The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**
May 14, 2003

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

Members present: Regents Davies, Johnson, Kozberg, Lee, Moores, Preuss, Sainick, Sayles, and Terrazas; Advisory members Seigler and Pitts

In attendance: Regents Blum, Connerly, Hopkinson, Ligot-Gordon, Lozano, Marcus, and Montoya, Regent-designate Murray, Faculty Representative Binion, Secretary Trivette, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Doby, Drake, Gomes, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Córdova, Dynes, Greenwood, Vanderhoef, and Yang, Vice Chancellor Desrochers representing Chancellor Tomlinson-Keasey, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 10:00 a.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 January 9, 2003 were approved.

2. **UPDATE ON MEDICAL CENTER AND MEDICAL SCHOOL, SAN FRANCISCO CAMPUS**

Chief Executive Officer Laret provided a brief update on the medical center and discussed plans for the coming year and long-term facility needs at the UCSF Medical Center. He reported that the medical center is doing well in its recovery from the merger with the Stanford Medical Center. Communication with staff has been increased, employee recognition programs have been expanded, and a performance-based incentive program has been instituted for every medical center employee. From exit surveys, it appears that morale has improved as a result, and staff turnover rates have dropped well below state and regional averages. Coming out of the merger, UCSFMC had facilities and equipment that needed repair and replacement. New patient beds have been purchased, at a cost of $4 million, and over $20 million has been invested on imaging equipment. Positions left open by the demerger have been filled with talented people. Several initiatives are under way to improve information technology at the medical center, including plans to bring on line an electronic medical record and computerized physician order entry system within the next few years and to improve cyber security. Last year a firewall was installed to detect and deflect attempts by hackers to gain access to medical center computers. A single hacking attempt is defined as someone within 30 seconds trying to gain access 50 or more times. Initially, the firewall was detecting and deflecting in excess of 14,000 hacking attempts per day. In the past year, access has been blocked to locations around the world notorious for hacking, and the hacking attempts have been reduced to about 100 per day.

Mr. Laret noted that, although the quality of patient care at UCSF has always been high, the medical center was not well prepared for the intensifying regulatory scrutiny that all teaching hospitals are undergoing. Three years ago the first of now annual mock regulatory surveys within the medical center organization was conducted. The employee incentive program that has been implemented is based on its results, which have been gratifying, in particular with regard to involving the medical staff in supporting the efforts to comply with cumbersome requirements. He reported that patient satisfaction surveys two years ago ranked the adult inpatient service in the median. Two years later it ranks in the top 15 percent of all hospitals in the survey database. During the same period, the emergency department increased from the 7th percentile up to the median. He commented that, while the improvement is noteworthy, there is still work to be done.

Coming out of the merger, it was necessary to develop a new organizational consensus about priorities and where resources should be invested. Mr. Laret reported that he and Dean Debas had convened a group of faculty and staff to develop a strategic plan to guide the medical center's efforts for the next five years.

Mr. Laret recalled that coming out of the merger, the hospital was losing $60 million a year. That loss was reduced in the first year, and in FY 2002 the hospital became profitable. It is anticipated that the medical center may end the current fiscal year with a gain of as much as $40 million.

Mr. Laret reported that the hospital's patient census was low in April 2000 compared to its peers. Through a combination of general market conditions and outreach, the census has grown consistently by between 2 and 5 percent a year. Unfortunately, now the hospital is overflowing. Patients headed to the emergency room sometimes must be diverted to other hospitals. He described two initiatives that are under way. An immediate concern is to increase the hospital bed capacity, in particular to accommodate referring physicians in the region who need to transfer critically ill patients. Among the steps being taken is to increase inpatient bed capacity at Mt. Zion. Beginning in July 2003, 15 cancer surgeons will move from Moffitt-Long Hospitals on Parnassus to the Mt. Zion Hospital and begin admitting all of their patients there. Thirty-one new beds are being opened, including seven intensive care unit beds to add to the 20 beds already in service for low-acuity surgical patients. For the past eight months, details have been developed that were necessary to accomplish this change. Once completed, the move will meet three objectives: consolidate most of UCSF's outpatient and inpatient cancer services at Mt. Zion, where the Comprehensive Cancer Center is located; increase the number of patients at Moffitt-

Long, with 30 beds and 2 operating rooms free to accommodate new patients; and increase the overall number of patients, which should help the medical center financially. The use of Mt. Zion is time-limited, since the hospital has seismic problems that require correction, either through retrofit or replacement, by 2008, or if a replacement hospital is constructed, by 2013.

