

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

November 17, 2005

Open Session

The Committee on Health Services met on the above date at the Clark Kerr campus, Berkeley campus.

Members present: Regents Gould, Island, and Lansing

In attendance: Regent Ruiz, Secretary Trivette, General Counsel Holst, Senior Vice President Mullinix, Vice President Broome, Chancellor Carnesale, and Recording Secretary Bryan

The meeting convened in Closed Session at 1:05 p.m.

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The Committee went into Open Session at 2:45 p.m., with Committee Chair Lansing presiding.

As there was not a quorum, the session was conducted as a briefing for those present.

FINANCIAL REPORT, UCLA MEDICAL CENTER, LOS ANGELES CAMPUS

It was recalled that in January 2005, UCLA Healthcare reported to the Regents significant changes in leadership over the previous eight months during the transition from the Navigant consulting group, previously known as the Hunter Group, to a newly recruited senior management team. In July 2004, UCLA Healthcare welcomed a new hospital CEO and a new president for the UCLA Medical Group. Dr. David Callender was appointed Associate Vice Chancellor, UCLA Hospital System, while Dr. Tom Sibert was named as Associate Vice Chancellor, UCLA Faculty Practice Group. In September 2004, Mr. Mitch Creem started his tenure as Associate Vice Chancellor and Medical Sciences Chief Financial Officer. In this position, Mr. Creem provides oversight for the financial systems of the UCLA Hospital System and Medical Sciences entities, including the Faculty Practice Group and Medical School.

Associate Vice Chancellor Callender discussed the financial condition of UCLA Medical Center. He reported that since the January 2005 presentation, additional management changes have occurred. Mr. Paul Staton, former Hospital Controller, was made permanent CFO of the UCLA Hospital System in March 2005. Ms. Posie Carpenter was promoted in March 2005 to Chief Administrative Officer of the Santa Monica-UCLA Medical Center. Most recently, in October 2005, Mr. Amir Rubin was named Chief Operating Officer (COO) for the UCLA Medical Center in Westwood.

Fiscal Year 2005 Financial Performance

Trends contributing to the UCLA Hospital System's financial performance during the last half of FY2004, including an adverse change in payor mix and unexpected increases in costs related to temporary nurse staffing and organ acquisition costs related to a growing transplant service, led to continued operating losses for the first half of FY2005. Through the first seven months of FY2005, the hospital losses totaled \$14.8 million. By March, some of the management interventions implemented earlier in the year began to take hold. Modest improvements were seen in revenue cycle improvement and receivables management. Days of Revenue in receivables dropped from a high of 84 days in October to 68 days by June. Operating Cash on Hand went from a low of 16.8 days in December to 32.4 days by the end of June. By the second half of the year, the effects of earlier staff reductions were realized in lower salary costs after all termination payments were made. Enhanced budget management tools and focused teams of hospital managers allowed for enhanced spending controls on supplies and purchased services.

During the last five months of FY2005, the hospital made \$1.3 million (before the allocation of State Medical Education Funds of \$22.5 million). For the year, the hospital's net income was \$9.2 million, which was \$10.8 million less than budget and about \$2.5 million less than FY2004. Despite the overall disappointing operating performance, many positive trends were seen in the latter part of the year that will continue into FY2006.

Fiscal Year 2006 Budget and Year-to-Date Financial Performance

Budgeted Net Income for FY2006 is \$30 million. Continued gains in revenue cycle management and moderate growth targets, combined with tight expense management, are expected to generate the desired results. Critical to the success in growing patient volume in FY2006 will be the ability to improve patient access and throughput. Hospital management teams, including lay management personnel, physicians, and outside consultants have been formed to identify improvement opportunities, and progress has been made. In addition, management is taking an aggressive stance with insurance companies to negotiate increased payments for services.

For the three month period ending September 30, 2005, Net Income for the hospital was \$9.6 million, which was \$9.8 million better than budget and \$13.0 million better than the same three month period last year. Increases in collections due to better payor contract performance and higher rates, together with a slight improvement in payor mix, resulted in higher-than-expected Net Patient Service Revenue. Year to date, Net Patient Service Revenue of \$242.5 million is \$11.3 million better than budget and \$20.7 million better than the same period last year. Inpatient volume is on budget. Expenses are slightly higher than budget, primarily due to a one-day nursing strike that cost the hospital about \$1.8 million in unexpected temporary labor and travel costs. The cash balance at September 30, 2005 was \$109.9 million, compared to \$79.8 million as of June 30, 2005 and \$64.3 million at September 30, 2004.

While the outlook for FY2006 looks stable, unprecedented challenges for the hospital lie just around the corner for FY2007 and FY2008. The hospital is about to embark on an extraordinary transition as the new hospitals are opened and the entire operations are moved into about 1.5 million square feet of new space. Significant demands for cash will be placed on the enterprise to pay for moving

expenses, information systems upgrades, business disruption, transitional costs of operating two facilities during the move-in phase, and unmet equipment needs. The challenges of the hospital transition will call for great creativity, ingenuity, and collaboration of the hospital, campus, and Office of the President management teams.

New Hospital Construction Update

Construction work continues toward completion of UCLA's new hospital facilities in Westwood and Santa Monica. As was reported to the Regents in January, in the summer of 2004, the Office of Statewide Health Planning and Development (OSHPD) issued a stop work order related to a number of outstanding inspection and documentation issues at both sites. These issues have been addressed, and, as a result of activities undertaken by the UCLA Capital Programs hospital project team, working with the general contractor, subcontractors, and OSHPD, the pace of activity at both Westwood and Santa Monica has returned to high levels, supporting a Westwood construction schedule aimed at completion in mid-2006 and occupancy at year-end 2006. Construction of the Santa Monica facility is anticipated to be achieved in three phases, the first phase also being scheduled for mid-2006 with occupancy at year-end 2006. Completion of construction and occupancy of the remaining phases at Santa Monica will occur over the following two years.

The meeting adjourned at 2:50 p.m.

Attest:

Secretary