The Regents of the University of California

COMMITTEE ON HEALTH SERVICES
November 20, 2003

The Committee on Health Services met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents Davies, Dynes, Huerta, Johnson, Moores, and Seigler

In attendance: Regents Bodine and Montoya, Regent-designate Anderson, Faculty Representative Blumenthal, Secretary Trivette, General Counsel Holst, Senior Vice Presidents Darling and Mullinix, Chancellors Cicerone, Chandler, Córdova, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 1:10 p.m. with Committee Chair Davies presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of September 17, 2003 were approved.

2. **UPDATE ON SCHOOL OF MEDICINE AND MEDICAL CENTER ACUTE CARE REHABILITATION SERVICES, LOS ANGELES CAMPUS**

It was recalled that at the July 2002 meeting, the Regents were presented with a proposal by the David Geffen School of Medicine at UCLA and the UCLA Medical Center to form a limited liability company (LLC) with HealthSouth, a publicly traded rehabilitation company, for the purpose of jointly developing a free-standing, acute-care rehabilitation hospital. The primary benefits associated with this proposed joint development project were to free up additional beds in the Westwood replacement hospital for medical/surgical patients and to enable UCLA to retain a clinical site for neuro-rehabilitative research. Last spring, upon learning of improprieties attributed to senior HealthSouth executives, UCLA Medical Center management chose to end its discussions to participate in a joint LLC with this company.

In June 2003, the Medical Center's senior management solicited proposals from other companies interested in developing an acute-care rehabilitation hospital and received two. Of these, RehabCare Group, Inc. was identified as the best candidate, given its twenty years of experience in the acute rehabilitation hospital industry and its strong financial standing. Subsequent discussions between the Medical Center's senior management and RehabCare Group management have resulted in the execution of a letter of intent and agreement on the following items:

A. The UCLA Medical Center will close its neuro-rehabilitation and research unit (NRRU) and sell the NRRU's assets to a LLC formed by the RehabCare Group, which will be the guarantor of all LLC obligations. The sale price of $5.5 million was determined through an independent valuation.

B. The RehabCare Group LLC will operate a freestanding, acute-care rehabilitation hospital on the west side of Los Angeles.

C. The University will not have financial interest in the LLC, but the LLC will purchase medical direction services and selected ancillary services from UCLA.

D. The RehabCare Group LLC will provide a limited amount of space to enable UCLA physician faculty to conduct clinical neuro-rehabilitative research.

E. RehabCare Group has proposed that the hospital be named the Rehabilitation Institute of Los Angeles, in cooperation with UCLA, to indicate the University's medical participation in the rehabilitation hospital.

The Medical Center faces substantial financial challenges. The conversion of 15 planned rehabilitation beds into medical/surgical beds could contribute approximately $2.3 million to its financial margin.

Reimbursement for acute rehabilitation services reimbursement from Medicare, which accounts for roughly 50 percent of all NRRU cases, is expected to decline significantly. The Center for Medicare and Medicaid Services (CMS) has implemented a prospective payment system (PPS), which has already reduced UCLA's Medicare reimbursement from an average of $21,400 per case in FY 2001, to $16,500 in FY 2003. By FY 2004, when PPS payment reductions are fully implemented, the expected Medicare reimbursement per case will be between $14,000 and $15,000.

In addition, the Medical Center will be providing laboratory, radiology, and respiratory therapy services to patients in the LLC acute rehabilitation hospital. These contracted services may be a source of additional income for the Medical Center.

The new Westwood facility is anticipated to have 343 adult acute care beds, excluding those allocated to psychiatry, obstetrics, and pediatrics. Westwood's adult census is at 355 – twelve patients more than the total planned licensed adult bed capacity in the replacement hospital. At 85 percent occupancy, considered full for an academic medical center, the situation will be even worse: 63 patients will need to be turned away for lack of beds. Converting the planned 15-bed NRRU unit to an equal number of medical/surgical beds would help ease the Medical Center's anticipated bed capacity constraints within its replacement facility.

The LLC's freestanding, acute-care rehabilitation facility will provide a larger clinical site for neuro-rehabilitative clinical research and an opportunity to develop a clinical research network with RehabCare Group.

Efforts will be made to minimize the impact to UCLA employees affected by the closure of the NRRU. Of the approximately 33 non-physician personnel who staff the UCLA NRRU, 19 are nurses and patient care partners who could be transferred to other areas of the hospital. The 8 rehab therapists, who rotate with the ambulatory rehabilitation therapists, could be re-assigned to outpatient care facilities or other UCLA health care settings.

The risks of proceeding are minimal. UCLA will not be exposed to any financial operating liability, as it is not a participant in the limited liability company that will own the facility, and while UCLA will have exposure to the professional medical liability associated with the medical directorships, this risk is no greater or less than other external medical director-ships currently provided by UCLA faculty physicians.

If UCLA does not proceed in this proposed asset sale to RehabCare Group, with its subsequent development of a freestanding acute rehabilitation hospital, UCLA will be at risk of not having a local resource available for the transfer of UCLA patients who need acute rehabilitation treatment and care, which might result in longer lengths of stay in the Westwood replacement facility that would have both negative financial and capacity consequences. Also, the opportunity would be lost to convert Westwood's neuro-rehabilitation unit into medical/surgical beds, which would result in the loss of beds needed for high-priority, critical services and would have an adverse financial impact on operations.

The David Geffen School of Medicine at UCLA and Medical Center, Los Angeles campus will continue negotiations to complete the terms of the transaction to sell its NRRU assets to a limited liability company created by RehabCare Group. It is expected that the formation of the LLC, licensing of the unit, and completion of contracts related to provision of medical direction and ancillary services will be completed within a year. Once these activities are completed, UCLA will close its inpatient NRRU beds. Under the terms of the agreement, the LLC facility will serve as a site where UCLA faculty physicians can continue neurosciences clinical research.

The meeting adjourned at 1:15 p.m.

Attest:

Secretary