

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

September 17-18, 2013

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

Members present: Regents De La Peña, Feingold, Makarechian, and Zettel; Advisory members Coyne and Gilly

In attendance: Regents Flores and Schultz; Regents-designate Engelhorn and Leong Clancy, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Provost Dorr, Senior Vice President Stobo, Chancellors Desmond-Hellmann, Khosla, and Wilcox, and Recording Secretary McCarthy

The meeting convened at 2:00 p.m. with Committee Chair De La Peña presiding.

1. UC SAN DIEGO HEALTH SYSTEM STRATEGIC PLAN, SAN DIEGO CAMPUS

[Background material was provided 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 informed the Committee that UC San Diego Health System's strategic plan would serve as the basis for a request to the Committee on Grounds and Buildings at a future meeting for approval to build an ambulatory care facility.

Senior Vice President Stobo said that UC San Diego Health System would present its strategic plan, an important part of which is development of an ambulatory care facility. The strategic plan is the underpinning of requests for capital projects to the Committee on Grounds and Buildings. UCSD Vice Chancellor and Dean of the UCSD School of Medicine David Brenner noted that the campus had just completed its health sciences strategic plan, from which four themes emerged: growth, clinical excellence, patient experience, and performance excellence. UCSD has two comprehensive health care campuses, the original Hillcrest campus in downtown San Diego and the newer La Jolla campus, and has already made substantial investment in inpatient facilities. Recently, the campus made a commitment to build out fully the Jacobs Medical Center, which provides inpatient facilities at the La Jolla campus. However, the campus' outpatient facilities in support of the Jacobs Medical Center are insufficient.

UCSD Medical Center Chief Executive Officer Paul Viviano said that every UCSD Health System clinical program has grown over the past three years, resulting in a current lack of capacity. Development of the Jacobs Medical Center will help alleviate this problem, allowing growth and expanded market share. The San Diego County market

continues to increase, both from population growth and from the aging population's increased access to improved health care technology and services. To take advantage of these growth opportunities, UCSD must develop the necessary facilities. UCSD Medical Center's competitors have comprehensive outpatient facilities. UCSD's outpatient facilities are comparatively a much smaller percentage of its total capacity, putting it at a disadvantage in the San Diego marketplace. UCSD would like to increase its outpatient capacity to 35 to 40 percent of its clinical space. Mr. Viviano emphasized that UCSD would play an active role in health care reform along with the other UC medical centers. UCSD invests \$5 to \$10 million annually to recruit new faculty.

The new Outpatient Pavilion would provide the San Diego area with a uniquely patient-centered facility organized around at least five innovative disease centers. Multidisciplinary faculty physicians would provide care in an institute-like setting organized around disease processes. A musculoskeletal center would contain orthopedics, sports medicine, spine medicine, and pain relief treatment with faculty from multiple clinical departments. A neuroscience center would allow neurologists and neurosurgeons to provide patient care in one setting. The Pavilion would also include digestive disease, urology, and women's breast care centers. Such comprehensive, fully integrated health care would be unique in the San Diego marketplace and would allow UCSD to gain additional market share. The core of the Pavilion will contain ambulatory care for outpatients, including surgery, imaging, physical therapy, and pain care. For example, the breast care center would be multidisciplinary, including breast surgeons, medical oncologists, radiation oncologists, pain relief treatment, comprehensive imaging, and radiation therapy, all uniquely in one facility. The UCSD Medical Center's goal is to increase its San Diego County market share two percent over its current ten percent. Mr. Viviano displayed a slide showing actual financial data for 2012 and unaudited projected data for 2013.

Mr. Viviano said the proposed Outpatient Pavilion would cost \$95 million for construction of approximately 120,000 useable square feet and \$25 million for equipment, projected to be funded from a Century Bond issued by UC San Diego about two years ago. UCSD Health System would make payments to the campus for the proceeds of the bond.

All alternatives for developing the facility were considered. Off-campus leasing would not be feasible to accommodate the multidisciplinary treatment centers. The leasing market in La Jolla is very tight, with less than seven percent of all medical buildings having any free space. Purchasing buildings off-campus would be very expensive and there is limited inventory. It was not possible to find a parcel of land close to campus that would be appropriate for a developer-delivered private/public partnership.

The proposed Outpatient Pavilion would generate incremental revenue and incremental net income, with revenue beginning at \$31 million per year in fiscal year (FY) 2017 and growing to nearly \$40 million per year by FY 2021.

