

**Office of the President**

**TO MEMBERS OF THE COMMITTEE ON HEALTH SERVICES:**

**DISCUSSION ITEM**

***For Meeting of September 17, 2013***

**UC SAN DIEGO HEALTH SYSTEM STRATEGIC PLAN, SAN DIEGO CAMPUS**

**EXECUTIVE SUMMARY**

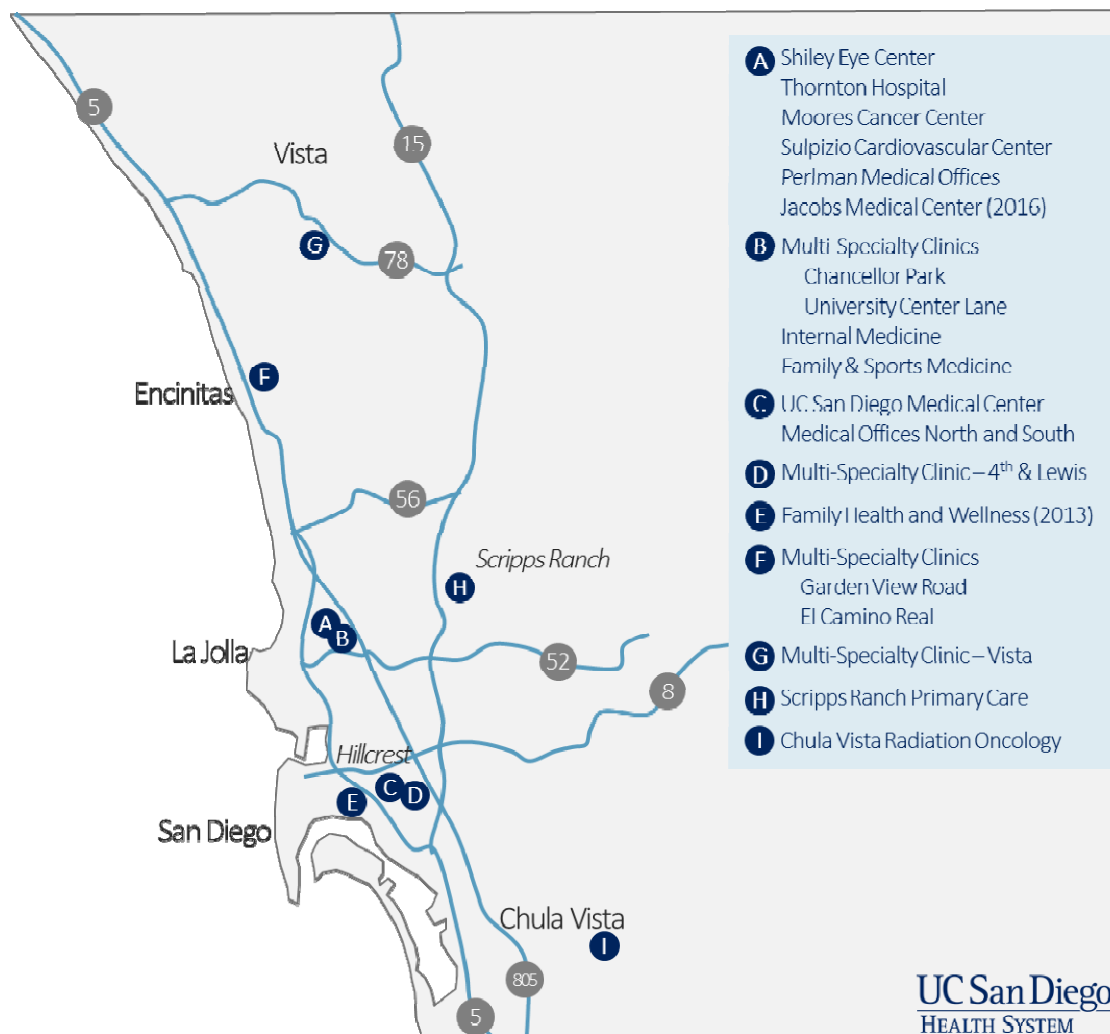
As a comprehensive academic health system, UC San Diego Health System, licensed as UCSD Medical Center, continues to leverage its tripartite mission of clinical care, research, and education. UC San Diego Health System has proven its ability to grow, expand market share, adapt to changes in the health care environment, train health care professionals for the future, and excel in measures of patient care, safety, and satisfaction. The Health System has achieved success with large, disease-based centers that address patient needs while delivering new treatments and procedures made available through its acclaimed translational research.

