

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

January 14, 1999

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

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

In attendance: Regents Bustamante, Connerly, Espinoza, Johnson, Kozberg, Miura, Montoya, and Willmon, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young representing Treasurer Small, Provost King, Vice Presidents Broome and Hopper, Chancellors Bishop, Cicerone, Dynes, Orbach, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 10:35 a.m. with Committee Chair Khachigian presiding.

1. **ESTABLISHMENT OF A LIMITED LIABILITY CORPORATION WITH FREMONT-RIDEOUT HEALTH GROUP TO CONSTRUCT AND OPERATE A COMMUNITY CANCER CENTER, MEDICAL CENTER, DAVIS CAMPUS**

The President recommended that, in consultation with General Counsel and the Vice President of Clinical Services Development, he be authorized to:

- A. Execute documents to establish a limited liability corporation (LLC) to be capitalized up to \$3.92 million by The Regents (49 percent) and \$4.08 million (51 percent) by Fremont-Rideout Health Group (Fremont-Rideout) for the purpose of constructing and operating a community cancer center (Cancer Center) in conjunction with the Fremont-Rideout Hospital in Marysville. The Regents' contribution will be funded from UC Davis Medical Center reserves.
- B. Execute a groundlease between the LLC and Fremont-Rideout whereby the LLC will contract for the construction of the facilities of the Cancer Center and will lease equipment to Fremont-Rideout.
- C. Approve a facility lease and management services agreement whereby facilities, equipment, and management services are provided by the LLC to Fremont-Rideout for the operation of the Cancer Center under the Fremont-Rideout hospital license.
- D. Approve an employee lease between the LLC and Fremont-Rideout whereby Fremont-Rideout leases employees to the LLC for the provision of all services at the Cancer Center save and except radiation and medical oncology services.

- E. Execute agreements between The Regents and Fremont-Rideout whereby the UC Davis School of Medicine provides medical direction and oncology services.

It was recalled that in September 1998, The Regents approved a similar project to be located in Merced, jointly sponsored by the University and Mercy Hospital and Health Services. At their October meeting, the Regents were provided a brief overview of the cancer care outreach program at UC Davis, including the currently proposed Cancer Center in Yuba City/Marysville. These two projects are key components of a regional, state-of-the-art cancer care network that will benefit local communities and the academic program and in which the University of California, Davis, School of Medicine and Medical Center will play a leading role.

The approved and the proposed projects will comprise the joint development and operation of community cancer centers equipped with radiation therapy and providing medical oncology and infusion services. They will also be equipped with full telemedicine capability to allow physicians and staff at the UC Davis Medical Center to be actively involved in treatment planning, specialty consultation, and education of physicians and patients. The new facility will also include conference space that will be used for patient education, continuing medical education, and various community events.

The Cancer Center at Yuba City/Marysville would provide major academic benefits to the UC Davis Oncology Program, including: an additional site for the training of residents in medical and radiation oncology; an additional site for conducting oncology research; expansion of the UC Davis telemedicine program in oncology; community outreach by expanding the availability of academic medicine in the field of oncology; opportunities in medical education for community physicians in the Yuba City/Marysville area; and supporting Fremont-Rideout with tertiary and quaternary cancer services available at UC Davis Medical Center (UCDMC). It is anticipated that the Yuba City/Marysville community would benefit from a higher quality of care, a broader range of local services, and instantaneous access to the UC Davis oncology expertise via the telemedicine services.

The Yuba City/Marysville Cancer Center Transaction

This proposal would establish an LLC that would be capitalized up to \$8 million in a contribution and ownership ratio of 49:51 by the University and Fremont-Rideout, respectively. Fremont-Rideout has requested a 51 percent interest in the LLC given the location of the Cancer Center within its community and that the Center would be operated under its hospital license. The LLC would lease the vacant land from Fremont-Rideout, have the facility built, either purchase or accept donated equipment, and lease employees from Fremont-Rideout who would perform nursing, technical, and other outpatient services required for operation of the Cancer Center.

Each member of the LLC would appoint a manager, and those managers would have full control of the LLC with the exception of specific reserved powers. Management decisions would be made by consensus. Fremont-Rideout and The Regents would reserve the right to sell, exchange, or dispose of all or essentially all of the LLC's assets; to lease or purchase real property; to merge the company; to provide management services to a different hospital; to dissolve the company; and to file petitions in bankruptcy or reorganization. The LLC corporate model has been selected as the basis for the relationship given the protections and limitations on liability which are present in this corporate structure.

