The Regents of the University of California

# COMMITTEE ON HEALTH SERVICES
September 17, 2003

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

Members present: Regents Atkinson, Davies, Huerta, Johnson, Kozberg, Lee, Marcus, Moores, Preuss, Sayles, and Seigler; Advisory members Novack and Pitts

In attendance: Regents Blum, Bodine, Connerly, Hopkinson, Lozano, Montoya, Murray, Parsky, and Pattiz; Regents-designate Anderson and Ornellas, Faculty Representative Blumenthal, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice President Mullinix, Vice Presidents Broome, Gomes, Gurtner, and Hershman, Chancellors Cicerone, Córdova, Dynes, Greenwood, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 2:50 p.m. with Committee Chair Davies presiding.

## 1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of July 16, 2003 were approved.

## 2. ACTIVITY AND FINANCIAL STATUS REPORT ON HOSPITALS AND CLINICS

Vice President Broome discussed the financial report for the twelve months ended June 30, 2003. Noting that the numbers were unaudited, she examined some key indicators that provide a sense of operational trends. She reported that the combined medical centers had an increase in admissions of only 1 percent, little change in the length of patient stay, and a slight decline in outpatient visits during the reporting period. No individual medical center had tremendous growth in any one area. Davis, Irvine, and San Francisco had some growth in the number of patient days, whereas Los Angeles and San Diego had a slight decline. The decline at San Diego was due primarily to a transfer of its pediatrics business. Although Los Angeles experienced a decline in several reimbursement categories, its revenues benefitted from higher reimbursement rates. Ms. Broome reported that the pattern was similar for outpatient activity. Davis, Irvine, and San Francisco had slight increases and Los Angeles and San Diego slight decreases. San Diego's decrease was the result of closing its home care service, which had been a losing operation.

Ms. Broome commented that the income from certain operations needed to be characterized appropriately. She reported that in 2003, the income from operations was $198 million, which is $37 million, or 23 percent, higher than the prior year. While that seems to indicate a positive trend, in fact much of the increase is attributable to prior-year adjustments related to outstanding cost reimbursements and the settlement of a class action Medi-Cal suit. Subtracting those adjustments, the hospitals actually made $5 million less this year than last. The same relationship holds true for income before other changes in net assets. Again, less money was made this year than last. There was a significant increase in net assets having to do with money provided by FEMA to build the hospital in Los Angeles and from State revenue bonds. Individually, San Francisco had what appears as a very significant increase in revenue for this year over last; however, out of its $32 million increase, $29 million was related to prior-year adjustments, and a further adjustment of $3 million is expected. Income from operations at San Diego was down very slightly, primarily because of a reduction in SB 855 and SB 1255 monies. Los Angeles has continued to profit, this year by about $10 million as the result of good reimbursement rates that have been negotiated for some contracts. Irvine, along with San Diego the most sensitive to any reduction of supplemental funds, also received lower SB 855 and SB 1255 funding. Overall, the SB 855 and SB 1255 funds were down $16 million for the system. Davis, however, despite its reduction, had a net income increase for the year because of its increased volume.

In discussing operating revenue by funding source, Ms. Broome reported that the hospitals try continually to negotiate better contract terms and rates. She noted that Medicare, Medi-Cal, and County funds accounted for 42 percent of government reimbursements, down from 45 percent last year. This is an area subject to legislation, and it affects the University's medical centers adversely when these reimbursement rates are cut and upper payment limits are lowered. Commercial insurance has also declined as a source. Although the drop in government funding between 2001 and 2003 was only 1 percent, the change relative to the early 1990s has been enormous.

Ms. Broome reported that medical center assets have grown by 11.6 percent. The majority of this growth is tied to an over $80 million growth in cash, and another $250 million is related to construction, primarily at the Los Angeles hospitals. Liabilities have grown in small proportion because no capital growth is being externally financed, with the money all coming in from FEMA and State revenue bonds. The increase in total net assets benefits their balance sheets as the hospitals start to look for outside financing to address their enormous seismic problems. Davis and San Diego for a number of years have exceeded the benchmark for days of cash on hand, and there is good growth at Irvine and San Francisco, which are building up their cash reserves. Los Angeles continues to struggle, ending the year with only 8 days of cash. The medical center paid off its $30 million loan from the campus but negotiated a new loan with the campus for $35 million and one with the School of Medicine for $20 million. All the medical centers improved their days of revenue in accounts receivable, although Los Angeles still lags behind. San Diego had a slight change due to changing its reimbursement from the County and reducing its at-risk business.

Turning to the comparison of the medical centers' bottom lines compared to their projections, Ms. Broome reported that all exceeded their budgets. For San Francisco this was due to prior period adjustments, as mentioned. For San Diego, Irvine, and Davis there was an increase in the SB 855 and SB 1255 funding over what was budgeted. She observed that last year $156 million was budgeted in total for all the medical centers but that for FY 2004 the budget is $145 million. She emphasized that the medical centers continue to operate in a very difficult healthcare environment. They are faced with low reimbursement rates, competition, as shown in the volume statistics, and huge seismic and capital needs that will have to be financed.

Regent Lee was glad to hear that the medical centers are expected to finish next year in profit, but he noted that prior-year adjustments had contributed to the positive outcome this year. He assumed that it may be difficult to achieve $145 million in income from operations in 2004. Ms. Broome acknowledged that the University's medical centers face fierce competition, particularly in southern California. Risks for 2004 include exposure in third-party reserves and disallowances by Medicare and Medi-Cal, but she believed that the risks would be no worse than in recent years. What appears to be an appropriate reserve for the year has been set, but it must continue to be monitored.

Regent Seigler asked whether the money borrowed by the Los Angeles Medical Center from the campus was from gifts. Vice President Broome responded that it is from cash reserves of the School of Medicine, generally from the practice plans. Gift monies may be used only for the purposes specified by the donor. Vice President Gurtner added that the medical center expects to have developed a debt capacity plan by the end of the year. The current issue will carry it on a cash basis until that time. The funds being loaned are campus and School of Medicine funds pledged as a line of credit for the hospital for cash reasons and will be paid off in accordance with the debt capacity plan.

The meeting adjourned at 3:00 p.m.

Attest:

Associate Secretary