Finally, Mr. Laret commented that the facilities at Moffitt-Long and Mt. Zion are seriously outdated. In many areas the hospitals are functionally obsolete, and in every case they would be extraordinarily expensive to modernize. A master space planning review of two years ago confirmed that UCSF needs to build new modern hospital facilities. In response, Chancellor Bishop appointed a campus committee to determine where a new hospital should go, when the work should begin, and how it can be paid for. Last week, campus officials began a series of meetings with San Francisco community members to solicit their views on the subject. An updated Long Range Development Plan to be presented to the Regents next spring will include a preferred option for the hospital replacement project. Mr. Laret discussed the preliminary thinking on the issue, reporting that the hospital replacement project would be taken on in phases, as the funds become available, over the next 20 years. The first phase would likely involve building a new specialty hospital, perhaps a mothers' and childrens' hospital, at the Mission Bay campus. This phase needs to be completed by 2013, when services based at Mt. Zion could be moved back to Moffitt-Long into space that would be vacated by the mothers' and childrens' service. It is expected that this phase would be financed primarily through medical center debt, retained earnings, and fund raising. The second phase would involve building a complete replacement for Moffitt-Long Hospitals at Mission Bay or building a replacement for only Moffitt Hospital at Mission Bay and continuing to use a remodeled Long Hospital to serve western San Francisco, or to replace Moffitt-Long Hospitals in their entirety on Parnassus. A final determination will need to be made and the phase completed by 2030. A caveat is that it is assumed that the private healthcare system, Medicare, and Medi-Cal do not dramatically cut their reimbursement to UCSF beyond what is expected currently and that the overall healthcare system will remain roughly intact.

Mr. Laret acknowledged that uncertainty about the future of healthcare and other unresolved issues abound. He was mindful also of the challenges that major construction projects present to hospitals. Nonetheless, the realization by the faculty and staff that the push to build new state-of-the art hospital facilities is genuine has generated tremendous enthusiasm and excitement.

In closing, Mr. Laret acknowledged the contributions of Dean Debas, emphasizing that the progress at UCSF Medical Center over the past three years has been directly attributable to his support, vision, and leadership.

Dean Debas then addressed the Regents, recalling that he had been Dean of the medical school for ten years and in 1997-98 was interim Chancellor of UCSF. He expressed his gratitude to President Atkinson and the Regents for giving him their unqualified support during those years. He provided a long list of scientific milestones in the accomplishments of UCSF Medical Center faculty, including developing a treatment for pernicious anemia and a vaccine for botulism, the discovery of growth hormone, the discovery of DNA recombinant technology, the discovery of oncogenes, and the pioneering of in-utero surgery. Recent discoveries promise to unlock the secret of cancer cells that enables them to escape regulation. He commented that at UCSF collegiality and collaboration are very highly valued and have enabled the establishment of interdisciplinary programs that have extended UCSF's strength.

Dr. Debas noted that in the clinical world the needs and demands of an increasingly informed society, combined with advances in science and technology, are fusing clinical disciplines. Patients want to receive their care in one location. UCSF has taken the lead in establishing comprehensive care centers such as the Center for Women's Health. UCSF medical school has planned and implemented a new curriculum for the 21st century that is innovative in educational technology and electronics and has been recognized nationally. Dr. Debas reported that his dream was that someday the UCSF Medical Center would be located at Mission Bay. He believed that the University should take the opportunity to acquire more land at the site in preparation for making this dream a reality.

In closing Dr. Debas spoke of his admiration for Chief Executive Officer Laret. He stated that the School of Medicine's research, education, and clinical programs are very strong and that the quality of its faculty and students is very high. The next decade will be one of landmark achievements at UCSF because of infrastructure development and the strategic thinking of the faculty. He thanked the Regents for honoring him by having put him in a leadership position at UCSF.

