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Office of the President

TO MEMBERS OF THE COMMITTEE ON HEALTH SERVICES:

DISCUSSION ITEM

For Meeting of March 20, 2014

SCALE FOR VALUE: BRIEFING ON THE UC HEALTH CLINICAL ENTERPRISES

Collectively, the medical centers that are part of UC Health account for approximately \$7.5 billion in revenue with essentially no support from California State general funds. Over the past five years, this revenue has increased year over year at a rate of nine percent while the year-over-year increase in operating expenses has been six percent. The resulting margin has been used not only to support capital projects that are part of the medical centers, but also to provide programmatic support for UC Health's professional schools, mainly the schools of medicine. For 2012, this programmatic support was in the aggregate \$522 million. (This represents approximately 50 percent of the total operating margin.)

Presently UC Health is negotiating commercial contracts that provide a year-over-year increase of five percent. When these two- to three-year contracts expire, the year-over-year increase in revenue for clinical services provided through commercial contracts is expected to drop to four percent. Substantial decreases in revenue through UC Health's "public" payers, Medicaid and Medi-Cal are also anticipated.

In this scenario, an increase in yearly expenses of six percent is unsustainable. (The revenue and expense curves cross in 2017.) While each of the five medical centers must do what it can, on its own, to decrease expenses, no single medical center can get to where it needs to be on its own. Only by taking advantage of the "scale" provided by the medical centers' working as a coordinated, integrated system can UC Health's clinical enterprise achieve the necessary expense reductions.

The necessity of taking a systemwide approach to expense reduction became clear during two separate two-day retreats with the five medical center chief executive officers, deans of the six schools of medicine, chancellors of the campuses with medical centers, and three selected Regents. President Napolitano attended the second retreat. At these meetings, outside experts/leaders from successful health systems around the country confirmed the group's assumptions concerning the downward pressure on reimbursement for clinical services. They also confirmed the fact that successful health systems have taken advantage of their scale to optimize cost reduction strategies.

As a result, UC Health presented a plan to President Napolitano to address a systemwide approach to cost reduction in three areas: supply chain, revenue cycle, and clinical laboratories. Two in-person meetings with the medical center chief executive officers and medical school deans have been held to discuss this approach. (One meeting included medical center chief financial officers and chief operating officers.) While UC Health will first focus on these three areas, there are seven other areas targeted for systemwide approaches to cost reduction. Senior Vice President Stobo will present in more detail the opportunities for cost reduction in the three areas mentioned.