

Office of the President

TO MEMBERS OF THE COMMITTEE ON HEALTH SERVICES:

INFORMATION ITEM

For Meeting of September 17, 2009

HEALTH SCIENCES AND SERVICES UPDATE

Senior Vice President Stobo will present updates on the following:

- Rady/UCSD/RCHSD/CSSD Medical Foundation
- California Telehealth Network
- Martin Luther King Hospital

1. Rady/UCSD/RCHSD/CSSD Medical Foundation

UC San Diego Health Sciences has partnered with Children's Specialists of San Diego (CSSD) and Rady Children's Hospital of San Diego (RCHSD) to create a medical foundation, Rady Children's Specialists Medical Foundation, to build upon the 2001 affiliation of our pediatrics programs. The structure brings the majority of the existing CSSD clinicians onto the UCSD clinical faculty, strengthening our existing affiliation by further unifying our practices, and improving our ability to provide superb clinical care and service, advanced clinical trials and treatments, and cutting-edge research for children in our region and beyond.

Background

In 2001, UC San Diego Health Sciences and RCHSD entered a long-term affiliation agreement, whereby the majority of UC San Diego's clinical pediatric care and pediatric residency programs were transferred to RCHSD. In recognition of academic programs existing in the Department of Pediatrics that would have been funded by hospital revenues now transferring to RCHSD, RCHSD agreed to fund three pools using net patient revenue. They initially consisted of Pool A (Trainee Support) estimated at \$1.5 million, Pool B (Departmental Academic Support) estimated at \$2 million, and Pool C (Program Development Support Fund) estimated at \$1 million. UCSD and CSSD also entered into an affiliation agreement at that time.

UCSD Health Sciences, RCHSD, and CSSD have all grown in size, scope, and stature since the signing of the amalgamation, such that the original affiliation is viewed, overall, as having been a strategic and successful alliance for the parties. This growth resulted in some challenges that hampered the full potential of the parties including parallel clinical practices with separate governance structures, lack of consistency or clarity on recruitment of key positions, and a lack

of alignment around clinical research. These issues and others will be mitigated with the adoption of the Foundation and the recruitment of CSSD physicians by UCSD.

Creation of a Medical Foundation and Impact to the Parties

The foundation was established pursuant to Health and Safety Code Section 1206(1). It is a delivery model consisting of physicians organized to practice medicine, conduct medical research, and provide teaching. The Foundation is overseen by a Board of Governance Committee (BOGC), comprised of leadership from all three entities, who is accountable to the Board of RCHSD.

In accordance with guidance obtained from the Fair Political Practices Commission to comply with Political Reform Act, CSSD was reorganized into an entity that qualifies for tax exempt status as a 501(c)(3) nonprofit organization under federal tax statutes. The majority of its current members have joined the UCSD faculty.

Other than the addition of approximately 120 clinical faculty members and the creation of a new Dean for Children's Clinical Services role within Health Sciences, there has been no change to the organizational structure of UCSD.

Legal Agreements Executed in Order to Implement Foundation

Four legal agreements have been executed between the parties in order to facilitate the creation of the Foundation. These agreements include a Professional Services Agreement (PSA), an Administrative and Third Party Services Agreement (TSA), an agreement between CSSD/UCSD, and an agreement between RCHSD/UCSD.

The PSA was executed between RCHSD and CSSD and contains terms regarding the governance and structure of the Foundation, the responsibilities of the Foundation and CSSD, and physician compensation.

The TSA was executed between RCHSD and CSSD and contains terms regarding CSSD performing certain physician administrative services, such as Hospitalist services, Medical Director services, and on-call coverage at RCHSD. Under this Agreement, CSSD also agrees to provide professional and administrative services for non-RCHSD facilities on behalf of the Foundation.

The CSSD/UCSD agreement describes the expected delivery of physician related services and the related terms of compensation and employment by UCSD of CSSD physicians. The terms of this agreement very much mirror the aforementioned PSA between RCHSD and CSSD.

Finally, the RCHSD/UCSD agreement describes the financial support RCHSD is providing through Dean's and Department taxation and funds flow, the physician recruitment process and UCSD employment, faculty performance obligations, and research integration.

Impact to the Clinical, Teaching, and Research Missions of UCSD Health Sciences

The impact of the creation of a Foundation to the clinical mission in Pediatric Services at UCSD cannot be over stated. The clinical programs that transferred to RCHSD as part of the 2001 affiliation agreement were included in the Foundation. They include:

- Medical Services: Cardiology, Critical Care/PICU, Dermatology, Dysmorphology, Endocrinology, Gastroenterology, Hematology/Oncology, Infectious Diseases, Immunology/Allergy, Genetics/Metabolics, Neonatology and Newborn Nursery (professional services only), ECMO, Neurology, Pediatric Pathology, Psychiatry (Outpatient Only), Pulmonology, Neurology, Nephrology (including renal dialysis), and Primary Care (inpatient only).
- Surgery Services: Cardiac Surgery, Orthopedic Surgery, Urology, Plastic Surgery, Neurosurgery, Ophthalmology (pursuant to a separate agreement between the parties), Otolaryngology, Perinatology, General Surgery, Kidney and Liver Transplantation.