UC San Diego Health System now looks to build on its multi-disciplinary collaborations to enhance the patient experience, meet important and expanding community needs, and continue to grow in influence and market share. In order to meet these goals, priorities include full build-out of clinical areas within Jacobs Medical Center (JMC), including all operating rooms and patient beds, and expansion of primary and specialty clinics to take advantage of market opportunities and growing demand for both tertiary/quaternary care and ambulatory services.

As UC San Diego Health System adds to its faculty with the recruitment of approximately 50 additional clinical faculty per year, it will be increasingly feasible to offer both primary and outpatient specialty care at locations throughout San Diego County, further extending UC San Diego Health System's reach. The organization is actively working with multiple local Independent Practice Associations (IPAs), Medical Groups, Community Federally Qualified Health Centers (FQHC) Clinics and Health Plans to be the focal point for specialty referrals for tertiary and quaternary care. These referring entities will be linked to UC San Diego Health System's EPIC/IT system. Accordingly, the strategic plan includes a geographic strategy that permits continuous, targeted growth and improvement over the coming decade. The plan will position UC San Diego Health System to participate in new models resulting from health care reform – providing integrated care throughout the health system, improving patient and referring physician access, and strengthening a service-oriented culture and environment that puts patients first.

## BACKGROUND

UC San Diego Health System maintains a two-campus strategy, integrating research, teaching, and clinical care at locations in Hillcrest (located 13 miles south of the main campus) and La Jolla (on the eastern portion of the main campus). The hospitals operate under one license with a current combined capacity of 565 licensed beds (392 in Hillcrest and 173 in La Jolla). Each medical center complex currently supports an acute-care hospital and a broad range of outpatient medical and surgical services. UC San Diego Health System has recently begun developing additional outpatient-only sites at other locations around the county. It is gaining a strong presence in Encinitas in the North County coastal region with the acquisition of the San Diego Cancer Center and opening of specialty clinics for cardiology, concierge medicine, orthopedics, and surgery. Additional locations include Vista in inland North County, Scripps Ranch to the east of La Jolla, and a soon-to-open concierge practice in Downtown San Diego. The map below shows the geographic locations for each of the Health System's current and planned practice locations. Additional delivery sites in Escondido and the greater South Bay area are also being assessed.



UC San Diego Health System is also part of a growing clinical network of affiliates, including the Veterans Affairs San Diego Healthcare System (VASDHS), Rady Children's Hospital-San Diego, The Salk Institute, and The Sanford Burnham Medical Research Institute, as well as San Diego's robust community clinic system, IPAs, and private physicians.

UC San Diego Health Sciences and the VASDHS work collaboratively to take care of our nation's veterans and wounded warriors. The two participate in collaborative clinical research and training programs and share joint appointments at both locations. Clinical strengths between the two include research and care of traumatic brain injuries, spinal cord injuries, post-traumatic stress disorder (PTSD), and urologic issues. VASDHS is located in La Jolla, adjacent to UC San Diego School of Medicine. The campuses are within walking distance of each other.

In 2001, UC San Diego Health System and Rady Children's Hospital-San Diego entered a long-term affiliation agreement, whereby the majority of UC San Diego Health System's clinical pediatric care, with the exception of Neonatal Intensive Care Services, and pediatric residency programs were transferred to Rady Children's Hospital-San Diego. Other affiliations include a joint Bone Marrow Transplant program with Sharp HealthCare and a Radiation Oncology partnership with Kaiser Permanente.

UC San Diego Health System's financial performance has been consistently strong over the past several years. UC San Diego Health System is a regional referral center serving patients in San Diego and Imperial Counties and beyond, with approximately eight percent of patients residing outside the county. Currently, the Health System has a nine percent inpatient market share, an increase of more than one percent since calendar year (CY) 2005, despite adding only 54 beds. For perspective, UC San Diego Health System's cancer service line has gained approximately five percentage points of market share since the opening of the highly successful Moores Cancer Center in 2005. The National Cancer Institute-designated comprehensive cancer center was recently elected a member of the National Comprehensive Cancer Network, an alliance of 23 of the world's leading cancer centers, reinforcing Moores Cancer Center's national reputation. The hospitals in both Hillcrest and La Jolla have a steadily growing census. Excluding the Child and Adolescent Psychiatry Program formerly located at Alvarado Hospital and recently transferred to Rady Children's Hospital-San Diego, UC San Diego Health System acute care admissions have risen from 23,000 in fiscal year (FY) 2010 to over 26,000 in FY 2013 or 13 percent over the three year period. The Sulpizio Cardiovascular Center, part of the La Jolla census, has been at capacity since its opening in August 2011.

