

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

July 20, 2000

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

Members present: Regents Atkinson, Davies, O. Johnson, S. Johnson, Khachigian, Kohn, Kozberg, Lee, and Sayles; Advisory member Seymour

In attendance: Regents Bagley, Connerly, Fong, Hopkinson, Miura, Montoya, Moores, and Parsky, Regent-designate Morrison, Faculty Representatives Coleman and Cowan, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Drake, Gomes, Gurtner, Hershman, and Saragoza, Chancellors Berdahl, Carnesale, Cicerone, Dynes, Greenwood, Tomlinson-Keasey, Vanderhoef, and Yang, Vice Chancellor Bainton representing Chancellor Bishop, and Recording Secretary Bryan

The meeting convened at 11:35 a.m. with Committee Chair Kohn presiding.

1. APPROVAL OF MINUTES OF THE MEETING OF MARCH 15, 2000

Upon motion duly made and seconded, the minutes of the meeting of March 15, 2000 were approved.

2. UPDATE ON UCSD'S DISCUSSION WITH CHILDREN'S HOSPITAL AND HEALTH CENTER CONCERNING CHILDREN'S SERVICES

Committee Chair Kohn excused himself from the discussion of this item due to a conflict of interest. He turned the chair over to Committee Vice Chair Lee for the duration of the discussion.

It was recalled that discussions are ongoing between UCSD Health Sciences (UCSD) and Children's Hospital and Health Center of San Diego and its affiliated physicians (Children's) regarding the potential of combining the inpatient and outpatient programs of both entities at the Children's Hospital site. UCSD's pediatricians will also consolidate their practices with Children's affiliated physicians. Such a combination would complete the integration of children's services and teaching programs, which has developed over many years. The structure contemplated would be a long-term contractual relationship that includes shared governance and meaningful participation by the parties to support the vision, goals, and objectives of the consolidation.

Children's and UCSD share the vision to create a world-class academic children's medical center that excels in patient care, teaching, and research. As such, the

consolidation will provide the following benefits to the San Diego community, as well as to UCSD and Children's:

Benefits to the San Diego Community

- Improves the health and welfare of children in the San Diego area through the combination of advanced scientific study and high-quality patient services in an integrated center of excellence, housed in consolidated state-of-the-art facilities.
- Improves the ability of UCSD and Children's to attract and retain the most distinguished physicians and health care staff to a nationally recognized children's medical center.
- Enriches and strengthens the translation of medical research to the community through improved continuing medical education and consultation between UCSD/Children's physicians and community and regional providers.
- Provides the programmatic and economic base for a regional, national, and international medical center for child health.

Benefits to UCSD and its physician faculty

- Provides an extraordinary opportunity to train medical students, residents, and fellows in a contemporary environment, dedicated to the care of children and geared to the economic and political realities of health care delivery in a competitive marketplace.
- Requires no capital construction investment from UCSD for pediatric patient care facilities and enables growth through reallocation of some of the space currently occupied by UCSD's children's services on the UCSD-Hillcrest campus.
- Provides UCSD with a markedly expanded patient population for clinical teaching and research.
- Provides for additional research space on the Children's campus.

Benefits to Children's and its affiliated physicians

- Enhances excellence in Children's existing programs through the synergy of combining UCSD and Children's patient care, teaching, and research.
- Presents Children's with the opportunity to offer a full range of tertiary children's services in one setting.
- Provides Children's with access to UCSD technological advances, such as those in molecular biology and human genetics.
- Enhances Children's national and international reputation for excellence in child health research and teaching through its linkage with UCSD.

Given the obvious benefits of consolidation, UCSD and Children's Hospital have periodically discussed strengthening their relationship by further integration of patient care, teaching, and research efforts. At the present time, house staff and medical students receive training at Children's Hospital in a variety of children's specialties. The success of these smaller affiliations led key members of the faculty to initiate further expansion of the partnership.

Beginning in fall 1999, a series of exploratory meetings were held between administrative and physician leadership at UCSD and Children's. These discussions have led to the development of key principles to guide creation of the consolidation model.

Included among the principles that have been agreed to are the following:

- The contractual relationship must be long-term.
- Both UCSD and Children's will jointly participate in the governance of the relationship.
- The UCSD faculty and the Children's affiliated physicians will participate in a unified pediatric network.
- A new position of physician-in-chief at Children's Hospital, who also is the Chair of Pediatrics at UCSD, will provide leadership for the teaching programs housed at Children's.
- Research efforts will be integrated.
- A financial agreement must be reached which continues to support the clinical, teaching, and research missions of the University.

In addition, in support of the strong interrelationship between research, teaching, and clinical care, the parties are discussing the construction of a research building on the Children's campus.

Discussions, both internal to each organization and between the two organizations, are continuing. Substantial progress has been made on several key issues. Meetings have been held with the affected faculty at UCSD, including the Department of Pediatrics, the Medical School Department Chairs, the UCSD Medical Group Board of Governors, and others to confirm that there is overwhelming support to continue these discussions. Similarly, Children's Hospital constituencies have been consulted, including the Children's Board of Trustees, medical leadership, and affiliated medical groups. The result of these discussions has been enthusiastic support for the idea of consolidation. Campus management and the Office of the President have also begun to discuss the potential benefits of consolidation with key legislators and others interested in the San Diego health care market.

