

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

May 16, 2002

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

Members present: Regents Atkinson, Davies, Johnson, Kozberg, Lansing, Marcus, Moores, Preuss, and Seymour; Advisory members Sainick and Terrazas

In attendance: Regents Blum, T. Davis, Hopkinson, Lozano, Montoya, Morrison, Parsky, Saban, and Sayles, Regent-designate Ligot-Gordon, Faculty Representatives Binion and Viswanathan, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Doby, Drake, Gomes, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Tomlinson-Keasey, and Vanderhoef, Acting Chancellor Warren, and Recording Secretary Bryan

The meeting convened at 10:15 a.m. with Committee Vice Chair Davies presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of March 14, 2002 were approved.

2. UPDATE ON HEALTH SCIENCES, SAN DIEGO CAMPUS

Chancellor Dynes introduced Dr. Ed Holmes, Vice Chancellor for Health Services and Dean of the Medical Center. Vice Chancellor Holmes discussed highlights of the medical center's accomplishments, noting that, since its establishment, its faculty, 40 of whom have been elected to the National Academy of Sciences, have founded more than 60 biotechnology companies. Last year, the cancer center was recognized as a Comprehensive Cancer Center by the National Cancer Institute, one of only 41 such programs in the country. A new school of pharmacy and pharmaceutical sciences will enroll its first students in September 2002. A partnership with Children's Hospital of San Diego has brought together clinical and educational programs that will benefit local children and enhance the teaching of medical students. The medical center was the recipient of the largest grant the National Institute of Aging has ever awarded. This grant will support the study of Alzheimer's disease, biomedical informatics to improve communication and collaboration among medical centers, pharmacogenomics to study the causes of hypertension at the genetic level, and glycobiology in collaboration with the Scripps Research Institute.

Dr. Holmes reported that the need for new space has led to constructing or planning to launch a number of new facilities, including a biomedical research building, a school of pharmacy building, a functional magnetic resonance imaging center, and the Rebecca and John Moores UCSD Cancer Center. The campus' retina and glaucoma research programs are poised for an expansion at the Shiley Eye Center, and plans have begun for the establishment of a cardio-vascular center.

Dr. Holmes reported that the administration had discussed ways of organizing the campus to take advantage of the extraordinary opportunities available in San Diego. A new paradigm was created to enhance fundamental discovery and translate this into new diagnostic, therapeutic, or preventive strategies for the care of people. Another major goal is in training physicians, pharmacists, and Ph.D. scientists who can become outstanding practitioners of medicine and pharmacy and who are prepared to participate in the post-genomic revolution. Molecular or fundamental science will be translated through the schools of medicine and pharmacy into new methods for improving human health. Along with its affiliated institutions in San Diego such as the Salk Institute and the Scripps Research Institute, the medical center will collaborate more strongly with entities on the UCSD campus. The objective is to create a virtual College of Integrated Life Systems (COILS) that will symbolize a more aggressive approach to multidisciplinary education, offering a wider range of students a wider range of opportunities for dual degrees and facilitated access to training in medicine and pharmacology. It is hoped that new multidisciplinary patient care initiatives will lead to the development of innovative service lines that will provide one-stop shopping for patients, the idea being to translate fundamental information from laboratory to bedside and subsequently into the community. COILS will be superimposed upon the traditional departmental structure, beginning with a discovery model that will bring together physicians and Ph.D.s in an institute of molecular medicine that will focus on developing models of human disease to understand its pathogenesis and develop new targets for drug therapy. Where appropriate, these discoveries will be moved into the private sector where they can be made into products. They can then be brought back for clinical investigation, which will serve to test hypotheses and demonstrate what is effective and safe for individuals. Finally, it is proposed to establish an academy of clinicians to recognize individuals who are essential to implement these discoveries and carry them into practice. At the center of this initiative is a multidisciplinary educational program to enhance dual-degree training for medical students, pharmacists, and Ph.D. scientists. The UCSD Medical Center is critical to the success of all of these endeavors.

