fund raising continues to thrive, but there is more work to do. The medical sciences have raised \$815 million in gifts and pledges, of which about \$305 million was directed to capital, including \$242 million for the hospital project. Another \$170 million is needed by 2005, but Dr. Levey was optimistic that it will be raised.

Dr. Levey cited as an important academic yardstick the health system's rise to seventh in the country in the receipt of National Institutes of Health grants. He noted further that seven of its departments are rated among the ten highest in their fields and that the number of outstanding doctors in its ranks places it in the top five in the country.

In response to a question by Committee Chair Lee, Dr. Levey reported that the health system anticipates a profit of \$10.5 million for the year, and he reiterated that the cash position should be substantially improved by next year. He reported also that work on the UCLA and Santa Monica hospitals is progressing well.

Regent Kozberg asked whether the renovation of other local hospitals and the establishment of a medical school at University of Southern California would have an impact on the medical center. Dr. Karpf believed that the UCLA medical center is in a strong position and would not be affected adversely. In response to a further question, Dr. Levey reported that, although there is a national shortage of nurses and pharmacists, the medical center has not lost premier employees or recruits to better offers from competitors. He believed that the University's reputation continues to make it a popular place in which to work.

Regent Marcus asked how the health system administration is able to offer competitive financial packages for world class professors, given its limited resources. Dr. Levey explained that recruitment packages are very complicated and often very expensive. A researcher is generally brought in by using a donor fund of about \$5 million that is at the Dean's discretion, combined with Opportunity Funds and a 5 percent tax that is placed on fees received for professional services rendered by doctors. To recruit a scientist takes between \$350,000 and \$750,000 beyond salary. For a clinical program, the package may reach \$2.5 million. Each unit concerned must contribute. He reported that he had established a committee to distill requests from programs and establish priorities on how much to spend and where. Chancellor Carnesale emphasized the importance of having faculty cooperation in this endeavor. President Atkinson observed that continuing to recruit faculty of the highest quality is key to the future of the health system.

[For speakers' comments, refer to the minutes of the July 18 meeting of the Committee of the Whole.]

### 3. **REPORT ON WASHINGTON, D.C. HEALTH FORUM**

Assistant Vice President Scott Sudduth commented on a recent health forum in Washington, D.C. attended by Chairman S. Johnson and senior leadership from the University's medical campuses and the Office of the President. He believed the trip provided an important first opportunity to meet with the leadership of the new administration, including personnel from agencies with jurisdiction over Medicare. He was hopeful that there would be some relief from regulatory issues that burden the University's medical enterprises, including compliance requirements with regard to Medicare billing. He reported that on the trip the University worked with the University of Texas, with which it will continue to collaborate in an effort to affect the distribution of federal funds for health care.

Chairman Johnson commented that the alliance with the University of Texas was a brilliant strategic move. She believed that the University had made some friends in Washington and laid the groundwork for future efforts.

The meeting adjourned at 3:15 p.m.

Attest:

Secretary