

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**

October 15, 1998

The Committee on Health Services met on the above date at UCSF - Laurel Heights, San Francisco.

Members present: Regents Atkinson, Clark, Davies, Khachigian, and Preuss; Advisory member Vining

In attendance: Regents Bagley, Espinoza, Gould, Johnson, Kozberg, Lee, Miura, Montoya, Parsky, and Willmon, Regent-designate Taylor, Faculty Representative Dorr, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, Hershman, and Hopper, Chancellors Bishop, Carnesale, Orbach, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 4:10 p.m. with Committee Chair Khachigian presiding.

1. **REPORT ON LIMITED LIABILITY CORPORATION, MEDICAL CENTER, DAVIS CAMPUS**

Chancellor Vanderhoef recalled that, at the September Regents meeting of the Committee, plans were discussed for developing Merced Cancer Center jointly with Mercy Healthcare, and it was mentioned that a Marysville area joint venture was anticipated. That joint venture will complement the UC Davis Medical Center's major strategic initiatives to foster academic excellence and ensure continued financial viability. The Marysville project is part of a broad-based effort to improve quality and accessibility of healthcare in northern California through outreach, education, and collaboration between the public and private sectors.

Chancellor Vanderhoef noted that Robert Chason, who has been the Medical Center's Chief Operating Officer since 1994, will assume the responsibility of Acting Director, effective December 1. In addition to his having management responsibilities for the hospital and its clinics, he has played a leadership role in developing many of the initiatives. He and Dr. Thomas Nesbitt, Director of Telemedicine, have developed personal relationships that are the foundation of the UCD community hospital network.

Mr. Chason described the rationale for embarking on new initiatives. He recalled that UCD is faced with the challenge of sustaining success in a highly competitive managed care environment. The only way to meet this challenge is to pursue strategic initiatives that will create opportunities to expand outreach to outlying areas through the primary care network. The Medical Center has organized its clinical and academic departments

through the development of multidisciplinary centers of excellence. It has created new partnerships with community-based and rural hospitals and health systems and has developed close partnerships with larger healthcare systems to complete the managed care market through Western Health Advantage. Consistent with its mission, the goals for UCDCMC include attracting sufficient patients for teaching and research, expanding training sites, improving access to care in communities, providing public service through outreach and education, and enhancing its contracting leverage.

Mr. Chason noted that the UCDCMC primary care network employs 124 primary care physicians located in 14 community-based clinics. In 1997, primary care network physicians accounted for 54 percent of all referrals to UCDC specialists and provided a significant percentage of the student contact hours for first- and second-year medical students. Clinical and academic departments were reorganized so as to allocate resources more efficiently, create a multidisciplinary approach to teaching and patient care, and support other outreach initiatives. The result was the creation of eight centers of excellence. In developing the community network, the Medical Center has developed affiliations with Fremont Rideout Healthcare Group, which provides service to Sutter and Yuba Counties. Through that affiliation, Fremont Rideout has access to UC specialists, continuing education, and technology. This interaction expands the clinical capabilities of local providers such as oncologists and enhances their position as secondary referral centers for smaller rural providers such as Colusa Community Hospital. In return, UCDCMC receives tertiary referrals, additional training sites, a better payor mix, and an expanded presence in the secondary market. The relationships reinforce the central importance of the local providers as the key managers of care in their communities while allowing the hospitals to remain independent rural providers. The net also includes hospitals and health systems with which UCDCMC has project-specific partnerships. These include Mercy Merced, the location of the joint cancer center, and Mercy Redding, where UC provides perinatal services.

Dr. Nesbitt reported that telemedicine has been an important tool in maintaining relationships with rural providers. Telemedicine provides opportunities for people in a wide geographic area to gain access to UC's expertise quickly and easily. It also creates a strong link between UCDC clinicians and community-based providers that expands medical knowledge in these communities, improves local access to specialty services not otherwise available, and strengthens the local healthcare system. UCDCMC is equipped to conduct fetal telemonitoring and teleultrasound and is planning to establish an advanced monitoring system that will allow emergency room staff to transmit real data for analysis by UCDCMC doctors. The video-based program involves high bandwidth teleconferencing links. In some specialties this is combined with special scopes and devices that allow UCDC specialists to do the majority of the examination from a distance. In some cases the local physician provides components of the examination and shares them with UCDC specialists. The efficacy of telemedicine as a tool to expand clinical services in rural communities, improve access to local residents, and enhance the efficiency of specialists has been recognized by granting

agencies, which have allocated approximately \$2.5 million to its development over the past 18 months.