### ***Market Projections***

The San Diego County population is projected to increase by 12 percent from 2012 to 2020, with the 65 and older age group projected to increase 39 percent over the same period of time. North City, the market service area in which the Health System La Jolla campus resides, is expected to have the most significant population growth among residents 65 and older compared to all other areas in the county.

It is projected that patient volumes at UC San Diego Health System will increase by a compound annual growth rate of 3.7 percent between 2012 and 2019 by adapting to changing demographics and increasing market share in target programs. Forecasts for San Diego County suggest significant demand for outpatient services from all North County areas and North City. Services projected to see significant growth in outpatient volumes in San Diego County include cancer, cardiovascular and neurology. Orthopedics, spine and other bone-related specialties are also projected to impact the demand on hospital outpatient and ambulatory surgery center sites. UC San Diego Health System market share is projected to increase from a 2013 projected market share of ten percent to a 2019 projected market share level of 12 percent.

### *Strategic Vision*

The long-term vision for UC San Diego Health System is to create a healthier world – one life at a time. This involves adapting care to meet the changing needs of patients and the community, supporting the education and training of future physicians and other health professionals, and creating synergies that enable advancement of translational research. This strategic vision also supports the financial performance necessary for UC San Diego Health System to sustain its commitment to serve a diverse spectrum of patients and still invest in the programs, facilities and technologies necessary to provide the highest level of care and service.

Key to this transformational vision is the fact that advances in medicine and technologies have fundamentally changed the practice of health care. Government and private payers, as well as patients, are expecting a level of service integration across the continuum that has not typically been a focus of academic health systems. That is changing. UC San Diego Health System, like many academic health systems, serves as a referral center for highly specialized services such as burn, high-risk obstetrics, advanced cancer treatment, cardiovascular care, bone marrow and solid organ transplant, advanced surgical services, and other tertiary and quaternary care. Although tertiary and quaternary care are expected to see strong growth over the coming years due to increasingly sophisticated diagnostic and treatment technologies – and an increasingly sophisticated and aging population – that care now needs to be surrounded and supported by robust outpatient and primary care services. By responding to both demographic and policy changes in the external environment, UC San Diego Health System expects to add market share if its facility constraints can be overcome.

In addition – recognizing the importance of education and outreach in reducing risk factors and keeping patients healthy – UC San Diego Health System is committed to continuing its development of population-based initiatives and community partnerships that address major public health concerns such as obesity, smoking, and other significant and preventable contributors to disease and injury.

Planning, therefore has focused on improving and expanding UC San Diego Health System's outpatient and emergency care centers, which are the services used by the majority of UC San Diego Health System patients; expanding programming focused on community health and population studies; and creating a modern academic health system that supports the highly

specialized programs, multi-disciplinary care, and advanced technologies that are the hallmark of academic medicine.

### ***Plan***

To realize this vision, UC San Diego Health System has embarked upon a new change management initiative called Project Helix to ensure that it can support its tripartite mission for many generations to come, and build a more simplified, successful and sustainable organization.

Project Helix is composed of four areas of focus: Operational Excellence, Organizational Alignment and Development, Philanthropy, and Strategic Planning. Each of these areas has significant importance in aligning the Health System with the future needs of the community and the changing landscape of health care delivery.

Over the past nine months, the Health System has been heavily engaged in initiatives surrounding operational excellence, organizational alignment, and philanthropic development. Significant work and analysis has gone into targeting opportunities to increase revenue, decrease costs through operational efficiencies, enhance patient access and experience, and implement process improvements. In addition, these initiatives seek to redefine the Health System's organizational structure, increase physician engagement, and implement a new committee structure to ensure accountability and efficiency across the enterprise. Finally, the Health System has undertaken efforts to inspire community engagement and philanthropic sponsorship to support the transformation of the La Jolla campus. With the opening of the JMC in 2016, UC San Diego Health System is working hard to meet targeted timelines for support.