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

Vice President Broome reviewed the results of operations of the University's five medical centers for the nine months ending March 31, 2003.

Ms. Broome reported that the Davis, Los Angeles, and San Francisco campuses had a steady increase in patient days due to increases in admissions and in length of stay. The Irvine campus had a slight drop caused by the hospital's effort to reduce the length of stay. The San Diego and UCLA had declines in outpatient visits, while the Davis, Irvine, and San Francisco campuses experienced significant increases in their outpatient business.

Ms. Broome noted that the income from operations after interest income, expense, and any gain or loss from the sale of capital assets grew tremendously during the reporting period, attributable primarily to a turnaround in the operations of San Francisco and growth at Irvine. She observed that when an income statement for the medical centers is struck at any given point in the year, the results often depend upon the University's right to receive supplemental funds, which are negotiated at the Office of the President and cannot be recorded until those negotiations have been completed and the

University is entitled to receive the funds. In 2002 there was an accrual for these supplemental funds of $33 million; there is no such accrual for 2003, the primary reason being that the bottom line for 2003 is lower than for 2002. It is expected that supplemental funds, when received, will be higher than the budget but lower than the funds received in 2002. Considering the medical centers individually provides a sense of the direction in the growth. San Francisco went from a loss of over $11 million in FY 2001 to a significant turnaround in 2002 and a profit in 2003. She noted that 2003 operations include the reversal of some reserves that the medical center had established for reimbursement issues. Fortunately, the medical center settled those issues in its favor and will bring these reserves back into income, an addition of about $14 million. San Diego, Irvine, and Davis had their 2003 results affected negatively by the decrease in supplemental funds.

Ms. Broome discussed how the medical centers expect to end up this year in terms of profits in relation to their budgets and to the prior year. All the medical centers exceeded their budgets during the reporting period. All the medical centers except San Diego improved their collections. Concerning days of cash on hand, Davis and San Diego exceeded the benchmark of 60 days, a level that provides for comfortably meeting operating requirements. Cash positions improved at Irvine and San Francisco, while Los Angeles has no cash balances on hand and has a loan outstanding from the campus. By year's end, Davis expects to end its year on budget and ahead of the previous year; Irvine expects to end over budget but lower than last year; Los Angeles expects to end on budget; San Diego expects to be a little below last year but above budget; and San Francisco expects to be lower than last year but on budget. She commented that these projections may be slightly conservative.

Regent Johnson asked about cash on hand at Irvine in relation to its new hospital. Medical Director Cygan responded that the medical center is on track to have 60 days of cash on hand in FY 2005-06, allowing it to borrow the $33 million that is part of the hospital project.

Regent Marcus noted that UC San Francisco Medical Center had been successful at improving services and attracting and keeping patients. He asked whether there had been something in common among the business strategies of the hospitals in that they all seem to have improved. Ms. Broome noted that San Francisco had been in a negative position because of the merger and had needed to implement an aggressive effort to rebuild. She explained that the medical centers have individual programs that are responsive to the markets they serve.

Regent Lee commented that if the children's hospital at San Diego were removed from the results for 2001-02, the number of patients days would have increased. He noted that all the medical centers were doing well except UCLA, which he suggested should place more focus on getting its bills paid. Senior Vice President Mullinix informed him that there would be a presentation on the subject at the July meeting. Chancellor Carnesale noted that The Hunter Group is working on the problem.

Regent Lozano recalled that the federal government had announced new pricing guidelines for Medicare reimbursement. She asked what the impact would be for the University. Vice President Gurtner responded that the State of California had negotiated successfully with the federal government in terms of the supplemental payments for the next two years at roughly the current year's levels and that reductions in Medicare have already been worked into the budget. Federal payments for medical education are at risk, however. Over the past five years, the University has created a strong, solid operations base for the institution that is responsive rather than reactive to the marketplace. Time and energy has been spent trying to stay ahead of the curve. The five institutions in the aggregate and four individually well exceed the standards of California and the nation as to their success at dealing with the current economic situation. That is the result of vigilance on the part of the medical directors and their staffs.

The meeting adjourned at 11:00 a.m.

Attest:

Secretary