Pediatric education programs (including medical students, house staff, and fellows) were transferred to RCHSD as part of the 2001 agreement, with UCSD continuing to be responsible for the direction, quality, and content of teaching programs at RCHSD. University-sponsored trainees were assigned for clinical instruction and experience at RCHSD and supervised by UCSD faculty, as well as by CSSD physicians. With the implementation of the Foundation, the teaching and education mission of UCSD will improve through coordinated faculty appointments and further integration between UCSD and CSSD.

The 2001 agreement contemplated the need to coordinate the parties' respective pediatric research programs by developing a joint research program. The RCHSD/UCSD agreement describes a six-month transition plan whereby UCSD will assume research operations at RCHSD, including the establishment of a UCSD clinical grants management office at RCHSD. All CSSD physicians who transition to the UCSD faculty will submit grant applications through UCSD and industry-sponsored clinical trial funds will flow through UCSD as well.

Academic Appointments and Transition of CSSD Physicians to UCSD Faculty

In recognition of the need to further integrate the clinical practice, the majority of current CSSD physicians has joined the UCSD faculty and has submitted their academic appointment paperwork to UCSD. The physicians were appointed, their faculty rank and step determined, in accordance with UC academic appointment policies and procedures.

Compensation for Physician Services

Further integration through the Foundation will improve the recruitment and retention of talented physicians through an aligned recruitment effort and ability to provide market-based compensation. There will be appropriate incentives for physicians to be productive and maximize clinical activity.

In order to set appropriate, market-competitive compensation and productivity targets, the parties identified reasonable benchmarks for relative value units (RVUs). In year one, compensation for physician services were based on the sum of actual income in 2008 assigned to their UCSD salary level (fixed and variable compensation) so that each physician maintained his/her current income level, assuming productivity levels were maintained. In subsequent years, total compensation for physician services will be based upon the benchmark related to RVU production per physician with an appropriate inflation factor.

Compensation for physician services will be paid from revenue earned by the Foundation. This revenue will pass through CSSD to UCSD and ultimately be paid to the physicians in accordance with the UC Health Sciences Compensation Plan.

Financial Commitments

The financial commitments (“pools”) that were established between RCHSD and UCSD as part of the original joint powers agreement shall continue. Per the terms of the UCSD/RCHSD agreement, RCHSD will increase funding to Pool B, the Academic Fund, by \$650,000 per year. The parties further agree that \$1,200,000 from Pool C funds will be paid to the Foundation as working capital and for the purpose of recruiting new physicians.

In addition, RCHSD will pay UCSD an annual amount equal to \$4,113,250 in year one and \$5,451,000 in subsequent years for costs related to the CSSD medical group joining the UCSD faculty that include but are not limited to expenses related to the management of additional physicians and transfer of revenues, academic appointment costs, and Dean’s and Departmental taxes. RCHSD will also cover UCSD’s actual increased cost of providing professional and liability insurance coverage, employee benefits, and employer contributions to UCRP for the new faculty. The aforementioned funding allocations or payments described above will be adjusted based on changes to the consumer price index.

Summary

The creation of the Rady Children’s Specialists Medical Foundation and the integration of the CSSD physicians into the UCSD faculty has been an enormous undertaking for the parties. UCSD, RCHSD, and CSSD firmly believe that this further affiliation is a natural progression of the course that was set by the original 2001 affiliation agreement and without which we would never fully reach the vision of creating maximum synergies among our missions of patient care, teaching, and research. With this step a world-class academic children’s health center is well within our grasp.

2. California Telehealth Network

The California Telehealth Network (CTN) is part of a major broadband initiative being led and managed by the University of California on behalf of a broad coalition of public entities, non-profit health care institutions, and other organizations. In spring 2007, at the request of the Governor’s Office, UC submitted an application to the Federal Communications Commission under a call for proposals as part of a national initiative to fund broadband infrastructure to

improve access to health services in medically underserved communities. Efforts undertaken as part of this project have thus far resulted in nearly \$40 million in new funding for this purpose. More than 860 California health care entities have been qualified under federal rules to participate and will benefit as part of this dedicated health care network.

To expand the reach and benefits of the CTN, UC submitted two proposals under the Department of Commerce's Broadband Technology Opportunities Program requesting over \$43 million in additional funding under the American Recovery and Reinvestment Act (ARRA), with \$12 million in required matching funds already secured. If approved, this ARRA funding will enable expansion of the CTN to a total of more than 2,000 health care facilities statewide, providing education and training for participating sites and leading to the creation of new jobs. As part of the Health Sciences and Services update, Associate Vice President Cathryn Nation will provide a brief overview of this statewide health initiative and its progress to date.

3. Martin Luther King Hospital

The University of California continues to discuss the re-opening of Martin Luther King (MLK) hospital in collaboration with Los Angeles County (LAC) and the Governor's Office. On August 18, Bill Fujioka, CEO for Los Angeles County, received approval from the Board of Supervisors for 1) the capital plan to re-open the hospital and 2) authority to continue discussions with UC.

UC continues to work to complete the memorandum of understanding between UC and LAC, to obtain assurances that LAC can deliver on its financial commitment, given the state's financial challenges, and to provide assurances that the proposed structure of NEWCO (the non-profit entity which will be responsible for managing the hospital) affords maximum financial protection to UC.