

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

November 15, 2012

The Committee on Health Services met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents De La Peña, Island, Makarechian, Pattiz, Reiss, and Zettel; Ex officio members Lansing and Yudof; Advisory members Feingold, Flores, and Powell; Staff Advisors Barton and Smith

In attendance: Regents Gould, Kieffer, Mendelson, Rubenstein, Ruiz, Schilling, Stein, Torlakson, and Varner; Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Beckwith, Duckett, Lenz, and Mara, Chancellors Block, Blumenthal, Drake, Katehi, White, and Yang, and Recording Secretary McCarthy

The meeting convened at 9:20 a.m. with Committee Chair De La Peña presiding.

1. REMARKS OF THE CHAIR

Committee Chair De La Peña reported that he and Regent Pattiz had spent a day with Senior Vice President Stobo and the chief executive officers of UC's medical centers, who presented their strategies for meeting the challenges associated with health care reform. It became clear during those discussions that an important initiative to address the cost and quality of health care for UC employees was to develop an exemplary program of self-insurance for UC employees. Committee Chair De La Peña stated that he had asked Dr. Stobo to update the Committee on these efforts at a future meeting. There would also be a follow-up meeting on the implications of the Patient Protection and Affordable Care Act (PPACA) and its effect on UC's future agreements.

Committee Chair De La Peña stated that 90 percent of the due diligence concerning the acquisition of Children's Hospital Oakland by UCSF had been completed. Remaining issues included governance and structure, and the evaluation of seismic upgrades and outstanding liabilities. He stated that UCSF intended to bring the acquisition to the Committee for action at a future meeting, with an anticipated close in July 2013.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of September 13, 2012 were approved.

3. **ADOPTION OF POLICY ON STUDENT HEALTH AND COUNSELING CENTERS**

The President recommended that:

- A. The Policy on Student Health and Counseling Centers, as shown in Attachment 1, be adopted.
- B. The Committee on Health Services be provided a Report on Student Health and Counseling Centers no less frequently than once a year.
- C. The Senior Vice President, Health Sciences and Services be authorized to develop policies and procedures, in consultation with the Chair of the Committee on Health Services, to implement the above policy.

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Chair De La Peña recalled that at the Committee's prior meeting Senior Vice President Stobo and Chief Risk Officer Grace Crickette reported on initiatives to improve services provided by campus student health and counseling centers in the areas of credentialing, privileging, peer review, coding, clinical documentation, information technology, and bylaws. In order to ensure that the significant progress made at the student health and counseling centers would be maintained, a proposed Regental policy was developed to codify much of what had been put in place. Committee Chair De La Peña thanked Dr. Stobo, Ms. Crickette, and the campus leadership at the student health and counseling centers for their hard work on this effort.

Committee Chair De La Peña moved that the Recommendation be amended so that the last sentence of Attachment 1 would read, "The Senior Vice President, Health Sciences and Services shall also meet on a regular basis, but no less than biannually, with the Center Directors."

Dr. Stobo explained that the policies were in five areas that he, Committee Chair De La Peña, Ms. Crickette, and the leadership of the Student Health and Counseling Centers had worked on for more than a year, codifying important elements that would continue to ensure that UC students were provided with high-quality care. Dr. Stobo emphasized that during Student Health Steering Panel discussions students made clear their interest in having continuing input into the implementation of the policies. He said that continued input from students and staff of the centers was important and implicit in the policies.

Regent Zettel asked that the Committee on Compliance and Audit be kept informed of the process of engaging an external organization to conduct an annual audit of the services provided at the student health and counseling centers, as that would be part of the Committee on Compliance and Audit's external audit program. Dr. Stobo responded that Senior Vice President Vacca is a member of the Student Health Steering Panel and

would be involved in the process. He stated that the Steering Panel would discuss a list of candidates to perform the external audit and risk review, and the list of candidates would be forwarded to Dr. Stobo, Ms. Crickette, and Committee Chair De La Peña who would select one from the list.

Regent Zettel asked whether UC's internal auditors would also review operations of the student health and counseling centers. Dr. Stobo responded that, at some point, the centers' operations would come up as an item to be audited by the internal audit group.

