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Office of the President

TO MEMBERS OF THE COMMITTEES ON GOVERNANCE AND HEALTH SERVICES:

<u>DISCUSSION ITEM</u>

For Meeting of September 16, 2015

UC HEALTH GOVERNANCE: DISCUSSION OF PROPOSED AMENDMENTS OF BYLAW 12.7: COMMITTEE ON HEALTH SERVICES AND STANDING ORDER 100.4: DUTIES OF THE PRESIDENT OF THE UNIVERSITY AND PROPOSED NEW REGENTS POLICY: COMMITTEE ON HEALTH SERVICES

EXECUTIVE SUMMARY

The President of the University intends to propose at the November meeting of the Regents that the Committee on Governance recommend adoption of changes to Bylaw 12.7 and Standing Order 100.4, as well as a new Regents policy, as shown in Attachments 1, 2, and 3, respectively regarding governance of UC Health. This item constitutes the notice of proposed Bylaw and Standing Order amendments that is required by Bylaw 30.1 and Standing Order 130.1.

The purpose of the intended action is to reform and enhance Regents' oversight of UC Health by engaging individuals who are knowledgeable about the healthcare industry and operation of hospitals and health systems generally and whose oversight can focus solely on UC Health matters. The proposed changes are intended to help UC Health more efficiently and effectively address challenges faced by the University's clinical enterprise, and to take full advantage of opportunities as they arise.

In brief, the President will propose that the Committee on Health Services continue to exercise primary jurisdiction over the UC Health clinical enterprise, but that the composition of the Committee be modified. The new Committee would retain six Regents, including the President of the University, and add the Executive Vice President, UC Health, two chancellors whose campuses include medical centers, and four non-voting advisory members with appropriate expertise. Furthermore, the proposal will describe new responsibilities and delegated authorities for the Committee to better reflect the roles and responsibilities of modern health system governing bodies.

BACKGROUND

Changes in the healthcare industry, including implementation of the Affordable Care Act and resulting industry consolidation, demands for increased efficiency, and evaporating commitment of public and private payers to underwrite the costs of medical education and research through

enhanced payments to academic health centers, threaten the financial vitality of UC Health's clinical enterprise and the premier medical and other health professions schools it supports. In this rapidly changing environment, it is important to ensure that UC Health has an effective governance structure. To this end, at a special meeting in March 2015, the five UC medical center Chief Executive Officers (CEOs) presented to the Committee on Health Services some of the obstacles and drawbacks they perceive in the current structure for oversight of UC Health. Among these are a cumbersome approval process for health enterprise transactions and capital projects, especially for those with minimal financial impact on the University, and an approach to executive compensation that is ill-suited to meet the demands of an evolving, increasingly competitive market. The CEOs also observed that more governance engagement with respect to strategy and oversight is desirable, but that such engagement is impeded by the absence of strong health system industry expertise on the Board and its inability to focus sufficiently on health system matters during bimonthly meetings convened to address the University's governance and oversight generally.

The Committee on Health Services was advised during the March 2015 meeting that UC Health had initiated an engagement to assess its governance structure and identify alternatives. Members of the Committee supported this study and charged UC Health to report its results at the July 2015 meeting. The study focused on two broad goals: (i) increased nimbleness to respond to a rapidly changing healthcare environment; and (ii) capacity to function as an integrated health system (rather than five autonomous medical centers and six autonomous medical schools) to capitalize on UC Health's scale. The resulting study identified seven criteria for assessing different governance models: 1) timelines and efficiency; 2) expertise; 3) strategic guidance; 4) system-level effectiveness; 5) alignment across the three missions of research, education, and patient care; 6) responsiveness to local conditions; and 7) transaction costs and risks. The study analyzed the governance of other academic and non-academic health systems and its investigators interviewed the President of the University, several Regents, chancellors, medical school deans, medical center CEOs, and the Executive Vice President, UC Health, as well as leaders of other academic health systems.

The final report identified four primary options for governance of UC Health: (i) continue with the status quo; (ii) create an advisory board (without delegated authority) to the existing Committee on Health Services; (iii) create a UC Health oversight board with delegated authority; and (iv) spin off UC Health as a separate entity. Using the seven criteria listed above to evaluate these options, the third option was recommended – creation of an oversight board comprised of sitting Regents, external individuals with appropriate expertise, and internal representatives.

