

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**

July 17, 2002

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

Members present: Regents Atkinson, Davies, Johnson, Kozberg, Lansing, Lee, Marcus, Moores, Preuss, Sainick, Sayles, and Terrazas

In attendance: Regents Blum, Bustamante, Hopkinson, Ligot-Gordon, Lozano, and Montoya, Regents-designate Bodine and Seigler, Faculty Representatives Binion and Viswanathan, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gurtner and Hershman, Chancellors Berdahl, Carnesale, Cicerone, Córdoba, Dynes, Tomlinson-Keasey, Vanderhoef, and Yang, Executive Vice Chancellor Kelly representing Chancellor Bishop, Vice Chancellor Michaels representing Chancellor Greenwood, Laboratory Director Anastasio, and Recording Secretary Bryan

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

1. **REMARKS OF THE COMMITTEE CHAIR**

Committee Chair Lee noted that there is a shortage of doctors in California. Each year about 700 doctors are trained out of the 2,100 that are needed in order to assure that the quality of life to which Californians are accustomed can be sustained. He reported that in the fall there will be a presentation about the situation and the ways in which it can best be addressed.

2. **AUTHORIZATION FOR SCHOOL OF MEDICINE AND MEDICAL CENTER, LOS ANGELES CAMPUS, TO ESTABLISH A LIMITED LIABILITY CORPORATION WITH HEALTHSOUTH CORPORATION FOR THE PURPOSE OF DEVELOPING A FREESTANDING ACUTE CARE REHABILITATION HOSPITAL**

The President recommended that:

- A. The President, in consultation with the General Counsel and the Vice President for Clinical Services Development, be authorized to execute documents necessary for The Regents, on behalf of the School of Medicine, Los Angeles campus, and the University of California, Los Angeles Medical Center, to form a limited liability company (LLC) with HealthSouth Corporation, a publicly traded rehabilitative health care services provider. The purpose of the LLC

will be jointly to develop a HealthSouth-managed, 56-bed acute care rehabilitation hospital located in Santa Monica, to be known as the HealthSouth – UCLA Rehabilitation Hospital.

- B. The University's start-up capital contributions to the LLC shall not exceed \$1.2 million or 15 percent of the total initial capital investment. The University's funding for the proposed start-up capital will consist of in-kind contributions related to the transfer of the current value of the Medical Center's existing neuro-rehabilitation unit. HealthSouth will make an 85 percent capital contribution and will share gains and losses in an 85:15 ratio with the University.

It was recalled that the UCLA Medical Center at Westwood operates an 11-bed neuro-rehabilitation unit (NRRU) that provides rehabilitative care to high acuity neurosurgical and neurological patients and serves as a research and teaching site for neurology and rehabilitative medicine. Because the NRRU operates near its optimal capacity, UCLA patients who are unable to be admitted into it are referred to other local community hospitals with acute rehabilitation units and are followed by non-UCLA faculty.

In addition to its limited beds, the NRRU is faced with a new financial challenge in that Medicare, the payer for approximately 44 percent of the NRRU's patient mix, is implementing prospective payment system (PPS) reimbursement reductions, beginning in the fall of 2002. The reductions will effectively reduce UCLA's Medicare reimbursement from an average of \$21,000 per case to a new PPS payment per case of roughly \$14,000. This would amount to a reduction in net revenue of approximately \$658,000 for the NRRU program.

Another consideration in evaluating UCLA's inpatient neuro-rehabilitation service is the need to increase Westwood's current medical/surgical bed capacity. The UCLA Medical Center has a total of 431 adult medical/surgical beds, 68 of which are intensive care, and it has 363 acute care beds, excluding 15 beds located at the Jules Stein Eye Institute. From January to March 2002, the adult medical/surgical patient average daily census was at capacity. Converting the current eleven NRRU beds to an equal or higher number of medical/surgical beds would ease the medical center's constrained bed capacity.

Closure of the NRRU is not considered an option, because the medical center would not be able to meet its neuro-rehabilitative medicine research and academic commitments, and the volume and high clinical acuity of the NRRU's patient mix limits options for placement in other local rehabilitation programs. The acceptable option is to enter into a joint venture with the national rehabilitation provider, HealthSouth Corporation, and to develop a 56-bed acute care rehabilitation hospital in Santa Monica. Under this arrangement, the University will have a minority interest in the acute rehabilitation hospital. HealthSouth will be responsible for managing and operating the venture. This freestanding acute care rehabilitation facility will allow

UCLA to continue and broaden its neuro-rehab research activities, offer a modern state-of-the-art facility with high quality of care, provide its medical residents with an attractive teaching environment, and free up beds at Westwood which can be converted to medical/surgical bed designation.