Mr. Chason then discussed some details of the planned Marysville-Yuba City cancer center. He noted that the Medical Center's regional cancer centers initiative is an important part of its goal to become preeminent in cancer care throughout inland northern California. The centers will expand training opportunities and position UCD as a leader in cancer research. They will put cutting-edge treatment within the reach of local physicians. The Medical Center is building its regional cancer center network by employing a variety of joint venture strategies. Fremont Rideout Health Group is an integrated hospital system with an acute care hospital, a skilled nursing facility, and a surgery center. This system is the only healthcare provider for Yuba and Sutter counties. The structure of the proposed joint venture with Marysville-Yuba City will involve the creation of a limited liability company that will own the cancer center. UCD will participate as an equal management partner and will make a capital contribution to the venture. The agreement has a 120-day escape clause and will give Fremont Rideout the right of first refusal. It is proposed that the land will be leased to the limited liability company for \$1 per year.

Mr. Chason reported, in closing, that outpatient visits to UC Davis' health services have more than doubled since 1995 and that inpatient admissions have increased by 36 percent. Research grant awards have increased by 38 percent over the last five years. He noted that, while this growth cannot be attributed exclusively to strategic initiatives, they continue to be a considerable part of the Medical Center's success.

Regent Clark sought assurances from General Counsel Holst that the cancer center proposal had been reviewed with particular attention to the University's potential liability. Mr. Holst reported that his office is in the process of reviewing the terms. He noted that the proposal paralleled the one used to establish the facility in Merced.

Regent Lee commented that he believed the Medical Center should expand into as many remote areas of northern California as possible.

2. **UPDATE ON ACADEMIC HEALTH CENTER FACILITIES RECONSTRUCTION PLAN, MEDICAL CENTER, LOS ANGELES CAMPUS**

Vice President Gurtner reported that the first proposal related to the UCLA Health Center Facilities Reconstruction Plan would be presented to the Committee at the November meeting. He introduced Chancellor Carnesale, Dr. Gerald Levey, Provost of Medical Sciences and Dean of the School of Medicine at UCLA, Mr. Michael Karpf, Vice Provost for Hospital Systems and Director of the UCLA Medical Center, to discuss the plan.

Chancellor Carnesale reported that the reconstruction plan is essential to the continuing success of the academic health center at UCLA and to the continuing success of the campus as a whole. The health sciences constitute roughly one-half of UCLA's budget, and there is a high degree of integration between the medical sciences and the College of Letters and Science.

Mr. Carnesale noted that the reconstruction plan comprises two phases. Phase one consists of the two seismic replacement hospitals in Westwood and Santa Monica, two seismic replacement buildings for research, and the new Luck Research Center, which is an element of the strategic alliance with Orthopedic Hospital. Phase one has to be completed on schedule if the teaching and research needs of the University and the healthcare needs of the community are to be met. Funding for phase one is assured. Phase two, which is the longer-term part of this project, involves a seismic replacement building for education, demolition of the most severely damaged portions of the Center for Health Sciences and renovation of those parts of the Center where it is cost-effective to renovate, and construction of a plaza to connect the new Westwood hospital with the replacement education building.

Mr. Carnesale reported that, unlike the first phase, the schedule of the second phase could be extended to accommodate unforeseen events, including shortfalls in funding. Both phases are fully consistent with the overall plan for seismic renovations at UCLA. The non-medical portion is nearly equal to the medical portion. He emphasized that the entire facilities reconstruction plan has to be implemented on or under budget. Any increase in costs will have to be offset by decreases in costs elsewhere, because this is such a large project. A five percent cost overrun in the overall project would total \$64 million.