In the event that there are disputes regarding the meaning of the terms of the LLC operating agreement, arbitration would be mandatory. Disputes between the managers over management or operation of the LLC would be referred to Fremont-Rideout and The Regents for resolution. In the event of irreconcilable conflict, either party could withdraw from the LLC on 60 days' notice. In the event of withdrawal of either party from the LLC with cause, Fremont-Rideout would be required to pay the University for its interest at fair market value. Since the Cancer Center would be an outpatient department of the hospital, the stream of income to Fremont-Rideout would be taken into account in determining fair market value. If the University withdrew without cause, it would be reimbursed only 80 percent of the fair market value; if Fremont-Rideout withdrew without cause, it would reimburse the University 120 percent of the fair market value.

The fee payable to the LLC for the provision of services, facilities, and equipment is proposed to be the revenue generated from the operation of the Cancer Center.

Both medical and radiation oncology services would be provided by community physicians who are likely to remain in private practice and lease space at the Cancer Center. The oncologists would have faculty appointments with the UC Davis School of Medicine for the purpose of providing research coordination, medical education coordination, and medical direction of oncology services at the Cancer Center.

This project differs from the Mercy-Merced project in the several ways. The volume forecast is higher due to demographics and patient care patterns. At the request of Fremont-Rideout, the capital contribution of the University would be 49 percent of total (vs. 50 percent for the Mercy-Merced project). Decision making would still require the consensus of both partners, with disputes referred to the University and Fremont-Rideout for resolution and with a right to withdraw on a 60-day notice. The proposed facility is larger and total capital is estimated at \$8 million, reflecting the larger anticipated volume. The University's contribution would not exceed \$3.92 million. Radiation oncology professional services would be provided by community physicians under medical direction of UC Davis oncology faculty.

Description of the UC Davis Partner

The Cancer Center in the Marysville/Yuba City area would be developed in conjunction with the Fremont-Rideout Health Group, a not-for-profit public benefit corporation that was formed in 1983 by the merger of Fremont Medical Center in Yuba City with Rideout Memorial Hospital in the adjacent city of Marysville. These hospitals have a total of 314 licensed beds. Fremont-Rideout Health Group also owns a 99-bed skilled nursing facility, with an assisted living/adult day health facility currently under construction.

Fremont-Rideout has 180 physicians on staff and employs 1,700. It offers the 200,000 residents of Sutter, Yuba, Colusa, and southern Butte counties a broad range of services, including emergency, obstetric, pediatric, adult intensive care, neonatal intensive care, inpatient behavioral health, general medical and surgical, skilled nursing, outpatient surgery, fixed and mobile health clinic, home health, and hospice.

Fremont-Rideout has shown financial strength and stability with a net gain produced each year since its formation in 1983. Net income in the most recent fiscal year was \$8.6 million on annual net revenues of over \$100 million. Indebtedness is low, with a fund balance equal to 72 percent of total assets.

Benefits to the School of Medicine, UCDCM, and the Local Community

There would be many advantages to the academic and clinical programs of the UC Davis School of Medicine and Medical Center, as well as to the Yuba City/Marysville area residents. The oncology research program would benefit through the increased volume of clinical trials in radiation and medical oncology. This would enhance the productivity of current trials and improve the ability of UC Davis to secure new contracts for clinical trials. Research in telemedicine would be enhanced, as its widening use would allow additional applications for research in medical informatics, an area in which the School of Medicine is a leader. Clinical teaching of residents and fellows would be enhanced by the Cancer Center's clinical volume and by the increased referrals to UCDCM projected for highly specialized oncology services such as bone marrow transplant, total body irradiation, high-dose-rate brachytherapy, and stereotactic radiosurgery. These referrals are key for implementing the radiation oncology residency program planned for several years. It is proposed that future radiation oncology residents would rotate through the Cancer Center under the terms of an affiliation agreement to be developed. Learning in the community environment would enhance the training of residents by expanding their interaction with and resulting knowledge of community-based primary care medicine. This is very difficult to achieve in a university medical center and thus is a strength of the proposed program. Clinical teaching in other departments and divisions would be enhanced through the increased referrals expected for inpatient cancer services. The benefitted areas will include neurological surgery, neurology, otolaryngology, urology, pediatric hematology/oncology, obstetrics and gynecology, (adult) hematology/oncology, and surgical oncology.