As part of Project Helix, the Health System's strategic planning process has developed a revised five-year strategic plan, incorporating input from over 100 internal champions and external thought-leaders. The plan addresses areas of clinical strength, as well as opportunities to develop and refine patient care. The plan is strategically focused on the growing need for inpatient tertiary care and outpatient services, patients' greater access to health care coverage, the need for coordination across all health care sites, the integration of services throughout the systems of care, and developing and leveraging clinical and academic strengths to recruit and retain the brightest medical students and faculty. The plan is separated into four themes, each comprised of goals, strategies, and tactics with a clear path for implementation. As the areas of focus for Project Helix come together, the Health System's strategic plan will be the defining document for targeted growth and clinical excellence for the organization.

All planning phases for the Health System's strategic plan were completed during the summer of 2013. These phases will be followed by long- and short-term implementation processes through the leadership and engagement of the faculty-led Clinical Program Councils.

### ***Facilities***

To accommodate the growth of programs and services, UC San Diego Health System is focused on developing and redesigning its facilities to meet the needs of the future. With sites spread

across more than 50 miles throughout San Diego County, the Health System has a significant physical reach in the regional market. Each of these sites, both constructed and planned, will be leveraged to accommodate programs outlined in the Health System strategic plan to meet the needs of patients, students, faculty members and staff.

UC San Diego Medical Center in Hillcrest was leased from the county in 1966 and purchased by UC San Diego in 1981. With completion of JMC in 2016, reallocation of beds from the Medical Center in Hillcrest will provide the opportunity to create additional private rooms at the Medical Center in Hillcrest to facilitate excellent patient care and resident training. The Medical Center in Hillcrest will retain a full spectrum of primary, specialty and emergency services, the Regional Burn Center, and a Level I adult trauma center.

Thornton Hospital, located on the Health System La Jolla campus, opened in 1993 and has 119 licensed beds. The Health System La Jolla campus is also the site of Moores Cancer Center, the Shiley Eye Center, Perlman Medical Offices and Sulpizio Cardiovascular Center. Completed in 2011, the Sulpizio Cardiovascular Center provides additional operating rooms and cardiac catheterization labs, 54 intensive care unit beds, expanded emergency services, and specialized outpatient facilities. Because both Thornton Hospital and the Sulpizio Cardiovascular Center operate at capacity, as projected, and with patient demand across UC San Diego Health System continuing to grow, JMC is appropriately designed to address the need for additional clinical space beyond the current 173 beds on the Health System La Jolla campus.

Translational research is an increasingly critical aspect of academic medicine. The Altman Clinical and Translational Research Institute building, now under construction adjacent to Sulpizio Cardiovascular Center and JMC, will support and fully integrate UC San Diego Health System's translational research and clinical trial programs in multiple diseases, accelerating efforts to deliver new drugs, technologies, and procedures to patients who can most benefit from these services.

The JMC will provide efficiencies in scale and geographic localization for specialized patient care, and optimize resources across both campuses. The Advanced Surgery and Cancer Care Hospitals, as well as a state-of-the-art Hospital for Women and Infants will be part of JMC and will contribute to UC San Diego Health System's ability to grow market share. When completed, JMC will add a total of 245 inpatient beds comprising general medical-surgical units, intermediate medical units, intensive care units, obstetric and neonatal care units, and 14 operating rooms.

Once construction of JMC is complete, the Health System La Jolla campus will house a total of 418 licensed beds.

	Thornton	CVC	JMC	Total
<b>2013</b>				
ICU	12	12	-	24
General Acute Care	107	42	-	149
<b>Total</b>	<b>119</b>	<b>54</b>		<b>173</b>
<b>ORs</b>	<b>7</b>	<b>4</b>		<b>11</b>
<b>2017</b>				
ICU	12	12	36	60
CCU	-	-	36	36
NICU	-	-	52	52
General Acute Care	107	42	72	221
LDRP	-	-	11	11
Anti Partum	-	-	6	6
Post Partum	-	-	32	32
<b>Total</b>	<b>119</b>	<b>54</b>	<b>245</b>	<b>418</b>
<b>ORs</b>	<b>7</b>	<b>4</b>	<b>14</b>	<b>25</b>

The JMC project also includes construction of a helistop on the roof of the new medical center, necessary for a major regional referral center.

In addition, the campus is proposing construction of an Outpatient Pavilion on the Health System La Jolla campus to serve as the platform for improved outpatient care delivery at UC San Diego Health System. The Pavilion would house several specialized, disease-specific ambulatory centers that contain all the outpatient services needed to treat these conditions including diagnostics, clinical examination, outpatient surgery and rehabilitation. The campus will be seeking approval for preliminary plans funding at the November 2013 meeting.