#### Description of HealthSouth Corporation

Since its incorporation in 1984, HealthSouth Corporation has grown to become the nation's largest provider of outpatient surgery, outpatient diagnostic, and rehabilitative health care services. As of December 2001, this publicly-traded company has nearly 1,900 locations in the U.S., Puerto Rico, and Australia, including 1,415 outpatient rehabilitation centers, 118 rehabilitation hospitals, 4 medical centers, 213 surgery centers, and 135 diagnostic centers. HealthSouth generates approximately \$4.4 billion in annual revenues, with profits exceeding \$200 million, and has nearly \$7.6 billion in total assets. Within southern California, HealthSouth assets include 52 outpatient therapy locations, 2 inpatient rehabilitation hospitals, and 50 surgery centers. Five of the 118 rehabilitation hospitals are joint ventures with academic medical centers.

#### Market Assessment

HealthSouth's interest in the proposed joint venture is driven, in part, by favorable results from acute care rehabilitation bed analyses that its staff conducted last fall. The analyses show a shortfall in Los Angeles County of at least 360 acute care rehab beds. It is anticipated that the joint venture will attract patients from throughout Los Angeles County, because acute rehabilitation services are driven by physician referral and tend to be regional in nature due to the degree of specialization required for the treatment of such patients. A second analysis performed by HealthSouth estimated that the UCLA Westwood and Santa Monica hospital patient base could provide an acute rehab referral base of 67 patients as an average daily census. This ADC would require an 82-bed acute rehabilitation facility, when a rehabilitation capacity rate of 82 percent is applied.

HealthSouth has the breadth, depth, and track record as a provider of acute rehabilitation services that make it an attractive partner for the joint venture hospital. HealthSouth understands and is well positioned to manage the impacts of the new PPS reimbursement reductions, as it served as a consultant for the Center for Medicare and Medi-Cal Services to develop these new PPS rates.

#### Description of the Proposed Acute Rehabilitation Hospital Joint Venture

The UCLA - HealthSouth rehabilitation hospital will be housed on two floors in an existing skilled nursing facility (SNF), Berkley East Convalescent Hospital. This 207-bed licensed SNF is located four blocks east of Santa Monica - UCLA Medical Center. The Berkley East facility opened in August 1999 and is structurally sound. Berkley East Convalescent Hospital has been owned and operated by the Saul Galper family since 1970. Since the Galper family has been selective in accepting patients

and uses part of the facility for plastic surgery aftercare, this skilled nursing facility has operated at only a 51 percent occupancy rate. As a result, the facility is just starting to break even. HealthSouth is currently in negotiations, on behalf of the joint venture LLC, to secure a ten-year lease for rental of two patient floors, with an option to lease a third patient floor.

The joint venture hospital will be equipped with state-of-the-art equipment and skilled staff to provide high quality, comprehensive inpatient rehabilitation care, available to UCLA patients and others. HealthSouth will be contracted to manage the hospital and hire staff. UCLA faculty will provide clinical leadership through a part-time administrative medical director and part-time medical directors in neurology, orthopedics, and neurosurgery. Radiology, laboratory, and respiratory therapy, which will be provided by UCLA through subcontracts, could generate an additional \$100,000 of net revenue annually for UCLA. HealthSouth will provide space and support for clinical research by UCLA faculty.

#### Principal Terms of Joint Venture Acute Rehabilitation Hospital Proposal

While UCLA and HealthSouth are continuing to negotiate the terms and conditions of this joint venture, the following is a summary of the most salient terms for the LLC. These and other terms will be incorporated in the UCLA - HealthSouth operating agreement.