Dr. Levey recalled that the facilities reconstruction plan, which was developed in response to the significant damage suffered at both the Westwood and Santa Monica campuses during the 1994 Northridge earthquake, describes a series of projects to be implemented over the next fifteen years. Action taken by the Board in May 1997 included an approval of the program and an amendment of the Budget for Capital Improvements to include funding for preliminary planning for the Westwood and Santa Monica replacement hospitals. He reported that the preliminary plans phase for the Westwood replacement hospital has now been completed. Approval to proceed with

the working drawings and construction phases of this first project will be sought at the November Board meeting. He noted that while the Westwood replacement hospital is the only project that will be presented in November, it is important to have an overview of the entire reconstruction plan in order to understand the general context. Subsequent components of the plan will be presented at later meetings of the Regents, beginning in March 1999 with the Santa Monica replacement hospital. The presentation will consist of an overview of the scope and estimated cost of the projects contemplated under the plan, along with a summary of the proposed funding sources and a description of the design and construction implementation strategy.

Dr. Levey commented that the 1994 earthquake resulted in significant damage to the medical facilities at the Santa Monica and Westwood campuses. The facilities constructed prior to the adoption of modern seismic safety codes sustained the heaviest damage. Following the quake, a series of detailed engineering studies funded by the Federal Emergency Management Agency was completed and various repair and replacement alternatives were evaluated. The studies concluded that the main Santa Monica hospital tower and major portions of the Center for Health Sciences at Westwood would need to be replaced. At other facilities, including portions of the Center for Health Sciences which contain teaching facilities and research laboratories, the damage was less severe, and the buildings could be renovated. At a few facilities, such as the Merle Norman Pavilion at Santa Monica, only minor repairs are required. The Facilities Reconstruction Plan proposes a series of projects intended to create state-of-the-art medical facilities that meet appropriate seismic safety standards and address the clinical research and education needs of the clinical enterprise at UCLA.

Dr. Levey listed the key components of the reconstruction plan as follows: 1) Construction of replacement hospitals at Westwood and Santa Monica; 2) construction of three seismic replacement buildings, two for research and one for education; 3) seismic retrofit of major portions of the existing Center for Health Sciences; 4) demolition of portions of the existing Center for Health Sciences; 5) construction of the Luck Research Center; and 6) construction of the plaza connecting the Westwood replacement hospital to the replacement education building. The proposed site of the Westwood replacement hospital is located immediately north of the existing outpatient medical plaza. The two seismic replacement buildings for research and the one for education would replace the space currently taken by facilities that cannot be repaired. The Luck Research Center and the plaza have been added since the facilities reconstruction plan was presented. Orthopedic Hospital will relocate its inpatient service to the Santa Monica UCLA Medical Center following completion of that replacement hospital. Construction of the various components of the reconstruction plan is expected to occur in two phases over a thirteen-year period beginning in 2000. Phase one projects which will be completed by the end of 2004 include the Westwood replacement hospital, the Santa Monica replacement hospital, the two seismic replacement research buildings, and the Luck Research Center. The phase two projects, to be completed from 2005 to 2013, include the seismic replacement education building, the plaza, and the seismic retrofit of portions of the

Center for Health Sciences and demolition of irreparable portions. The phase one projects are not elective. They are mandatory either as part of the overall seismic safety program of the campus or to fulfill a commitment in connection with the strategic alliance with Orthopedic Hospital. UCLA is required under Senate Bill 1953 to replace, repair, or close all damaged inpatient care space by 2008. Further, the funding that has been received from federal and State sources, over \$560 million, is predicated on completing the replacement hospitals by 2004 and the seismic replacements by 2005. Also, over 83 percent of the funds necessary to complete the phase one projects are already in place as FEMA grants, State funds, reserves, or gifts. The total base cost of the facilities reconstruction plan is currently projected at \$1,271 million, excluding financing costs. The subtotal for phase one is \$942 million, and the subtotal for phase two is \$329 million. These estimates include escalation of construction costs at five percent per year compounded to the midpoint of construction of each project but exclude capitalized interest costs during project development and construction. The capitalized income will be a function of the timing and the amount of fundraising that occurs during construction. Current estimate of the project's capitalized interest is \$42 million, bringing the total project cost to \$1,313.1 million.