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

4. **ESTABLISHMENT OF A LIMITED LIABILITY CORPORATION WITH DAMERON HOSPITAL, STOCKTON, AND UC DAVIS MEDICAL CENTER, DAVIS CAMPUS**

The President recommended that:

- A. The University forming and participating in a Limited Liability Company (LLC) with Dameron Hospital Association be approved under the following terms:
- (1) The LLC shall be a two-member nonprofit entity.
 - (2) The University shall have a 25 to 30 percent interest in the LLC.
 - (3) The University shall have a right to appoint 50 percent of the LLC's Board of Managers and shall serve as Chair of the Board of Managers. In the event of a deadlock among the Board, the Chair will cast the deciding vote.
 - (4) The University may contribute up to \$10 million in cash to the LLC, as well as the University's brand, trade name, programs, and expertise. Any further capitalization contribution, loan, or loan guarantee by the University must be approved by the Regents. The University will have no further obligation to contribute capital to the LLC or to fund working capital or pay for debts or other liabilities of the LLC.
 - (5) Dameron Hospital Association shall contribute hospital assets worth approximately \$97.5 million to the LLC.
 - (6) The LLC's formational documents shall provide that both members of the LLC must consent to a sale, exchange, or disposition of all of the LLC's assets; a sale, merger, or consolidation of the LLC; a dissolution of the LLC; receipt of financing other than non-recourse; and any requirement that the members contribute additional capital.

- (7) The LLC's formational documents shall provide that the first \$10 million of net cash generated by a sale of assets in the event the LLC is dissolved will be paid to the Regents.
 - (8) Any distributions to the members shall be in proportion to the members' ownership.
- B. The President or his designee be authorized to withdraw from the transaction prior to closing if Dameron Hospital's business, assets, or liabilities are not acceptable to the University.
 - C. The President or his designee be authorized, following consultation with the General Counsel, to execute any documents reasonably required for the University to form and participate in the LLC.
 - D. The University shall have access to all legal and financial records maintained by the LLC. UC Davis shall provide the President or his designee an annual report of the LLC's performance.

[Background material was mailed to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Chair De La Peña stated that this item involved formation of a Limited Liability Company (LLC) between UC Davis Health System and Dameron Hospital in Stockton. He stated that forming the LLC would be consistent with UC Davis' strategy in the region. Committee Chair De La Peña expressed his view that the transaction had been substantially strengthened; additional due diligence had been performed and additional protections negotiated. He thanked Senior Vice President Stobo, UC Davis Medical Center Chief Executive Officer Anne Madden Rice, and the representatives of Dameron Hospital for their work on the development of the transaction. Committee Chair De La Peña expressed his support for the transaction.

Dr. Stobo stated that, while some questions about implementation of the Patient Protection and Affordable Care Act (PPACA) had been settled by the outcome of the November election, UC had already been working on issues related to health care reform, and particularly those relating to ensuring that UC would have an adequate market share to continue to deliver high-quality care, research, and education, and would have an appropriate cost structure to decrease health care costs. Dr. Stobo stated that the proposed transaction between UC Davis and Dameron Hospital would fulfill both of those criteria, expanding market share and decreasing UC Davis' unit cost by partnering with a lower-cost community hospital. The transaction would enable UC Davis Health System to continue to thrive and support the research and educational programs of UC's health professional schools.

Dr. Stobo stated that Dameron Hospital would contribute roughly \$96 million in fixed assets and cash to the LLC; UC Davis would contribute \$10 million, which would be the

extent of its liability. A management group with equal representation from UC Davis and Dameron would oversee the hospital operations; UC would appoint the chair of the management group and the chair would cast the deciding vote in the event of a tie.

Ms. Rice agreed that the transaction was in accord with the goals of UC Davis' strategic plan, as the Medical Center prepares for health care reform moving forward under the PPACA. The transaction would also build on the long and rich tradition that UC Davis had with the San Joaquin Valley across many disciplines. She noted that historically the San Joaquin Valley had been an underserved area in its health care; UC Davis' partnering with a local hospital would improve the health care of the community and would increase UC Davis' market share.

Chancellor Katehi expressed her support for the transaction, and agreed that the transaction would further UC Davis' strategic plan to provide affordable, high-quality care to residents of the San Joaquin Valley. She said that the relationship between Dameron Hospital and UC Davis would provide access for some individuals who previously had not had access to high-quality health care, and the care could be provided at a lower cost than at the UC Davis Medical Center.

Regent Ruiz stated that he lives in the Central Valley and was aware that most hospitals in the region were struggling financially. He asked whether this was true of Dameron Hospital as well. Ms. Rice responded that Dameron had been successful the prior year, but much less so in the current year. UC Davis had been working with Dameron to identify specific programs that could be strengthened. With the help of outside consultants, pro forma financial statements were developed, modeling a financially sustainable operation within three to five years without additional risk to the University. Regent Ruiz expressed his view that operating the hospital under the direction of the UC Davis Medical Center would lead to better care, patient services, and jobs. He stated his support for the transaction.

Regent Zettel noted that UC Davis Medical Center needed \$92 million in seismic improvements over the upcoming ten years and asked what seismic work would be needed at Dameron. She stated her assumption that the University would not be responsible for Dameron's seismic work. Ms. Rice agreed and stated that the preliminary estimate to address necessary seismic corrections was approximately \$110 million, for which financing mechanisms that would have no recourse to the University were investigated. UC Davis' partners at Dameron were fully aware that the joint venture would carry this liability and that UC was not in a position to provide any assistance.