Medical Center Director Kastelic recalled that UCSD HealthCare is the clinical delivery system for the School of Medicine. Its facility consists of one hospital based at two sites, Hillcrest and La Jolla. The University took over operations at Hillcrest in 1966 from the County of San Diego and opened Thornton Hospital in 1993. The medical group is the faculty practice, which manages all ambulatory facilities. UCSD has been tracking its two-site strategy, the goal of which was to improve a patient mix that would achieve greater financial viability while providing access to a broader range of patients for its academic programs. While teaching and research go on at both sites,

the medical center in Hillcrest is the primary teaching facility and the major safety-net, acute-care provider in San Diego County. Translational research is becoming a major focus of the Thornton campus, linked to the basic science laboratories on the campus and the institutes that are developing on the La Jolla campus. Services at each site reflect the role of each campus and the demographic characteristics of each area. Trauma, burn, and comprehensive emergency services are based in Hillcrest, as are most of the general medical and surgical teaching programs, in keeping with its training emphasis and its safety-net role. Many high-end services, such as transplants, are in Hillcrest, as are any services that require special license categories. Thornton's program foci are consistent with the institutes and centers that are located there or are being planned. It also offers a wide range of medical surgical services. The two-site strategy has been tracked since 1997 and is meeting its original goals. It has resulted in an increase in patient volume at both sites, with a 36 percent growth in average daily census over the last five years. The strategy has also resulted in a more favorable patient mix. Seventy percent of the census growth has been in commercially insured and Medicare patients. Half of Thornton's patients have Medicare as compared to 20 percent in Hillcrest. UCSD has increased its market share in the county over this period, while two of its largest competitors and health-care systems have lost market share. The two-site strategy, in conjunction with an increase in disproportionate share and medical education funds, has resulted in a strong financial position for the medical center.

Director Kastelic continued that, in order to maintain the medical center's responsibilities for training health care professionals, continued medical educational support is required from the Medicare and Medicaid programs. If the current programs cannot be sustained in their present forms, alternatives will be sought. An aggressive strategy to retain health care services contracts will continue, including selecting the conditions under which the medical center can continue to participate in capitated managed care programs. It is also a challenge to gain access to adequate capital to invest in programs, facilities, and technology. Finally, the challenge to manage cost-effective operations has been made more formidable by the shortage of nurses and the attitudes of the new generation entering the workforce whose values, lifestyles, and work ethic appear to differ from those of the baby boomers they are replacing.

Director Kastelic noted that the Hillcrest facility is antiquated and obsolete, and there are capacity constraints at Thornton. Facilities planning for the immediate future is driven by seismic safety mandates. It will be necessary to replace the Hillcrest inpatient tower, but before that there must be upgrades to the infrastructure and program areas. The value added by replacement as opposed to less expensive retrofitting will make up for the higher cost. Work at that site will be phased in coordination with available capital. At Thornton, buildings and adjacent areas were designed to accommodate expansion, but the changes that are necessary there will require large amounts of capital.

Regent Preuss complimented Vice Chancellor Holmes for improving the healthcare environment substantially since his appointment in 2001. He believed the Regents should give the medical center administration all the support it will need to accomplish its stated goals.

Regent Marcus asked how such a young medical center had achieved such widespread recognition. Dr. Holmes believed that there were many factors, among which was good leadership at the institutional level, a culture of identifying the best talent for each position, and the intellectual environment in San Diego. Regent Marcus then asked how the medical center is finding the resources to attract the best researchers and professors. Dr. Holmes believed that the confluence of intellectual excitement and the ability to carry out programs enables the medical center to be a bit more competitive than it might be otherwise. Chancellor Dynes noted that the medical center had based its recruiting on hiring the best people rather than the greatest number of people. In response to a further question from Regent Marcus, Dr. Holmes confirmed that some candidates have declined employment offers because the University's start-up packages were not competitive or because they could not get into the housing market.