In consultation with Senior Vice President Kennedy, Vice Presidents Gurtner, Broome, and Hershman, and Assistant Treasurer Young, a comprehensive facilities reconstruction plan has been developed. The proposal consists of the following general categories of funding: FEMA grants, State funds, and reserves; gift funds; and external financing. The phase one projects will be funded by \$661.6 million from FEMA, State funds, and reserves, \$136 million from gift funds, and \$144.4 million from external financing. Of the \$942 million in phase one costs, 83 percent is already in place, including all the \$661.6 million in the first category and \$121 million out of the \$136 million in gift funds. Under the current plan, the phase two projects will be funded by \$46 million from State funds and \$283 million from gifts.

Dr. Levey reported that the following are key issues: 1) are the proposed fundraising targets reasonable; 2) does the hospital system have the capacity to assume the additional debt required; 3) how will the scope of this project be controlled; and 4) what measures will be taken to assure that the projects are completed on time and on budget. He noted that each issue has been addressed comprehensively in developing the financial plan and the design and construction implementation strategy to be presented at the November Regents meeting.

Dr. Levey reported that \$121 million of the total \$419 million in gifts required to fund the entire plan has been received. These gifts in hand include \$35 million from Orthopaedic Hospital, \$25 million from Michael Ovitz, \$15 million from Santa Monica Hospital Foundation, and anonymous gifts of \$11 million, \$7.5 million, and \$5 million. They also include a recently completed pledge of \$25 million, to be announced October 28. He was confident that fundraising efforts will continue to achieve the outstanding success of late.

Dr. Levey reported that a comprehensive financial analysis which includes operating projections for the entire period of construction has been completed to assess the capacity of the hospital system to assume the additional debt that will be required. The hospital system has enjoyed an exceptional period of profitability in recent years. It appears that net income will remain at levels sufficient to sustain the additional debt commitment from the reconstruction plan. The project's planning process has included many steps designed to control the scope of the projects and to ensure that they are completed on time and on budget. The design and construction implementation strategy will focus on the following: 1) discipline during the design process to control project scope; 2) broad-based consultation with faculty, staff, hospital administrators and clinical department chairs to ensure commitment and buy in; 3) built-in flexibility in building design to allow the facilities to adapt easily to changing needs; 4) the implementation of a total cost management approach that integrates building design with continuous measurement of value and control of project costs; 5) the use of conservative assumptions for project contingencies and escalations equaling about 25 percent of the entire project budget for the Westwood replacement hospital; and 6) the bringing together of an experienced project management team with a proven track record of delivering projects within established budgets and schedules. He emphasized the Chancellor's point that there will be no user change orders during construction. He noted that Sarah Jensen, Assistant Vice Chancellor for Health Sciences Capital Programs, is leading the effort that will execute the facilities reconstruction plan, with assistance from a principal project manager and a director of construction. Manager of Design Services Jim Smith will represent the Office of the President on the project team. An executive architectural firm with successful experience with the construction of large academic medical centers has been retained, and a construction management firm will be hired soon. The November proposal to the Board will seek approval to proceed with the first component of the plan, the Westwood replacement hospital. In March 1999, approval will be sought to undertake the Santa Monica and the Luck Research Center components of the plan, with the action on the remaining phase one projects to occur in subsequent meetings.

Regent Clark supported the reconstruction project based on the financial viability of the UCLA Medical Center, which is thriving, and because it will enhance the Medical Center's already high status among academic medical centers nationwide. He believed that Dr. Levey, who besides having a medical background has an outstanding background in business, has assembled a capable team and has the ability and dedication to see the project through successfully.

Regent Lee compared the reconstruction project to building a new campus. He stated that he looked forward to learning more detail about the resources that are available and the individuals who will be in positions of responsibility in connection with the reconstruction project. Although he supported the project in principle, he was concerned about its scope. Dr. Levey assured the Regents that the administration is aware of the importance of bringing the project in on time and on budget. Regent Kozberg expressed her support for the plan also, noting that the approach of

appointing an internal management team as well as an external project management team and the cost-containment strategies seemed well-advised.

President Atkinson commented that the UCLA facilities reconstruction project is the largest capital undertaking in the history of the University. He noted that spectacular gifts have been received to support it. He was confident that the project will be completed on time and within its budget.

The meeting adjourned at 5:20 p.m.

Attest:

Secretary