- The proposed initial term for the acute rehabilitation hospital joint venture and for the facility lease is 10 years, at the end of which the joint venture and facility lease can be extended in 5-year increments, but only upon the consensus of the Governing Board of the joint venture.
- UCLA seeks a 15 percent ownership position in the proposed HealthSouth – UCLA acute rehabilitation hospital joint venture. At this level of equity participation, UCLA's initial capital investment will be valued at \$1,150,000. UCLA will not need to make a cash outlay for this amount since the capital investment will be offset through the transfer of the market value of UCLA's existing neuro-rehabilitation unit and the goodwill associated with UCLA's brand and reputation.
- HealthSouth will provide financial support for 1.1 FTE medical directors. The Medical Director of the overall joint venture program will be appointed from the UCLA faculty. This 0.5 FTE position will provide overall medical administrative leadership and work closely with the facility administrator in the facility. Additional part-time (0.2 FTE) medical directorships will also be appointed from the UCLA faculty in specialty areas including, for example, orthopedics, neurology, and neurosurgery. UCLA would expect that the combined work effort of the 1.1 FTE medical directors would require annual compensation equal to \$200,000.

- HealthSouth will provide UCLA research space within the rehabilitation hospital. The space needed for research should be able to be accommodated within the context of existing clinical treatment space. If additional research office space can be carved out, this will be included as well. Any build-out costs associated with the dedicated research space should not exceed \$250 per square foot, and these costs will be assumed by the joint venture.
- As a partial offset against UCLA's contribution of the NRRU, HealthSouth will provide funding of \$1.7 million, over 10 years, earmarked for rehabilitation and related research. These dollars will be distributed to UCLA as preferential distribution, in \$150,000 annual installments during the 10-year initial term of the joint venture, with an additional \$50,000 distributed in years two, three, four, and five.
- The parties will cooperate to establish a clinical research network across 8 to 12 HealthSouth acute rehabilitation facilities.
- The joint venture will contract with UCLA, at fair market value, to provide the laboratory, radiology, and respiratory therapy services, as well as other services required to support the rehabilitation hospital.
- Uses of the UCLA name within HealthSouth marketing material and otherwise will be presented to the Governance Committee for approval, with the appreciation that all uses will be required to follow any UCLA Medical Center media, logo, and branding guidelines.
- HealthSouth and UCLA agree to enter into a reciprocal non-compete arrangement for acute inpatient rehabilitation within defined geographic boundaries mutually agreed to by both parties.
- Consistent with all applicable laws and regulations, UCLA shall be given the option to hospitalize its patients over non-UCLA patients in the joint venture, acute care rehabilitation hospital.
- HealthSouth will receive a management fee that equates to 5 percent net revenue, which will be paid by the joint venture. This fee is to offset the costs associated with marketing, program development, managed care contracting, information systems, and corporate support that HealthSouth intends to provide for the joint venture rehabilitation facility.
- Joint operating governance will be structured such that the University of California has minimal risk in taking on debt, borrowing cash, or taking on the covenants of the primary lessee. UCLA will have a 30 percent representation on the governance committee of the limited liability corporation, with certain issues that come before the committee requiring a consensus vote.

### Benefits to the UCLA Clinical Enterprise

Benefits that the UCLA clinical enterprise will accrue from the joint venture including the following:

- UCLA's neuro-rehabilitation and research unit is considered one of the premier bench-to-bedside research centers. The NRRU has been the recipient of \$500,000 of NIH funds annually during the past eight years, with another \$1,000,000 annually for translational rehabilitation research. The 56-bed joint venture will provide an opportunity to expand the scope of UCLA's neuro-rehabilitative clinical research with not only a larger patient base, but with the investment of HealthSouth resources. The UCLA director of the NRRU believes that the joint venture has the potential synergy to pilot practical clinical interventions to improve patient outcomes, which could be disseminated across key HealthSouth facilities for randomized clinical trials. HealthSouth is demonstrating its research commitment by making this trial network a reality and by providing UCLA faculty research space.
- The Westwood campus will benefit from the proposed joint venture by allowing the medical center to increase its adult medical/surgical bed complement. The current NRRU can be converted into 15 to 19 adult medical/surgical units, which will help address the medical center's current general acute care demand. This bed conversion has the potential to enhance Westwood's financial performance: the incremental net income projected from converting the 11-bed NRRU to a larger 15 or 19 bed medical/surgical service has been estimated to range from \$2.5 million to \$3 million per year.
- The proposed joint venture will retain a teaching site for appropriate UCLA medical residents. It will provide continuity of care across the continuum for patients requiring neuro-rehabilitative care. It will enable UCLA to access the management expertise of the largest national rehabilitation company. Finally, it may provide an additional source of revenue, albeit limited, through distributions of net income and through selected UCLA contracted ancillaries.