Mr. Viviano summarized the benefits of the project. The Outpatient Pavilion, next to UCSD's Altman Clinical and Translational Research Institute and UCSD's acute-care hospital, would be an important vehicle to provide new access and growth and to distinguish UCSD Health by its multidisciplinary programs. The new facility would increase faculty efficiency and would be a sound financial investment. Should the Outpatient Pavilion prove unsuccessful as a clinical enterprise, UCSD could lease space in the building to UCSD administrative and research groups that currently lease other spaces in the community. If the Outpatient Pavilion is not developed, the UCSD Health System would continue to have faculty inefficiently dispersed throughout the community in expensive leased facilities. It is very difficult to generate hospital license space in leased facilities, while the proposed Outpatient Pavilion would be Office of Statewide Health Planning and Development (OSHPD) 3 designated, hospital outpatient license space. Multidisciplinary space would be practically impossible to develop in the community, making the provision of services much less efficient.

Committee Chair De La Peña noted that the business plan calls for an approximately \$6 million annual debt payment to the campus for 30 years. The UCSD Health System would save \$1.2 million annually by consolidating currently leased space.

Regent Makarechian asked why UCSD Health System's total financial margin would drop to 3.1 percent in FY 2017, from 7.3 percent in FY 2016. Mr. Viviano said that when the Jacobs Medical Center opens, the UCSD Health System would assume the project's debt approved by the Regents at the prior meeting, including \$30 million interest only annual payments for the first ten years, as well as depreciation and amortization. As the Jacobs Medical Center becomes filled, margins would recover to their previous level.

Committee Chair De La Peña recalled that the Regents had recently approved building out Jacobs Medical Center fully, resulting in 425 beds on the La Jolla campus. UCSD should increase its outpatient capacity to provide referrals to fill its hospital space. Mr. Viviano said there would be 425 beds on the La Jolla campus, and 400 at the Hillcrest campus. Currently the UCSD total census is 475 patients, but as new faculty are recruited and market share increases, the patient census will increase. Currently the lack of capacity limits growth. The patient census increased eight percent the prior year and is anticipated to increase about ten percent in the current year. If this growth rate continues at the same rate, the 245 beds brought online at the Jacobs Medical Center in 2016 will be filled by 2020.

Committee Chair De La Peña asked Mr. Viviano about his level of confidence in the 71 days of cash on hand projected for FY 2013. Mr. Viviano said the system's cash collections were \$100 million more in FY 2013 than in FY 2012. Mr. Viviano expressed confidence in the projected level of cash on hand with the caveat that the UCSD Health System is currently implementing electronic medical records; the last phase consisting of billing and collection systems would be installed later this fall. The conversion to the new system would likely cause a small dip in the number of days cash on hand.

Dr. Stobo congratulated the UCSD Health System team for exceeding financial targets for margins and days cash on hand. Although the FY 2013 financial results are unaudited, all of UC's medical centers have more than 70 days cash on hand, which Dr. Stobo characterized as remarkable in the current health care environment.

Regent Zettel commented that the multidisciplinary disease-based centers would be not only more efficient for physicians, but also much more consumer-friendly for patients. She reported that her friends and neighbors in San Diego County are impressed with the quality of care being provided by UCSD.

Regent Feingold asked why UCSD Health System's non-operating income is projected to drop to a loss of more than \$20 million in FYs 2017-19. Mr. Viviano said that loss would be a result of debt and depreciation associated with the opening of Jacobs Medical Center.

Regent Makarechian asked whether a reduction in days cash on hand to fewer than 30 days in 2017 would require covenant changes. Mr. Viviano said that because of the high current level of cash on hand he anticipated that the financial trajectory would be better than forecasted, and projected cash on hand levels would be re-forecast in light of the current level. In addition, opening more beds at the Jacobs Medical Center would generate more cash flow.

2. **UPDATE ON AFFILIATION WITH CHILDREN'S HOSPITAL OAKLAND, SAN FRANCISCO CAMPUS**

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

Senior Vice President Stobo recalled that this transaction whereby UCSF would become the sole member of Children's Hospital & Research Center Oakland (CHRCO) was presented to the Committee in the fall of 2012 and approved in January 2013. The transaction is not closed, but is moving ahead as planned, as assurance is gained that the appropriate financial underpinnings are in place. The transaction is scheduled to close in the first quarter of 2014, depending on certain conditions, including, among others, the satisfactory financial performance of CHRCO and confirmation that the hospital would be able to continue to participate in the Hospital Fee Program. This month, UCSF and Children's Hospital formed a relationship making them equal partners in BayChildren's Physicians, CHRCO's nonprofit medical foundation, the organization that houses CHRCO's physicians, allowing UCSF to be more competitive in the East Bay through access to these physicians.

