The Regents of the University of California

COMMITTEE ON HEALTH SERVICES
January 22, 2014

The Committee on Health Services met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present:	Regents Blum, De La Peña, Feingold, Island, Makarechian, Pattiz, Reiss, and Zettel; Ex officio members Lansing, Napolitano, and Varner; Advisory member Gilly, Staff Advisors Barton and Coyne
In attendance:	Regents Flores, Gould, Kieffer, Ruiz, Schultz, Sherman, and Wachter; Regents-designate Engelhorn, Leong Clancy, and Saifuddin, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Allen-Diaz, Brown, Duckett, and Lenz, Chancellors Block, Desmond-Hellmann, Drake, Katehi, Leland, Wilcox, and Yang, and Recording Secretary McCarthy

The meeting convened at 11:10 a.m. with Committee Chair De La Peña presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of September 17, 2013 were approved.

2. **UPDATE ON UC HEALTH ISSUES**

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Chair De La Peña stated that a second UC Health summit was held in November to address some of the many changes in the healthcare field. In addition to changes associated with the Patient Protection and Affordable Care Act, beginning in April the State plans to enroll Medicare and Medi-Cal patients, who are currently fee-for-service patients, in medical insurance plans, which would have a substantial effect on the University's medical centers.

Committee Chair De La Peña thanked those who attended the November summit: President Napolitano, Regent Ruiz, Regent-designate Leong Clancy, Senior Vice President Stobo, and Chancellors Block, Desmond-Hellmann, Katehi, Khosla, and Wilcox. Also attending were the Chief Executive Officers of the medical centers and the deans of UC's six schools of medicine.

Senior Vice President Stobo explained that the summit was held to understand the challenges facing UC's clinical enterprise, particularly the pressure that will be brought to bear on patient-care reimbursements to the clinical enterprise, and how best to accommodate these changes. At the prior March UC Health summit, the chief executive officers (CEOs) of three other large health systems, Barnes Jewish Christian HealthCare, Vanderbilt University, and the University of Michigan, spoke about how their systems are addressing this environment of decreasing reimbursement. They all noted the critical importance of taking advantage of their systems' size to manage costs and market share. At the November summit, C. Duane Dauner, president of the California Hospital Association, offered his view that hospital reimbursements would decrease dramatically over the upcoming five years, and that, although the California health insurance exchange would have some positive effects, it would have the designed effect of decreasing reimbursements as part of reducing healthcare costs. Thomas Enders of Manatt Health Solutions spoke about ways in which other large health systems are addressing these challenges by taking advantage of their size to decrease costs in various areas, and recommended ten areas of focus. Dr. Stobo noted that UC is the ninth largest health system in the nation.

Dr. Stobo reported that President Napolitano challenged UC Health's leaders to develop a tangible systemwide cost-savings plan. Dr. Stobo reported that the group focused on three areas: purchasing, revenue cycle, and clinical laboratories, and developed an action plan that was approved by President Napolitano. A working team had been holding weekly meetings and bi-monthly phone meetings had been held with the medical school deans and hospital CEOs. Follow-up meetings with the deans and CEOs would be held in late January and February. The action plan had been sent to the chancellors of UC campuses with medical centers. Efforts would focus on decreasing systemwide costs in the three identified areas.

Determining prospective savings that would need to be achieved depends on what economic scenario would apply. If patient revenues decrease from ten percent increases annually to five percent annually, the amount of required decreased costs would range from $750 million to slightly less than $1 billion. If all of UC's patient care commercial reimbursements drop to Medicare rates, the required decrease in costs systemwide would be $2 billion. Dr. Stobo stated that, while each medical center must do everything possible individually to decrease costs, no single medical center could accomplish cost savings of this magnitude; such savings could be gained only by using a systemwide approach. A formal plan to achieve these cost savings would be presented to the Committee at a future meeting. Dr. Stobo expressed appreciation for President Napolitano's challenge to act on these measures.