### Risks to the UCLA Clinical Enterprise

The proposed joint venture has been structured to mitigate UCLA's financial risk. UCLA has opted to acquire only a 15 percent stake in the joint venture, the minimum level of participation required by HealthSouth. Furthermore, UCLA will not have to raise cash for its portion of the start-up costs. UCLA's initial capital contribution of \$1,150,000 will be offset by the transfer of the existing NRRU assets. Should the joint venture fail, UCLA's financial exposure would be limited to paying 15 percent of the building lease, assuming the space is not subleased, for the term of the lease and nominal working capital for payment of utilities, assuming operations cease, or approximately \$2 million to \$ 2.5 million. This estimate is very conservative, since it assumes UCLA's financial risk for the entire 10-year period.

UCLA faculty physician leadership and key physicians most affected by the proposed joint venture support this proposal. Key physicians have been kept informed on the discussions with HealthSouth, and have participated in a site visit of HealthSouth joint ventures with other academic medical centers. In addition, the proposal has obtained broader organizational support through its approval by the medical enterprise's strategy committee. Nevertheless, while UCLA faculty will be encouraged to use the acute rehabilitation hospital, their use of the facility is not mandatory. Should UCLA physicians choose not to use the facility, a longer time frame may be required to reach profitability. Should UCLA physicians not support the joint venture hospital, HealthSouth would most likely encourage use of the acute rehabilitation hospital by non-UCLA community physicians to achieve profitability.

The joint UCLA - HealthSouth acute care rehabilitation hospital will be staffed by HealthSouth employees. Efforts will be made to minimize UCLA employees affected by this staffing change. There are approximately 30 non-physician FTEs who service the rehab unit. The majority are nurses and patient care partners, who will be transferred to other areas of the hospital. The rehab therapists, who rotate with the ambulatory rehabilitation therapists, will be absorbed by outpatient care.

#### Risks in Not Pursuing the Joint Venture

There are at least three risks associated with a decision not to proceed:

- HealthSouth may decide to go ahead with developing a Westside acute care rehabilitation hospital with another partner or alone, effectively becoming a local competitor for the Westwood rehabilitation unit.
- UCLA would lose the opportunity to convert Westwood's neuro-rehabilitation unit into medical/surgical beds or intensive care unit beds, resulting in a loss of incremental net income of \$2.5 million to \$3 million dollars per year.
- Maintaining the existing neuro-rehab unit will result in a reduction of \$658,000 of Medicare revenue, thereby reducing the overall viability of the NRRU.

Conclusion

The proposal will enable the school and medical center to continue its neurosciences research and academic commitment and expand the current and future medical/surgical bed capacity in the medical center. UCLA will provide an annual written update as to the status of the HealthSouth – UCLA Acute Rehabilitation Hospital joint venture.

In response to a question by Regent Johnson, Hospital Director Karpf affirmed that HealthSouth is publically traded on the New York Stock Exchange. He noted that its stock has been performing quite well, given the volatility of the market. In response to a further question, he stated that it is hoped that all of the patients who will fill the facility will come from UCLA programs. UCLA will be responsible for the administration of the facility and the clinical care of its patients. If it is not filled with patients referred from UCLA, it will be opened to other patients. He explained that the board of directors, the governance committee for the facility, will be split 70:30. The University has expressed the need to HealthSouth that it have a supermajority structure for the board in order to protect all the prerogatives of The Regents. The elements of the final agreement will be negotiated with the help of the General Counsel. Regent Johnson asked that the role of the University in the auditing process be spelled out in the agreement.

Regent Hopkinson asked about the level of reserves and working capital during the first year of the LLC. Director Karpf noted that 30 or 40 patients will be placed at the new facility immediately and that it should be filled to capacity within the first few weeks. HealthSouth will provide any additional working capital that is needed.