The results of the study were presented to the Regents at the July 2015 meeting and discussed at length. The proposal reflected in the attached amended Bylaw 12.7, new Standing Order 100.4(rr), and new Regents policy, collectively summarized below, is based on the results of the July 2015 discussion and further discussions with the Executive Vice President, UC Health, several Regents, and other stakeholders and experts.

PROPOSAL

Structure

Regents' governance of UC Health would continue through the Committee on Health Services. The Committee's composition, however, would be modified. The new Committee would retain six Regent members, and add new members. The six Regent members would be: (i) the Committee's current Chair (Lansing) and Vice Chair (Sherman), (ii) three additional Regents selected from among those now serving on the Committee, and (iii) the President of the University. The additional members would be: (i) the Executive Vice President, UC Health; (ii) two chancellors from UC campuses with academic health systems; and (iii) four non-voting members with expertise related to health care, academic health systems, mergers and acquisitions, and related fields. No other individuals would serve as members of the Committee.

The Regents would appoint the Regent members of the Committee (other than the President of the University) upon recommendation from the Committee on Governance, in the same manner as that Committee nominates members of other committees. The external non-voting members would be selected by the Regents, upon the recommendation of the Executive Vice President, UC Health, nomination by the President of the University, and recommendation from the Committee on Governance in consultation with the Committee on Health Services. The chancellor members would be selected by the President of the University. After the initial terms specified in the transition provisions, the members other than the President of the University and the Executive Vice President, UC Health (both serving in an *ex officio* capacity) would be appointed to staggered, renewable two-year terms.

Existing policies governing compensation of Regents and reimbursement of expenses associated with their service would apply to external Advisory members of the Committee on Health Services: they would *not* receive salary or compensation in return for their service to the Committee but would be eligible for reimbursement of expenses, consistent with Bylaw 8.1 and Regents Policy 1105. In the case of members who are University employees, compensation and reimbursement of expenses would be consistent with applicable University policies for employees.

Notwithstanding Bylaw 8.3, Regent members of the Committee on Health Services would be permitted serve on any administrative committees that may be convened to address UC Health matters.

Committee Activities and Jurisdiction

The Committee on Health Services would have primary responsibility for strategic plans and budgets for the University's clinical enterprise; patient care, quality, cost, and access; transactions, capital projects, and executive compensation as further described below; and various system-wide UC Health initiatives. In addition, the Committee on Health Services could advise the full Board or other committees on all other matters that have a significant impact on UC Health, but are not within that Committee's primary jurisdiction, including but not limited to the operation and oversight of the University's insurance and self-insurance programs, claims

and settlements arising from the clinical enterprise, clinical enterprise compliance and audit activities, and health professional education programs.

UC Health Transactions

The Regents would delegate to the Committee on Health Services and to the President of the University expanded authority to approve, without further Regents action, certain healthcare transactions up to the following limits:

- The President of the University, with the relevant chancellor, could approve transactions with a cost or value (including cash, debt, and other commitments) of $25 million or 1.5% of the sponsoring health system's annual revenues, whichever is less. For the current year, this would be: $23.785 million for UC Davis Health, $13.332 million for UC Irvine Health, $19.393 million for UC San Diego Health, and $25 million each for UCLA Health and UCSF Health.

- The Committee on Health Services could approve transactions with a cost or value of up to 3% of the sponsoring health system's annual revenues. For the current year, this would be: $47.57 million for UC Davis Health, $26.663 million for UC Irvine Health, $38.786 million for UC San Diego Health, and $50 million each for UCLA Health and UCSF Health.

- In addition, the President's delegated authority and the Committee's delegated authority would be subject to cumulative annual caps. The President could not approve transactions in one year with a total value exceeding $50 million or 3% of annual revenues, and the Committee could not approve transactions in one year with a total value exceeding 5% of annual revenues.

For purposes of these delegations, total annual revenues would be based on audited financial statements for the most recent year. The Committee's approvals under this delegation would be reported to the Board at the next Regents meeting. These proposed delegations are summarized in the table below.