Regent Zettel asked which external consultant reviewed the business plan. Ms. Rice responded that the group was Health Strategies and Solutions, based in Philadelphia, a well-known firm in health care mergers and acquisitions frequently used to evaluate such transactions. Dr. Stobo added that UC Davis had made it clear that Dameron had to undertake certain operational changes to ensure that it was operating at a profit by the time the transaction would be completed. Dameron had undertaken some significant management changes to make that assurance. Dr. Stobo said that he had asked the

management group at the Office of the President to review the pro formas. Some important resulting questions were addressed. Regent Zettel expressed her appreciation for the due diligence, given the risks involved in such ventures.

Regent Zettel noted that Dameron Hospital had 22 percent of the local market share and asked about Dameron's major competitors. Ms. Rice responded that Dameron's major regional competitors were St. Joseph's Medical Center, a Dignity Health facility, Lodi Memorial Hospital, an independent community hospital, and Kaiser Permanente facilities.

Regent Zettel asked about the delivery system and payment for telemedicine services. Ms. Rice stated that California was relatively advanced in telemedicine and that reimbursement was on a fee-for-service basis. She stated that there would be increased financial incentives for using telemedicine to reduce the costs of delivering patient care.

Regent Gould acknowledged the potential opportunity in the proposed transaction, but said that many aspects of the implementation of the PPACA were still unknown. He asked about the exit strategy should the transaction not go as planned, and specifically whether a dissolution of the LLC would have to be mutually agreed upon by both Dameron and UC. Ms. Rice stated that she anticipated that an independent audit would be conducted annually, and that financial and operational indicators would be examined by the Board of Managers on a monthly and quarterly basis. She stated that this frequent review would enable the Board of Managers to make a course correction should the transaction not be materializing as anticipated. The chair of the Board of Managers would have the tie-breaking vote and would be appointed by the University, a protection that had been added since the Committee last discussed this venture in September. Committee Chair De La Peña added that UC had a \$10 million cap on its investment in the LLC; anything that would affect UC's liability above that amount would have to be approved by the Board of Regents.

Regent Rubenstein asked how UC could dissolve the LLC if Dameron did not agree, since the terms call for dissolution by mutual agreement. Ms. Rice responded that the Board of Managers could make it difficult to continue in such circumstances. Dr. Stobo agreed that it would be very difficult to have a partnership if UC demanded unilaterally to exit the partnership, particularly since UC would have control of the management group.

Regent-designate Feingold asked whether the venture would be insured through Dameron's insurance or through UC's self-insurance. Ms. Rice explained that the LLC would not be part of the University; its employees would not be employed by the University and would not participate in the University of California Retirement Plan. The LLC would carry its own insurance.

Committee Chair De La Peña remarked that UC's medical centers would receive patient referrals from Dameron.

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

The meeting adjourned at 9:45 a.m.

Attest:

Secretary and Chief of Staff

ATTACHMENT 1

Policy on Student Health and Counseling Centers

The Regents are committed to delivering high quality health and counseling services to the students of the University of California in a coordinated, consistent and integrated fashion, including through the University of California Student Health Insurance Plan (UC SHIP), and adopt the following in furtherance of that goal:

1. Each Student Health and Counseling Center (“Center”) shall have a governing body, ultimately reporting to and acting under the direction of the Chancellor, which body shall include no fewer than three members, at least one of whom shall be a licensed physician, at least one member who has a health care administrative background and, for counseling centers, at least one member who is a licensed psychologist. Exceptions for members other than the licensed physician may be approved by the Senior Vice President, Health Sciences and Services.
2. Each Center shall have a written set of bylaws or comparable documents which shall be reasonably consistent for all Centers.
3. The credentials of each health care practitioner employed at each Center shall be verified by the University before such practitioner begins working at the University and at an interval of no more than every three years thereafter. Verification shall be performed on the University’s behalf by a single credentialing verification organization selected by the Senior Vice President, Health Sciences and Services in consultation with the Chair of the Committee on Health Services.
4. All Centers shall employ one electronic medical records health information system shared across all locations and managed in compliance with University policy. The application shall have a unified administration, common templates, nationally standardized coding systems as specified in the Health Insurance Portability and Accountability Act and implementing regulations (HIPAA), and standard billing practices for patient services, and shall be selected by the Senior Vice President, Health Sciences and Services in consultation with the Chair of the Committee on Health Services.
5. The Senior Vice President, Health Sciences and Services, in consultation with the Chair of the Committee on Health Services, shall direct an external organization to conduct an annual audit and/or risk review of the services provided at the Centers, the results of which shall be reported to the Committee on Health Services. The Senior Vice President, Health Sciences and Services shall also meet on a regular basis, but no less than biannually, with the Center Directors.