In response to a question from Regent Johnson, Dr. Holmes reported that the UC San Diego Medical Center provides 9 percent of the health care in the community but 48 percent of the care to individuals who are uninsured.

Regent Preuss recalled that President Atkinson had recognized early on the advantages of connecting the biotechnology industry in San Diego to the University. He believed that the medical center was flourishing in part because of the successful development of this idea.

3. UPDATE ON HEALTH SCIENCES, LOS ANGELES CAMPUS

See paragraph 4 below for the presentation of this item.

4. UPDATE ON CAPITAL REQUIREMENTS OF BUILDING PROGRAM, LOS ANGELES CAMPUS

Chancellor Carnesale observed that UCLA is roughly the equivalent of UC Berkeley and UC San Francisco combined in terms of budget and number of students and that its medical enterprise is similar in size to that of UCSF. Dr. Levey, Provost of Medical Sciences and Dean of the School of Medicine, is responsible for a \$1.5 billion budget, of which the medical school's portion is about \$700 million and the hospital's is about \$800 million. Vice Chancellor Blackman has responsibility for all administrative services at UCLA, including the capital programs. The seismic program in the medical area has a budget of \$1.1 billion.

Chancellor Carnesale noted that a recent \$200 million gift from former Regent David Geffen to the School of Medicine was to be used in the form of an unrestricted endowment to serve the major needs of the medical school.

Dr. Michael Karpf, Vice Provost and Director of Hospitals, addressed topics related to the new hospital in Westwood, the importance of UCLA HealthCare, the UCLA Santa Monica Hospital, and the psychiatric hospital. He noted that the system also includes extensive outpatient facilities and the clinical components contributed by the faculty. The system supplies care to 20 percent of the people living on the west side of Los Angeles and supplies tertiary and quaternary care to a substantial proportion of patients from Bakersfield to Orange County. UCLA HealthCare has been aggressive and successful in the marketplace. Since the end of 1999 there has been a 10 percent growth in inpatient activity, and outpatient activity has grown by 15 percent. While the last few years have been a struggle, the medical center has been able to maintain a robust clinical presence that has gained in importance in the local community.

Dr. Karpf discussed the hospital's performance. Losses were sustained in the first six months of the year, but the second half of the year brought a \$5.5 million gain. It is projected that by the end of June there will be at least \$13 million in cash on hand.

Dr. Karpf discussed an analysis of base operations for the year as compared to the previous year. He reported that some one-time events had affected the previous year's budget adversely. By removing those costs, it can be demonstrated that financial performance actually improved. A positive bottom line in operations of \$2.5 million is predicted for year's end. He recalled that, although the line of credit that the Chancellor had extended to the medical center in 2001 had been cleared, because of difficulties in the first half of this year, a substantial line of credit was needed again. By the end of March, the debt of \$24.5 million on that line of credit had been reduced to \$3.6 million.

Dr. Karpf reported that work has begun on determining budget projections for the coming year. He noted that, while the census for the Westwood hospital is 532 patients, an extraordinarily high figure, and although a number of new contracts will provide benefits during the coming year, it will continue to be necessary to keep costs under control. The one major negative factor on the horizon is the very tight labor market, especially among nurses, pharmacists, and other skilled professionals. Despite the fact that this will create pressures on the salary and operations budgets, it is hoped to achieve a budget for 2002-03 that will continue to show operational gains.