These two projects demonstrate a synergy that benefits the entire clinical enterprise. Together, the completed JMC and the proposed Outpatient Pavilion would enable UC San Diego Health System to:

- Expand on the successful disease center model to grow new, profitable programs and services;
- Leverage efficiencies to enhance the continuum of care for all patients;
- Maximize utilization of inpatient space within JMC;
- Capture outpatient cases and additional physician referrals to drive JMC inpatient volumes;
- Maintain flexibility and adaptability within JMC through shelled areas;
- Expand simultaneously inpatient and outpatient services through coordinated openings for JMC and Outpatient Pavilion; and

- Meet continued demand for outpatient care that cannot be provided with current ambulatory infrastructure or long-term plans within JMC.

To compete locally and globally, JMC will help the Health System to continue to attract the most sought-after academic talent and will position the Health System as a “first choice” in the minds of patients. UC San Diego Health System needs to fully commit to investing in and building out JMC in order to continue to hire the best and the brightest academic and clinical talent.

### *Challenges*

UC San Diego Health System is situated within one of the most competitive and sophisticated health care markets in the country. The top four health systems in San Diego market, which includes UC San Diego Health System, accounted for approximately 70 percent of all patient discharges in 2012. In addition, competitive health systems throughout the region are developing robust primary care networks and working toward greater integration throughout their delivery networks. UC San Diego Health System is working to address the unique challenges created by this consolidated and savvy market, while also keeping an eye towards state and national trends and regulations.

Over the next few years, health systems throughout the country are going to be faced with significant and unprecedented changes to the health care landscape. The expansion of coverage for the uninsured, the development of Accountable Care Organizations, risk-based reimbursements, pay-for-performance programs, bundled payments, and significant changes to reimbursements and provider networks will force health systems to become more efficient and nimble.

UC San Diego Health System is well positioned to meet the challenges of health care reform. JMC will increase the overall health system capacity and provide access to the newly insured. This increase in capacity will also allow the health system to expand partnerships with physician groups, community clinics and employer groups. State-of-the-art facilities combined with an expanded clinic network throughout the region will position the Health System as an attractive partner.

Project Helix has been designed to address the internal, market and regulatory challenges that the Health System currently faces and will continue to face in the future. Initiatives are underway to increase efficiencies and implement alternative models for care delivery, improve quality and patient experience throughout the continuum of care, build differentiated care services, develop systems for continuity of care, increase and redesign clinical space to meet rising market demand, and leverage academic and research missions to train and retain future medical professionals.

Given these challenges, UC San Diego Health System has taken steps through Project Helix and other initiatives to ensure sustainable financial performance to enable the Health System to meet its mission and continue to make investments for the future. The Health System’s financial projections capture market forces, including the impacted estimate of health care reform, and



forecast sustainability through 2019. Performance targets have been developed into goals to be implemented within the Health System strategic plan to ensure this financial sustainability.

UC SAN DIEGO HEALTH SYSTEM  
PROJECTED FINANCIAL PERFORMANCE  
STATEMENT OF REVENUES AND EXPENSES  
(Dollars in Thousands)

	Actual FY 2012			Projected				
		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Operating revenue								
Net patient revenue	\$996,668	\$1,088,147	\$1,104,306	\$1,164,403	\$1,236,154	\$1,336,573	\$1,428,735	\$1,526,975
Other operating revenue	48,274	48,942	54,823	51,824	51,794	53,013	54,265	55,550
Total operating revenue	1,044,942	1,137,089	1,159,129	1,216,227	1,287,948	1,389,586	1,483,000	1,582,525
Operating expenses								
Operating expense	903,947	944,244	1,015,622	1,065,582	1,133,992	1,230,967	1,304,584	1,381,890
Depreciation and amortization	45,110	51,964	56,130	59,821	61,834	92,700	92,790	90,959
Total operating expenses	949,057	996,208	1,071,752	1,125,403	1,195,826	1,323,667	1,397,374	1,472,849
Net operating income	95,885	140,881	87,377	90,824	92,122	65,919	85,626	109,676
Non-operating income	220	(3,469)	(3,378)	2,060	2,350	(23,276)	(22,847)	(21,578)
Net income	\$96,105	\$137,412	\$83,999	\$92,884	\$94,472	\$42,643	\$62,779	\$88,098
Total margin	9.2%	12.1%	7.2%	7.6%	7.3%	3.1%	4.2%	5.6%