Regent Blum was concerned about HealthSouth and asked how the quality of care it provides had been assessed and what control the University will have to see that the facility is managed properly. Dr. Karpf reported that he and his colleagues had visited two of HealthSouth's flagship facilities, one at Vanderbilt University, where they reviewed staffing patterns and met with the medical director, the director of trauma services, and several other physicians to assess their level of comfort with the services provided. The University will have the right to appoint all medical directors and set all medical policy for the proposed joint venture at UCLA. Also, the University will have a physician on the governance board and intends to negotiate exit clauses both for cause and non-cause if it is determined that HealthSouth is not living up to its commitments. He noted that administrators and doctors at Vanderbilt and the University of Missouri expressed a high level of comfort about the quality of care that HealthSouth was providing at their facilities.

Regent Lozano asked about the relations between HealthSouth management and its workforce and about the status of the LLC's employees. Dr. Karpf described the relations as very good. UCLA's employees will have the opportunity either to take other medical center employment or to transfer to the joint venture.

Regent-designate Seigler asked about the relationship of Berkley East to physicians who are not UCLA full time faculty. Dr. Karpf responded that the small number of beds in UCLA's rehab facility, which was established mainly for research, does not provide the space needed to treat the complex cases of patients acutely in need of rehabilitation following such procedures as organ transplants. The new facility will allow UCLA's physicians to monitor their patients constantly. Berkley East has been only 58 percent occupied because, although it is attractive, it is very expensive. To make sure the facility is used, other types of programs are carried on there. Although the facility will have an open medical staff, the majority of its doctors and patients are expected to come from UCLA.

Regent Sayles asked for elaboration about the exit strategy that the University hopes to negotiate. Dr. Karpf reported that the University must have the ability to terminate the arrangement on grounds such as that the quality of care is substandard or the financial management is suspect. He noted that the University's quality of care and its visibility in the community, and not its financial commitment, are the elements that are driving HealthSouth toward the joint venture.

Regent Hopkinson expressed surprise that the recommendation was not for a fully negotiated agreement. Dr. Karpf explained that he would never enter into final negotiations for a joint venture without Regental approval. The General Counsel's Office and the President's Office will review the final agreement to ensure that the Regents' concerns have been addressed and that the University is fully protected.

Committee Chair Lee summarized the Regents' concerns, noting that they expect the final agreement to give the University control over the quality of care provided at the facility and the ability to withdraw for cause or not for cause, and that the General Counsel's Office ensure that the interests of the University are protected.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

### 3. **UPDATE ON UCD HEALTH SYSTEM, DAVIS CAMPUS**

Chancellor Vanderhoef recalled that the general fiscal health of the UC Davis Health System has been good for the past 20 years. He introduced Medical Center Dean Silva, Medical Center Director Chason, and Associate Director for Planning and Construction Boyd to provide an update on the system.

Dean Silva recalled that June marked the 30<sup>th</sup> anniversary of the UC Davis School of Medicine. The relatively young institution has created what he believes to be a unique learning environment and has made essential contributions to the health and well being of the people of Northern California. UC Davis has a health system built on collaboration. As California's northernmost medical school and the only one serving the north Central Valley, UC Davis plays a critical role in shaping healthcare delivery in the region. Half of the area's medical providers receive their training there.

Rural communities make up the majority of a 50,000 square mile region that has several medically underserved counties. Distance education allows the medical center to overcome geographical barriers and to meet the needs of a variety of healthcare professionals. The telemedicine learning center has provided hands-on training for more than 500 healthcare professionals. Telecommunications technology and new high-speed fiber optic connections between the University's Sacramento and Davis sites provide a new way of training first- and second-year medical students, giving them access to real-time clinical procedures, and enhances collaborations between clinicians and scientists.

Mr. Silva reported that the health system's research strategy has been to focus on its strengths and leverage them with those of other schools and colleges on the Davis campus. UC Davis is well-positioned for collaborative research, with its strength in biological sciences, primate research, veterinary medicine, comparative medicine, food science and nutrition, and biomedical engineering. Research funding at the school of medicine has nearly doubled over the past five years, and initiatives are in place to increase funding further. The cancer center has received designation by the National Cancer Institute, which lauded its partnership with Lawrence Livermore National Laboratory as a model for the future. This partnership involves 200 scientists working in 12 disciplines. A new grant from the National Science Foundation will establish a center for biophotonics at UC Davis. The center will bring together scientists from 11 top universities and laboratories working to expand the use of light in living tissues. The M.I.N.D. Institute is partnering with parents, educators, physicians, and researchers to build a center for the study and treatment of neural developmental disorders. The institute's new facility, which is expected to open in the spring, is designed to enhance collaborations and cross-disciplinary research. A campuswide initiative is under way to position UC Davis as an international leader in functional and comparative genomics. This creates new possibilities for drug discovery. A new facility, the largest on the Davis campus, that will co-locate programs in genomics, biomedical engineering, and molecular medicine, will be completed in July 2004.