Dr. Stobo also updated the Committee on the interim action approval of an affiliation between the Doheny Eye Institute (Doheny), part of the University of Southern California (USC), and the Jules Stein Eye Institute (Jules Stein), part of UCLA, noting that Committee Chair De La Peña had recused himself from prior discussions because of a potential conflict of interest. This affiliation would bring together two outstanding ophthalmologic practices in eye care and eye research, which when combined would far exceed their individual value. The affiliation would take advantage of the revenue that Doheny would contribute through its endowment, and the outstanding faculty and reputation of Jules Stein.

Regent Lansing asked whether USC would have a continuing involvement. UCLA Medical Center Chief Executive Officer David Feinberg said that Doheny ended its affiliation with USC a year and two months prior, after which Doheny conducted a national search to find a new academic partner and chose UCLA.

Committee Chair De La Peña said that he had recused himself from earlier discussions and had seen the materials only the prior day. He observed that UC's investment in the affiliation would be $5 million over five years. UC could cancel its affiliation should losses reach $24 million and he requested that the Committee be advised if losses reach that amount.

Committee Chair De La Peña asked the campus to review the Doheny interim action item and provide him with information that more clearly delineates the following entities and their responsibilities in the affiliation: the Jules Stein Eye Institute, UCLA Health, the UCLA Department of Ophthalmology, and Doheny Eye Institute. His impression is that the UCLA Department of Ophthalmology would have responsibility for hiring doctors and for its residency program; Jules Stein is a foundation that would provide financial support for the Department of Ophthalmology. Dr. Feinberg explained that the Department of Ophthalmology at UCLA would hire all faculty and all employees would work under that Department. UC Health is the name used for UCLA's clinical operations. Jules Stein is the organized research unit that oversees the non-State funds in the Jules Stein endowment to support the Department of Ophthalmology. Doheny would not have any clinicians or staff members, and would exist exclusively to support UCLA's Department of Ophthalmology. The Doheny contribution consists of an endowment with a current value of $40 million and $200 million in real estate that would be liquidated in the upcoming few years to increase the endowment. Dr. Feinberg said that the campus would update the Committee annually on this affiliation.

Regent Island inquired about the end of the affiliation that Doheny had with USC. Dr. Feinberg commented that controversy had arisen around a USC campus building owned by Doheny and leased to USC for ophthalmology and other services including all of USC's outpatient operating rooms. Conflict arose between Doheny and USC around the lease, a certificate of occupancy, and parking. Regent Island asked if the new affiliation would be located at Jules Stein. Dr. Feinberg responded the new affiliation would relocate away from the USC campus. A lease has been signed with Huntington Hospital in Pasadena, where the main hub of the affiliation will be located. There are three potential satellite clinics, which will remain at their present locations. On February 1, UCLA would assume the lease of a satellite clinic in Arcadia and would assume that facility's faculty and staff, who were currently USC employees. Committee Chair De La Peña added that there would be no change to UCLA's Jules Stein. The affiliation's joint venture would include four clinics, supported equally by funds from Doheny and the UCLA Health System.

President Napolitano thanked those who had been involved in follow-up from the November health summit, for the great deal of work required to identify three projects on which to perform due diligence and carry forward. She stressed the importance of maintaining the momentum of this endeavor for the benefit of healthcare in California and the particular kind of healthcare that UC provides. The way UC responds as a system to changes in healthcare will be revolutionary. Dr. Stobo thanked the chancellors for their attendance at the summit and support.

Regent Reiss acknowledged the leadership of Committee Chair De La Peña and Dr. Stobo in holding the UC health summit.

Regent Sherman requested clarification of the status of the Doheny endowment under the terms of the affiliation. Dr. Feinberg said that for the next 99 years the Doheny endowment would be exclusively used to support the teaching, research, and clinical care of the UCLA Department of Ophthalmology.