Chancellor Dynes noted that the UCSD School of Medicine has worked closely with Children's for thirty years to provide healthcare and to educate medical students and health staff. All UCSD pediatric house staff and many medical students receive some of their training at Children's. In some instances, UCSD faculty serve as division chiefs for clinical services there. The consolidation will create a world-class academic children's health center excelling in patient care, teaching, and research.

Vice Chancellor Bailey reported that there is enthusiastic support from the physicians of both entities for consolidation. If the remaining issues can be agreed upon, work would begin on definitive agreements subject to approval by The Regents and the Children's Hospital Board of Trustees. Approval of the consolidation would be requested at the September meeting of The Regents.

Committee Vice Chair Lee believed that special attention should be given to maintaining and improving the quality of the health care that will be provided through this consolidation. Chancellor Dynes agreed that this was a driving principle. He believed that the consolidation will provide expanded opportunities to fulfill the University's mission. He emphasized that no jobs will be eliminated as a result of the agreement.

Regent Davies agreed that the proposal has received not just support but pressure from the San Diego community. He noted that the arrangement is not comparable to the UCSF-Stanford merger in that the two departments have worked together for years and that the consolidation has the support of the faculty of both institutions.

Regent Hopkinson believed there were lessons to be learned from the UCSF-Stanford merger. She commented that key issues to be noted when the proposal comes before The Regents will be the culture, systems, physical location, and governance of the consolidated entity and future financial obligations that the University could face under the arrangement.

Regent Connerly requested assurance that staff representatives are participating in the process and that their concerns are being considered. Dr. Bailey reported that there have been many briefings with University staff and in open forums.

Chairman Johnson asked whether it had been stated publicly that jobs will not be lost. Dr. Bailey reported that it has been stated in San Diego in public forums and that he did not consider it to be an issue.

[For speakers' comments, refer to the minutes of the morning session of the Committee of the Whole.]

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

Vice President Broome provided an update on the activity and financial status of the University's medical centers. She noted that the report mailed to all Regents does not cover the UCSF Medical Center because its information following the winding up is not comparable. Overall, the trends of the previous reporting period continue. Revenue reimbursements are flattening or declining not only from Medicare but also from some contracts. Expenses are growing because volumes have increased, in some cases considerably, as have labor and pharmacy costs. Excess of revenue over expenses for the combined medical centers was lower overall, partly because of a steep decline at UCLA.

Ms. Broome recalled that the University considers it necessary to have at least a 5 percent margin to keep the medical centers viable, replace infrastructure, and carry out the University's mission. She noted that margins have been decreasing since 1997. They currently run from zero at UCLAMC to 7.8 at UCSDMC. Although with the exception of UCLA they are in the comfort area, it should be noted that they rely heavily on the receipt of supplementary payments from the State that are at risk.

Ms. Broome reported that cash on hand has declined during the past four years along with declining profits. The number of days of cash on hand is reported to be 80 at Davis and San Diego, 40 at Irvine, and zero at Los Angeles. Ideally, the medical centers should have 50 to 60 days of cash on hand. The number of days of revenue in accounts receivable increased at Davis, Irvine, and San Diego and decreased at Los Angeles. All the medical centers except Los Angeles are expecting to end the fiscal year ahead of their budgets.

Vice President Gurtner reported that Office of the President staff and several Regents completed a successful trip to Washington to lobby for modifications to the Balanced Budget Act that would provide some financial relief to the University's medical centers. He believed that the group found a sympathetic audience there. He noted that discussions are ongoing also with the State concerning Medi-Cal reimbursements. He emphasized that in examining the financial status reports on the University's medical centers it should be kept in mind that they are separate businesses located in different

regions with unique markets. The sensitivity of individual markets should be considered when drawing conclusions about their operations.

Committee Chair Kohn asked for a description of medical education funds. Mr. Gurtner recalled that before 1996, funding for medical education was not recognized as a special cost by the State. The University initiated negotiations with the State which produced supplemental support through an agreement by the Medi-Cal program to include medical education costs in the University's Medi-Cal contracts. The rate, which is negotiated annually, is related to the teaching costs associated with treating Medi-Cal patients. The University negotiates the rate and distributes the money within the system.

Committee Chair Kohn asked whether the lack of cash on hand at the UCLA Medical Center will affect its massive building project relative to bond financing. Chancellor Carnesale explained that a combination of money on hand, lease revenue bonds, and FEMA money should cover those costs. Mr. Gurtner noted that the University can make cash available if necessary to all five medical centers through the Short Term Investment Pool.

Regent Khachigian reported that the trip to Washington had provided an opportunity for the University to present a united front to legislators. She praised the University's health care administrators and Washington office staff and urged all Regents to participate in future trips to lobby on behalf of UC health care.

The meeting adjourned at 12:30 p.m.

Attest:

Secretary