Mr. Silva reported that UC Davis is poised also to make significant contributions to the state and nation in public health. Proposals are being developed to establish multidisciplinary centers to take advantage of the available expertise in emergency preparedness and infectious diseases. The Western National Center for Biodefense and Emerging Diseases will establish a regional, high-containment laboratory for the study of infectious organisms which will house the existing center for vector-borne diseases and a proposed center for zoonotic and emerging diseases. The California Center for Preparedness aims to develop systems, technologies, and procedures to improve the state's ability to respond to large-scale bioterrorist threats. The initiative seeks to streamline communication infrastructure, coordinate training and education, foster multidisciplinary research, and apply biodefense systems to public health.

Director Chason provided an update on clinical initiatives. He reported that the campus has achieved success through a strategic approach and organizational culture

built on partnerships, collaboration, and outreach, all of which are in the public interest. In the current economic environment, with the cost of healthcare and the number of uninsured Californians rising, it is especially important to avoid unnecessary duplication of resources.

Mr. Chason observed that economic vitality and the quality of life are improved in rural communities when healthcare services are made available there. Providers in small rural hospitals have indicated that their link to UC Davis is crucial to their ability to care for patients. The Center for Healthcare Technology is the lynchpin to all the collaborative outreach efforts. The medical center's extensive telemedicine network has more than 70 sites concentrated in northern California and the Central Valley, in mostly rural areas. In collaboration with hospitals in Redding and Mount Shasta, the medical center is bringing pediatric intensive care to injured and ill children. With a gift from the Hearst Foundation, the program is being expanded to at least three additional rural communities. Another project, a teleinterpreting program, has been developed that allows for remote language translation services for non-English-speaking and hearing-impaired patients during medical visits. This program can help other hospitals meet the needs of California's diverse population. Partnerships with hospitals are key to enhancing specialty care throughout the region. With Mercy Hospital in Merced and Fremont Rideout Hospital in Marysville and Yuba City, the medical center launched jointly operated cancer centers. In their first year of operation, these two regional centers exceeded all expectations. Their high patient volume has helped the medical center achieve its financial objectives sooner than expected. In addition, the enlarged patient base offers expanded training opportunities for students and allows more patients access to clinical trials. They have strengthened the medical center's relationships with physicians and hospitals in these communities, opening the door for other collaborative projects and outreach.

Mr. Chason noted that the sister campuses within UC are valuable partners in the quest to leverage resources and serve the community. A new partnership with UCSF, the Pediatric Heart Center, shares faculty, outreach programs, and telemedicine expertise to deliver pediatric care in Sacramento without duplicating the efforts of either institution. With UCLA, UCD is assessing a proposed collaboration to provide expertise in advanced lung disease. This partnership will mean more transplant patients for the existing program at UCLA and will expand UCD's research and academic programs. The UC Laboratory Outreach Consortium, a pilot project initiated by UC Davis, is examining the efficiency of sharing laboratory resources across the University's five medical centers. These are just some of the many collaborative programs.

Mr. Chason believed that the UC Davis Medical Center has maintained financial stability for the past 15 years through careful strategic planning, integration of the school, the hospital, and the medical group, and a cultural and team spirit that pays attention to financial performance. Key financial indicators for the year ended June 30, 2002 show that UC Davis Health System will finish the year in a strong position. A significant portion of its programs remain government funded, and it

continues to be the predominant provider of care to unfunded and under-funded patients in the region. Because it has significant business in capitated contracts, it is essential to manage costs while maintaining the quality of care. The demand for the medical center's services is at an all time high. The hospital is at capacity, hospital admissions and outpatient visits are up, and average length of stay is down. Rating studies have demonstrated that there is a high level of job satisfaction and a low turnover among its employees.

Mr. Chason reported that outreach into underserved areas of the state will continue to be expanded, not just with telemedicine, but with many other collaborative projects designed to enhance healthcare delivery. The medical center's primary care network will be expanded in communities that are experiencing rapid growth. Throughout the organization there will continue to be an emphasis on cost management and revenue enhancement strategies that will allow the medical center to achieve the financial objectives required to remain a healthy organization with the ability to meet future challenges.