Vice Chancellor Blackman provided a brief update on seismic safety projects at the medical center. He recalled that the retrofit plan is nearing its completion on the core campus but is in its first phase at the medical center. There are four major activities: the Westwood replacement hospital, two seismic replacement buildings that relate to the ability to remove people from the School of Medicine and research endeavors so as to allow demolition and retrofitting of the existing facility, and the Santa Monica

hospital. The overall project involves a series of activities that were budgeted at \$1.13 billion in 1998. The Westwood replacement hospital is anticipated to be completed in late 2004. The first seismic replacement buildings will be completed in early 2004, and the other major seismic replacement building will be bid late this fall and will be completed in mid-2005. The Santa Monica Medical Center's new hospital is being built around the existing hospital, which will remain in operation until, as the last phase of the project, it will be demolished.

Mr. Blackman reported that the Santa Monica project has been bid fully, and all but \$20 million of the Westwood hospital has been bid. The total \$400 million bid process for Westwood has come in about \$10 million above estimates. The University and FEMA have worked to reduce the amount of interest during construction so as to leave the Westwood portion ahead of budget. The Santa Monica project is more complicated. He believed it would be appropriate to establish \$20 million of contingency to assure the capacity to complete the project, given the complexity of the staging and other concerns. If that contingency money must be spent, the project will exceed its budget by \$40 million, with some offset on the financing side. The net position on the two large hospital projects and the rest of the line items in the overall program is holding.

Chancellor Carnesale pointed out that, despite the potential for overfunding, it should not be implied that no more money is needed for the construction projects. Although the original project appears to be covered, the gift money that supports it comes in sporadically, and it would be prudent for the hospital to carry additional cash.

Regent-designate Terrazas asked how the interruption in revenues and ongoing operational costs will be handled when the Santa Monica hospital undergoes demolition. Dr. Karpf responded that no decrease in patient capacity is anticipated in that the main tower will stay operational until the new hospital opens.

Director Karpf noted that Vice Chancellor Blackman had described essentially a bricks-and-mortar project that includes structurally significant equipment. After those projects are completed, the UCLA Medical Center must be moved into different facilities. A series of studies that was done to assist in planning the closure of one hospital while making a transition to two new ones that are functional indicated that the bill for equipment will be \$312 million. A capital plan for 2002-2009 is being developed to ensure a smooth transition. The physical moves are complex tactical maneuvers that will result in a paperless, filmless hospital. The facilities will be running jointly for between three and six months. The move costs are \$35 million. To take bricks and mortar and produce functioning hospitals will cost \$367 million, of which \$296 is covered. Additional gifts or borrowing will be necessary to procure the remaining \$70 million. During the next two years, the total equity of UCLA HealthCare is expected to go from a low of \$371 million to in excess of \$1.3 billion, and it will have the best physical plant of any academic medical center.

Regent Hopkinson believed that the Regents would welcome the opportunity to express their thanks to all the donors who had made the medical center project possible. Regent Lansing noted that Dr. Levey and his colleagues should be thanked also for their extraordinary fundraising efforts.

Dr. Levey commented that the capital campaign that began seven years previously had supported the construction of five research buildings and two hospitals and the renovation of many laboratories. Very few State resources have been required. At the start of the campaign, the original goal for the medical sciences was to raise \$600 million by June 30, 2002. By the time that date arrives, slightly in excess of \$1.2 billion will have been raised for various projects and program support. He noted that, although further challenges await the administration, the Geffen gift secures the future of the UCLA School of Medicine. The discretionary money that such a gift provides enables the medical center to retain the best physicians and scientists, bring in the best medical students, and start much-needed programs, and will remove from administrators into the future the threat of being overwhelmed by problems associated with hospital operations and the constant need for cash. Dr. Levey reported that he has targeted a goal of raising \$150 million more for the hospital and to endow the medical scientist training program. He listed the many honors and accolades the UCLA Medical Center and its graduates have received during the past several years and expressed optimism about its future.

5. ACTIVITY AND FINANCIAL STATUS REPORT ON HOSPITALS AND CLINICS

There were no questions about the Activity and Financial Status Report, which had been mailed to the Regents in accordance with the Schedule of Reports.

The meeting adjourned at 11:45 a.m.

Attest:

Secretary