3. **ESTABLISHMENT OF A JOINT VENTURE WITH CENTRE TESTING INTERNATIONAL, UCLA HEALTH SYSTEM, LOS ANGELES CAMPUS**

The President recommended that the Regents:

A. Approve the participation of UCLA Health System in a joint venture with Centre Testing International (CTI) to be named CTI-Pathology/UCLA Health to establish and operate a clinical laboratory in Shanghai, China, subject to the following conditions:

(1) The company will be owned jointly by CTI and The Regents. CTI will have a 51-percent interest in the company and The Regents 49 percent. The Regents’ contribution will be in-kind clinical laboratory management and services expertise. CTI will provide all capital needs for the joint venture as well as service functions, such as human resources and accounting. Except for the above-described contribution, The Regents will not be responsible for making any capital contributions to establish the laboratory or to participate in the joint venture.

(2) The company shall be governed by a Board of Directors (Board). The Regents will appoint two members to the company Board through the Vice Chancellor and Dean of the David Geffen School of Medicine, UCLA. CTI will appoint three members to the Board.

(3) UCLA Health System will manage the laboratory on behalf of the University pursuant to management services agreements entered into by first UCLA Health System and an existing sub-unit of CTI, Shanghai CTI-Aipu Medical Laboratory Co., Ltd., and later between the new joint venture company and UCLA Health System.

(4) The use of UCLA's name will be licensed to the new joint venture company for co-branding purposes in connection with operation of the laboratory, subject to a separately approved license agreement, which will be consistent with both California statutes and University of California policy.

(5) Prior to the adoption by the new company, the initial formational documents, including but not limited to the articles of association, and any amendments thereto, shall be subject to the approval of the President following consultation with the General Counsel.

(6) The Regents shall retain the right to terminate the agreement (i) in the event conversion to a contractual joint venture company does not occur within six months of the formation of the company; or (ii) in the event of any uncured material breach by CTI of its obligations to the University.

B. Authorize the President, following consultation with the General Counsel, to approve and execute (i) any documents reasonably required to participate in the joint venture as described above, including but not limited to a Framework Agreement, a Contractual Joint Venture Agreement, a License Agreement, and a Services Agreement; and (ii) any modifications, addenda, or amendments (collectively, "amendments") provided, however, such amendments do not materially reduce the rights of The Regents or materially increase the obligations of The Regents.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Senior Vice President Stobo introduced UCLA Medical Center Chief Executive Officer David Feinberg to discuss a proposed joint venture between UCLA and a public entity in China, building on a prior academic affiliation. Dr. Feinberg stated that the proposed joint venture would support Chancellor Block's vision of UCLA's having a large presence in the Pacific Rim. About six years prior, UCLA exported its medical school curriculum to a university in China. Chinese students who had been taught using UCLA's curriculum had the highest scores in China on a required medical school examination. Clinical affiliations around telepathology followed through which UCLA has read about 1,200 telepathology slides. UCLA explored developing a clinical laboratory with that university, since there are many clinical trials in China and insufficient clinical laboratories to support those trials. During the process of the due diligence, UCLA was approached by a publicly traded Chinese company that asked UCLA to engage in a joint venture with it to develop a clinical laboratory in China.

Approval was requested for a joint venture to be owned 51 percent by the Chinese company and 49 percent by The Regents. No cash outlay from UC would be required; all equity and build-out would be the responsibility of the Chinese company. UC would be responsible for providing the medical expertise to start and run the laboratory. The company would be governed by a five-person board of directors comprised of three members from the Chinese company and two from UC; certain large decisions would require unanimous approval. One full-time employee stationed at the laboratory would be from the UCLA Department of Pathology. A host of risk-mitigating processes would ensure that the profits are shared according to the agreement and that the use of UC's name would be appropriate. Dr. Feinberg summarized that this joint venture would be an extension of UCLA's academic partnership with the Chinese university, which led to a successful clinical laboratory, and now this third venture through which UCLA would provide clinical laboratory services in China. These clinical laboratory services would not be routine, but rather more sophisticated testing that requires expertise of an academic medical center such as UCLA.