		UCD	UCI	UCLA	UCSD	UCSF	Total
Total Operating Revenue FY14 ($ Thousands)		**1,585,658**	**888,775**	**1,988,037**	**1,292,864**	**2,818,449**	**8,573,783**
Per Transaction Thresholds*							
Level I (President/Chancellor)+	1.5%	$ 23,785	$ 13,332	$ 25,000	$ 19,393	$ 25,000	
Level II (HSC & President/Chancellor)	3.0%	$ 47,570	$ 26,663	$ 59,641	$ 38,786	$ 84,553	
Level II (HSC) – *current*		$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	
Per Annum Thresholds*							
Level I (President/Chancellor)^	3.0%	$ 47,570	$ 26,663	$ 50,000	$ 38,786	$ 50,000	$ 257,213
Level II (HSC & President/Chancellor)	5.0%	$ 79,283	$ 44,439	$ 99,402	$ 64,643	$ 140,922	$ 428,689
Level II (HSC) – *current*		$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	**$ 50,000**

Threshold is defined as the level **up to which the authorities in parentheses are authorized to make a decision. Transactions above Level II would continue to require full Regents review and approval.*

+ *1.5% or $25 million, whichever is lesser*

^ *3.0% or $50 million, whichever is lesser*

The above thresholds would be specified in the new Regents policy attached to this item and would be reviewed annually by the Committee on Health Services. The value of an individual transaction would be determined as provided in the new Regents policy. The Chief Financial Officer may recommend or enact additional policies or guidelines to facilitate accurate and consistent valuations.

Notwithstanding the above thresholds, the President of the University would present to the Committee on Health Services and then to the full Board for its approval any transaction that, in her judgment or the judgment of a sponsoring chancellor, creates a material reputational risk to the University or represents a significant new policy initiative.

UC Health Capital Projects

In order to avoid duplication of effort, the Committee on Health Services and its chair would assume primary responsibility for UC Health capital projects. UC Health capital projects that otherwise would be referred to the Committee on Grounds and Buildings or its chair would instead be referred to the Committee on Health Services or its chair.

Compensation

To the extent appointment and compensation of UC Health employees might otherwise require approval of the Regents or any of its committees, the Committee on Health Services would be delegated such authority, to be exercised consistent with a benchmarking framework developed and approved by the Committee on Health Services. This delegation would extend only to those individuals whose incomes are derived exclusively from sources other than the State General Fund. For individuals whose incomes are supported in whole or in part by the State General Fund, the Committee on Health Services could make recommendations to the Committee on Compensation for that Committee to make recommendations to the full Board.

Staff Reports

The Committee would oversee development of dashboards assessing quality of care, cost of service, and access to care across the UC Health clinical enterprise, and would use the dashboards to monitor performance against established benchmarks.

The Executive Vice President, UC Health or his designee would brief the Committee on all systemwide managed care arrangements negotiated by his office on behalf of the UC Health clinical enterprise.

Committee Reports

The Committee on Health Services would report to the Board annually on UC Health's strategic plan and budget and on other significant activities and accomplishments. The Committee would report on any actions it takes pursuant to its delegated transactions, capital projects, and compensation authorities to the Board at the Board's next regularly scheduled meeting.

Effect on Existing Bylaws and Standing Orders

Bylaw 12.7, as amended, would prevail over any conflicting provision of the Bylaws, Standing Orders, and Regents Policies.

Transition Provisions

The proposal, if adopted would take effect on December 1, 2015 and the Committee would be reconstituted consistent with the provisions of the proposal including the transition provisions summarized below as soon as practicable thereafter.

The Chair and Vice Chair of the Committee as it was approved by the Board in May 2015 would continue in such capacity. The initial term of the Chair would extend through June 30, 2021 and the initial term of the Vice Chair would extend through June 30, 2020, so they do not reach the end of their terms in the same year. Thereafter, the Committee on Governance would nominate the Chair and Vice Chair for approval by the full Board to staggered, renewable two-year terms.

Three additional Regent members of the Committee on Health Services as it was approved by the Board in May 2015 would be nominated by the Committee on Governance and approved by the full Board, to serve staggered, renewable, two-year terms.

Upon nominating the Advisory Members and the Chancellor members, the President of the University would identify the length of the initial terms to be served by each so as to provide for staggered two-year terms.

Attachments:

Attachment 1: Proposed Amendment of Bylaw 12.7: Committee on Health Services
Attachment 2: Proposed Amendment of Standing Order 100.4: Duties of the President of the University
Attachment 3: Proposed Regents Policy: Committee on Health Services