Comprehensive cancer center designation for the UC Davis Cancer Center would be supported by this project, one of many activities that will strengthen the School of Medicine and UCDMC's application to the National Cancer Institute for this designation. The campus is currently in the first phase of this process, putting together an application for an NIH cancer center support grant. Quality of care in the local community would benefit. The radiation oncologists would be credentialed as permanent or volunteer faculty and would rotate through the UC Davis Cancer Center in Sacramento. In addition, faculty from UC Davis would visit Fremont-Rideout for clinical care. Patients would be admitted for treatment on national protocols that promise treatments years before they are available to the community at large. Cancer patients would also benefit from integrated quality assurance facilitated by visits and telemedicine for specific patients in radiation oncology. Most important, however, in raising the quality of local oncology care would be the permanent and timely communication that would be facilitated between the Cancer Center and the clinical oncology specialists of the UC Davis School of Medicine and UCDMC via telemedicine. Access to cancer care would be improved as well. The Cancer Center would be able to treat a larger proportion of patients than the current oncology providers, obviating daily patient travel to distant towns for care, a major concern for patients debilitated by their disease and, on occasion, by the side effects of treatment.

Financial Obligations and Risks

The University's initial capital contribution is limited to \$3.92 million and would be slightly less than matched by Fremont-Rideout so as to maintain a 49:51 ratio of University and Fremont-Rideout contributions. Decision making would require the consensus of both partners. Current capital requirement projections include approximately \$1.4 million in capital to be used for radiation therapy and other equipment and approximately \$1.9 million for building design and construction, with the remaining funds allocated for development costs, start-up, and contingency to cover projected initial operating losses.

Not included in the projections are anticipated financial gains associated with referrals for specialty outpatient and inpatient oncology services at UCDMC. These gains would partly offset the anticipated initial losses from the Cancer Center.

Regent Preuss asked for more information about the differences between the proposed Cancer Center and the Mercy-Merced project approved in September. Mr. Bob Chason, Interim Director of the Medical Center, explained that the physicians for the Cancer Center would be contracted with rather than hired. There would be a contract, for instance, with the local radiation oncologist to provide radiation services in that community. That individual would have to meet all of the requirements of the UC Davis School of Medicine. The second difference is the proposed 49:51 percent partnership. Also, the Cancer Center is slightly larger than the Merced facility and is closer to UC Davis.

Committee Chair Khachigian noted that the Cancer Center initiative is a good representation of how the University can accomplish health outreach to communities beyond the areas where it has medical schools. She believed that both the University and the community will benefit from the association.

Regent Leach asked how contracting with doctors as opposed to having them on the payroll of the enterprise would affect the division of the income between the contractor and the LLC. Mr. Chason reiterated that it would be a 49:51 percent split. In addition, the Cancer Center would operate under Fremont-Rideout's hospital license as a hospital clinic. All the proceeds would go to the clinic. The joint venture would bill for the institutional services, and the physicians would bill independently for their services. Regent Leach expressed the hope that the total revenues would be divided in such a way that the University's enterprise will have the opportunity to succeed. Mr. Chason noted that the enterprise is expected to make a modest profit within four years.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

2. **UPDATE ON CLINICAL ENTERPRISE REPORTING PROJECT**

It was recalled that the Clinical Enterprise Reporting project was initiated with two primary objectives: to understand better the economic flows of each component of the UC health care delivery system and to supplement the financial and statistical reporting presented from the campuses to the Office of the President and to The Regents, with new reports which capture the financial status of the entire clinical enterprise.

The University of California operates one of the largest health care systems in California. In addition to hospital services, the University is responsible for a large segment of professional and ambulatory services through the faculty medical groups and affiliated primary care medical groups.

Changing health care market forces and the changing needs in health profession education have resulted in a greater diversity in how and where medical care is delivered. Though in the past activity in the medical centers produced the majority of the clinical income, the use of ambulatory sites in the communities and increased outpatient activity in the physician office setting have resulted in greater financial investment and greater risk outside of the Medical Center. Though this activity is captured within the financial reports of the University as a whole, the Hospital Activity and Financial Status Reports which are presented monthly to The Regents do not include much of this clinical activity. As more and more medical care is moved to the outpatient setting, there is a need to expand the scope of the current reporting to include all aspects of the clinical enterprise.

The consolidated Clinical Enterprise Reporting model has been designed to support the changing health care delivery system and the corresponding reporting needs of management. The new reports include statistical and financial information on all components of an integrated health care delivery system: medical centers, physician practices, ambulatory/clinic operations, and management service organization/third party administrator activity. In addition to providing a more complete picture, more comprehensive reports allow each aspect of the integrated health care delivery system to be examined separately to allow for better understanding of the financial or strategic impact of various clinical activities.