Director Boyd addressed construction plans for the medical center. He recalled that in January 2001 the Regents were provided with an update of the master plan and a program for addressing the mandates set forth in SB 1953, which sets time limits on seismic safety compliance. The hospital's biggest seismic program is related to the north/south wing, constructed in 1928, around which an addition was built in the '40s. It is planned to demolish the wing in 2007. The only level one trauma center in the Sacramento region is located there, along with other key programs. The hospital's east wing will be renovated, followed by the buildout of the Davis Tower and the construction of an addition into which the emergency department will move. The new plan will make it possible to retain forty-five more beds than were identified in the original plan.

Director Boyd compared the financial components of the original plan to the new plan. The total cost is 6 percent more than the original estimate, but the new plan will cause less disruption, has fewer unknown elements, will cost less in the long term, will provide seismic-compliant space for key services, will provide the flexibility to increase bed capacity, and will enhance operations.

Chancellor Vanderhoef summarized the administration's themes for the medical center into the future as leverage, collaboration, cooperation, and pro-active management.

Regent Kozberg asked how State funding for the M.I.N.D. Institute has been affected by the State's budget and whether the California Center for Preparedness is located on the campus. Director Chason responded that the M.I.N.D. Institute's budget was cut by 5 percent. The biopreparedness center is a virtual State center that uses expertise from the Davis campus and medical center. Campus agricultural researchers and the veterinary school will be involved also, and the State Department of Health has provided a satellite link to tie the center to other campuses.

Regent Hopkinson asked what the financial health of the hospital is expected to be in the long term. Director Chason reported that the medical center administration is analyzing ways in which to reduce costs, increase revenues, and, if necessary, delay planned capital projects. A ten-year capital plan is being developed, with focus during the next few years on moving toward the development of an electronic medical record. He believed that the medical center would continue to have a strong bottom line based upon its ability to negotiate contracts and reduce costs.

Committee Chair Lee, noting the medical center's extensive service area in the Central Valley, asked whether an attempt would be made to increase the number of students accepted to the medical school. Mr. Chason noted that about half of the physicians who are residents of California get their training out of state, thereby losing out on the cost advantages of attending a State school and the benefits of the high-quality faculty at the University. He reported that Vice President Drake has launched a study on how to increase admissions, but he noted that the State controls the extent to which admissions may be increased.

Regent Montoya asked how the medical center intends to increase its outreach to underserved populations. Chancellor Vanderhoef reported that expanding its telemedicine efforts will be the most effective strategy. He believed that eventually doctors at medical centers will be conducting surgery at remote locations through the use of robotics.

Regent-designate Seigler asked about one of the medical center's accomplishments – designation as a magnet nursing program. Mr. Chason explained that a nursing accrediting organization presents that designation following an examination of the kinds of services offered, the level of staffing per patient, and the quality of service provided at an institution.

In response to a question by Regent Lozano, Mr. Chason reported that the medical center is working with small private hospitals to develop a hub-and-spoke approach to healthcare in northern California. The Davis medical center, which focuses mainly on tertiary care, is making an effort, through the use of telemedicine and other media, to make hospitals in outlying areas better equipped to care for their patients and encourages them to refer the sickest of these to the Davis hospital.

#### 4. **STATUS REPORT ON FEDERAL HOSPITAL FUNDING**

Vice President Gurtner commented that the financial exposure of academic medical centers is dependent on what happens to the State budget with regard to Medi-Cal programs. He noted that the State supports much of the University's safety-net health services through matching programs with the federal government. The University has budgeted with the assumption that this support, which represents about \$100 million annually to the five University medical centers, may diminish.

Assistant Vice President Sudduth provided an update on federal funding. He reported that the threat to Medi-Cal funding is of such great importance to the healthcare network of California that the University has needed to build a broad coalition to take its concerns to Washington. The coalition includes the California Healthcare Association, the Association of Public Hospitals, children's hospitals across the state, the Governor's Office, and a congressional delegation led by Congressman David Dreier. Although there is strong bipartisan support for the University on the issue, Mr. Sudduth was not optimistic that the delegation would be entirely successful.

The meeting adjourned at 10:30 a.m.

Attest:

Associate Secretary