Regent Feingold asked about the status of gaining assurance that the transaction would not violate State or federal law. Dr. Stobo said that, in addition to existing assurances from the State, he had recently received what he takes as assurances from the Centers for Medicare and Medicaid Services in Washington D.C. He expressed confidence that

CHRCO would continue to be designated as a private facility and would be able to participate in the Hospital Fee Program.

Committee Chair De La Peña commented that this transaction is important for UCSF and involved a substantial financial commitment. He complimented the UCSF team and Dr. Stobo for their careful approach. The structure of the agreement had allowed collaboration with CHRCO so that UCSF management was able to clarify some outstanding CHRCO financial and labor issues, including CHRCO's status regarding the Hospital Fee Program, which would have significant implications. Committee Chair De La Peña expressed confidence that the transaction would progress in the next six months and, if UCSF is not comfortable at that point, a method exists to dissolve the transaction without adverse consequences for UCSF or the UC system. The transaction will be brought back to the President of the University, Dr. Stobo, and the Chair of the Committee before finalization.

Chancellor Desmond-Hellmann thanked the team at the UC Office of the President for its help with this complex transaction, which would place UCSF in a position to be one of the best children's hospitals in the world, but would also require that the affiliation be successful financially.

Regent Flores asked whether the Committee would be briefed on the composition of CHRCO's board of directors before the transaction closes. Dr. Stobo responded that the transaction allows UCSF to appoint the members of the board of directors.

3. **UPDATE ON MEDICAL CENTER CHIEF EXECUTIVE OFFICERS RETREAT**

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

Senior Vice President Stobo reported that a retreat was held in March in San Francisco at the request of Committee Chair De La Peña. Attending the retreat were the medical centers' chief executive officers (CEOs), Dean of the UCSF School of Medicine Sam Hawgood, who is the appointed representative of the deans of the UC schools of medicine, Committee Chair De La Peña, Regents Pattiz and Ruiz, Secretary and Chief of Staff Kelman, Senior Counsel Rachel Nosowsky, and the CEOs of three successful health systems, Barnes Jewish Christian Health System, Vanderbilt University, and University of Michigan. The purpose of the retreat was to have the leadership of the UC clinical enterprise meet with leadership of other health systems to discuss the challenges that UC faces and gain insight from the accomplishments of other successful health systems. Dr. Stobo said the retreat was very successful, particularly in learning from the other health systems' CEOs, who emphasized the importance of the ability to function as a system in gaining market share and spreading fixed costs across the system. Dr. Stobo expressed hope that suggestions from the retreat would be pursued, applying the tremendous intellectual capacity of the University to health care challenges.

Committee Chair De La Peña agreed that the retreat was valuable, particularly in gaining perspectives of the other health systems' CEOs. It was also important to have the leadership of UC's medical centers meet to further systemwide initiatives. Transfer agreements between UC hospitals are being implemented in some cases so that patients can be treated at the UC facility which is best equipped to treat certain conditions.

Committee Chair De La Peña said the Committee would recess until the following day so that the chancellors could hear about a further planned meeting.

The Committee recessed at 2:35 p.m.

.....

The Committee reconvened at 3:35 p.m. on September 18, 2013 with Committee Chair De La Peña presiding.

Members present: Regents De La Peña, Feingold, Island, Makarechian, Pattiz, Reiss, and Zettel; Ex officio member Varner, Advisory members Barton, Coyne, and Gilly

In attendance: Regents Flores, Kieffer, Ruiz, Schultz, and Wachter; Regents-designate Engelhorn, Leong Clancy, and Saifuddin, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice President Dooley, Vice Presidents Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Desmond-Hellmann, Dirks, Drake, Khosla, Leland, Wilcox, and Yang, and Recording Secretary McCarthy

4. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 15, 2012 were approved.

5. **UPDATE ON MEDICAL CENTER CHIEF EXECUTIVE OFFICERS RETREAT, CONTINUED**

[Background material was provided 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 reported that the Committee had discussed the retreat of the medical centers' chief executive officers (CEOs) at the prior day's meeting. He advised the Regents and the chancellors that a meeting is being planned of the leaders of UC Health's clinical enterprise, including Senior Vice President Stobo, the chancellors of those campuses with medical centers, the deans of the schools of medicine, and the CEOs of the medical centers. Committee Chair De La Peña said that the agenda for the meeting

would be developed by him and UC Health's clinical leadership. He said discussions would include ways to achieve systemwide cost savings.

The meeting adjourned at 3:40 p.m.

Attest:

Secretary and Chief of Staff