Project Status

The project to develop and create the Clinical Enterprise Reports was initiated in October 1997. The primary oversight body for the project has been the Clinical Enterprise Advisory Committee, composed of representatives from the medical schools and medical centers and representatives from the divisions of Clinical Services Development and Business and Finance at the Office of the President. The Advisory Committee engaged a management consulting group, ECG Management Consultants, to facilitate the project. During development, a second committee, composed of campus accounting officers, was also established.

Phase I of the project, the creation of Consolidated Statements of Revenue and Expenses and Operational Statistics for each of the medical center campuses, has been completed.

Subsequent phases of the project include the following:

- Completion of the reporting data base and collection system, which will allow for automated submission of the reports, is expected in January 1999.
- The development of Balance Sheet and Statement of Cash Flow for the clinical enterprise will be a longer-term effort, with the development of draft reports anticipated within the next twelve months.

Until a complete package of reports, which includes a Balance Sheet and Statement of Cash Flows, is available, the Clinical Enterprise Reports will be supplemental to the Hospital Activity and Financial Status Reports provided to the Regents.

Vice President Broome noted that the purpose of the enterprise was to develop financial statements that will bring all of the clinical activities of the enterprise into one report. She expected that this change will provide a valuable management tool to the Regents. The primary purpose of the project is to understand the economic flows of each component of the healthcare delivery system. There is tremendous interplay among the physicians' practices, the medical centers' inpatient activities, and the clinics'

activities. Including all of the components in one report will provide a better feel for the clinical enterprise as a whole.

Ms. Broome reported that the project has been a joint effort of the Office of the President financial and clinical services departments, the medical centers, and the campuses. Director Shannon reported that an advisory group and a consulting group have been instrumental in furthering the project. Cross-subsidies between the medical centers and the schools of medicine had to be separated, and the ways of handling some of the revenues and expenses of new activities being brought into the reports had to be defined. A draft has been completed of the statement of revenues and expenses.

Ms. Shannon observed that the current hospital activity reports focused on the operations of the hospitals. They addressed primary inpatient and outpatient services. They excluded many physician services that are billed by the University and physicians' salaries paid by the University. The current financial reports included some ancillary activities such as outpatient clinics that are removed from the hospitals. The scope of the report has been broadened by about \$508 million from a revenue perspective, bringing the total clinical enterprise to about \$2.3 billion annually.

Ms. Shannon explained that the new reports will include three major categories. The first is the medical center category, which continues to represent the greatest share of the financial interest of the University, \$1.7 billion. The clinics' and physicians' services category is slightly more than \$500 million. The other clinical enterprise services are about \$78 million. The first category focuses on the services and operations of delivering care in a hospital setting. These services include traditional inpatient services, ancillary services such as radiology, and operating rooms. Specifically excluded from this category are the hospital-based clinics and the physician services, which are now covered in the second category. The ambulatory clinics, which had been reported under the hospital umbrella in the current reports, were moved, and two key components were added: the primary care networks, including their revenues and expenses, and the faculty practice clinics. The final category now encompasses some of the ancillary activities that had been reported in current reports, such as home health, as well as reference laboratories operated by the schools of medicine and managed care services associated with accepting capitated payments from HMOs.

Ms. Shannon reported that some new statistical reports have been created. Measures such as patient days and outpatient visits are now being supplemented with the additional visits associated with faculty practice clinics and the primary care networks. There are also new statistics to measure staffing levels in the form of full-time equivalents per patient bed. She noted that all operating statistics will be adjusted to reflect patient severity. This adjustment provides for more level measurements across campuses as well as allows comparisons with national norms.

Ms. Broome stated that the draft financial statement is one of revenues and expenses for the three components. There are some areas still to be revised. The next phase of

the project will be to develop a balance sheet and statement of cash flow report. She highlighted the fact that the \$508 million noted previously is not additional revenue. It is revenue that was formerly reported in the University's general purpose financial statements. Financial statements will not be issued until a complete set is ready, a task that is anticipated to take another year.

Ms. Broome believed that the initial work is beneficial for showing clearly the financial aspects of all clinical enterprise activities. It also shows the impact of one activity on another. It is particularly useful for conducting analyses with reference to planning for bringing in new ventures. It has the ability to highlight different models and the benefits of various structures. The process of putting together the statement of revenues and expenses has been manual. She reported that a data base is being developed and should be completed in February.

Regent Montoya asked how much detail will be included in the reports. Ms. Broome explained that the detailed basic financial statement working drafts were provided as an example. The line items will likely be similar to those included in the current report format.

3. **ACTIVITY AND FINANCIAL STATUS REPORT ON HOSPITALS AND CLINICS**

There was no discussion on this item.

The meeting adjourned at 10:55 a.m.

Attest:

Secretary