Regent Island asked whether the risk of engaging in this joint venture had been assessed and about the reason for undertaking this venture. Dr. Feinberg responded that pursuing this joint venture was part of UCLA's international strategy. Ventures in Pacific Rim areas are logical geographically, and would build on existing faculty relationships based on academics and research. Having a strong base of clinical laboratories in the area would allow expansion into clinical trials in China. Addressing risk mitigation, Dr. Feinberg acknowledged the difficulty of doing business in a foreign country. He stated that the clinical laboratory established earlier had generated profits and had helped UCLA develop its telepathology capabilities. Regent Island stated that, while he could see the advantage of this joint venture for the Chinese, he had difficulty understanding UC's desire to pursue the venture.

Regent Makarechian said he shared Regent Island's concern. He questioned licensing the use of UCLA's name to a Chinese company that would be run by a five-member board, three of whom would be appointed by the Chinese company and only two by UC. He cautioned that, should negative events transpire, the reputation of UCLA could be damaged before it could disengage from the venture. Regent Makarechian asked how UCLA could be in control of the venture without having control of the company's board. Dr. Feinberg responded that UCLA would contribute its expertise in running a laboratory to the venture and the full-time, on-site medical director of the laboratory would be a UCLA employee. The laboratory will meet U.S. standards and UCLA would have control of the quality of the laboratory. Major decisions would require a unanimous agreement of the board.

Regent Kieffer also agreed with Regent Island's concerns and questioned what UCLA would gain from this venture. Dr. Feinberg said the campus sought to deepen its presence in this area of China, to continue to change how curriculum is taught to medical students, to improve its research, and to improve clinical care in China. From a research standpoint, clinical trials in China are expanding greatly, which could be very important for UCLA. Good clinical trials require good clinical laboratories. This venture would be a building block in creating a clinical trial network with UCLA's academic partner in China. Regent Kieffer asked whether the expansion into this clinical trial network would be to gain financial advantage. Dr. Feinberg responded that UCLA's ultimate goal would be to have an effect on the health of the people of California and the world. The discoveries made at UCLA in drug development require a large clinical trial network. To be able to expand clinical trial work internationally would allow UCLA to obtain necessary patient populations for various trials.

Regent Kieffer asked Chancellor Block how this venture would fit with UCLA's international strategy. Chancellor Block responded that UCLA has a substantial and deep interaction with Zhejiang University, enhancing UCLA's reputation in China. This venture offers opportunities for conducting clinical trials that would not be available otherwise.

Dr. Stobo commented that the venture would build on UCLA's existing academic relationship with Zhejiang University. He added that, if UC has an intellectual property that could improve health, it has a responsibility to share it with all populations. UC has expertise in clinical laboratory testing that can be helpful in advancing health in China.

Regent Gould inquired whether any intellectual property would be gained through this venture. Dr. Feinberg responded that he did not anticipate any new intellectual property stemming from this project. This project is to establish an effective clinical laboratory, not different from existing laboratories in the United States. Intellectual property could come from future projects examining diagnostics or molecular-based medical treatments. Regent Gould asked whether the agreement could be amended if such circumstances occur in the future. Dr. Feinberg answered in the affirmative.

Regent Zettel asked how clinical trial patients would be selected. Dr. Feinberg said the current venture is only to establish the laboratory. For a UCLA-sponsored study, clinical trial patients would go through the normal process with the UCLA Institutional Review Board, including normal informed consent procedures.

Regent Pattiz expressed his support for the proposed venture, which would extend UC's reputation as a world leader in medical research and benefit the people of China.

Faculty Representative Jacob requested confirmation that any permissions for UC human subject clinical trials would be subject to rules of the Institutional Review Board at UCLA. Dr. Feinberg agreed.

Regent Lansing added that UCLA operates in a global context and that this venture would provide access to a larger patient base. Any profits generated by the venture could support UC research. She noted the necessity of having an exit strategy should anything happen that could compromise the UC brand.

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

Committee Chair De La Peña stated that it would be helpful to the Board to have a clearer understanding of UC Health's international plans. He reported that an upcoming audit would examine charting at the student health centers, and that he planned an update on the state of the medical enterprise and the student health and counseling centers for a future meeting.

The meeting adjourned at 11:50 a.m.

Attest:

Secretary and Chief of Staff