

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES**

May 15, 2014

The Committee on Health Services met on the above date at the Sacramento Convention Center, 1400 J Street, Sacramento.

Members present: Regents De La Peña, Island, Lozano, Pattiz, Reiss, and Zettel; Ex officio members Brown, Lansing, Napolitano, and Varner; Advisory member Gilly; Staff Advisors Barton and Coyne

In attendance: Regents Flores, Kieffer, Schultz, and Sherman, Regents-designate Engelhorn and Leong Clancy, Faculty Representative Jacob, Interim Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Financial Officer Bachher, Provost Dorr, Executive Vice President and Interim Chief Financial Officer Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Allen-Diaz, Andriola, Budil, Duckett, Lenz, and Sakaki, Chancellors Blumenthal, Drake, Katehi, Leland, and Yang, Interim Chancellor Hawgood, and Recording Secretary McCarthy

The meeting convened at 8:55 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 March 20, 2014 were approved.

**2. UPDATE ON THE HEALTH OF UC HEALTH**

[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 Senior Vice President Stobo would provide an update on activities associated with UC Health, particularly in the environment of the Patient Protection and Affordable Care Act (PPACA) and healthcare reform. Committee Chair De La Peña noted that the audit of UC's student health centers was recently concluded and would be presented to the Regents at a future meeting. Several initiatives arose from the third UC Health summit held a few months prior, attended by several Regents, President Napolitano, Dr. Stobo, the chancellors of UC campuses with medical centers, and the deans of UC schools of medicine. Committee Chair De La Peña thanked President Napolitano for her leadership.

Dr. Stobo stated that his presentation would provide a brief summary of the activities of UC Health, particularly its clinical enterprise, over the past year and plans for its future

course over the upcoming several years. He explained that UC Health represents UC's 11 hospitals and 17 health professional schools in the fields of medicine, nursing, dentistry, pharmacy, veterinary medicine, optometry, and public health. The revenue associated with UC's clinical and research enterprises represents roughly 50 percent of the University's overall budget, making UC Health an important part of UC from a financial standpoint. Most importantly, as the state's fourth largest health delivery system and the nation's second largest physician group, UC Health has an enormous effect on the health of California and beyond. Half of the physicians practicing in California trained at UC. Half of the organ transplants performed in California are done at a UC facility. In the prior year alone, UC's clinical enterprise provided charity care worth \$444 million to the uninsured, an important part of UC's public mission and of great value to the state.

From a financial standpoint, UC Health has been very successful over the past decade. From fiscal year 2008 through fiscal year 2013, its annual revenues have increased 1.5 times, to \$7.3 billion. UC medical centers are very well managed, with operating margins among the best in the nation. UC Health's revenue is critically important for two reasons. First, it provides capital to renew and support the medical centers to maintain their clinical excellence. Equally important, UC Health's financial success supports the programmatic needs of UC's professional schools, particularly its schools of medicine. Each year, roughly half of the aggregate operating margin of UC medical centers supports programs in UC's schools of medicine. The revenue currently going to UC's schools of medicine from this source is roughly two to three times the amount they receive from the State. UC's medical centers receive no State funds.

While there was a 1.5-fold increase in UC Health's revenues from 2008 through 2013, there was a 1.7-fold increase in UC Health's support for other UC entities through purchased services and financial support of programs, totaling almost \$1 billion in fiscal year 2013. UC medical centers are financially stable by other parameters; all UC medical centers currently exceed the standard of 60 days' cash on hand. Debt service coverage ratio is greater than 3.5 in all of UC's medical centers, a condition Dr. Stobo characterized as extraordinary.

Dr. Stobo cautioned that this financial picture was changing. A major component of UC Health's success of the past decade has been the roughly eight to nine percent year-over-year increases in revenues from its managed care contracts, while its expenses have increased only six percent year over year. However, managed care contracts are currently being negotiated with year-over-year increases of four to five percent. At this rate, expenses would outpace revenues by 2017-18, creating a significant imperative to reduce expenses.

While each medical center must do everything possible to reduce its own expenses, systemwide coordinated efforts to leverage UC Health's size for value would also be necessary. At UC Health summit meetings, areas of opportunity to reduce expenses were identified, and initial efforts would focus on three of these: revenue cycle, supply chain, and clinical laboratories. A UC Health Shared Services Management Council would be

established with fiduciary responsibility for the shared services that would be managed on behalf of UC Health, beginning in these areas and subsequently moving to other areas where opportunities exist to use a systemwide approach to reduce costs. Dr. Stobo's office was in the process of recruiting a single supply chain executive to work with supply chain personnel on the campuses. In the meantime, campus supply chain personnel would collaborate with campus chief financial officers (CFOs) to establish financial targets for fiscal year 2015. UCLA's CFO has agreed to work with his colleagues to establish a plan to examine revenue cycle for fiscal year 2015, to ensure that UC Health collects the revenue it is owed in a more coordinated fashion. Dr. Stobo's office was working with UC Health's clinical laboratory directors to identify opportunities in that realm. The Shared Services Management Council would be chaired by Dr. Stobo and would include the chief executive officers of the five UC medical centers, the deans of three of UC's schools of medicine, two chancellors, a Regent, in this case Committee Chair De La Peña, and three expert advisors external to UC. They all have agreed to serve and the Council would be activated shortly. Generally, Dr. Stobo expressed confidence that UC Health was in a good position to address cost reduction.

Dr. Stobo recalled that Chairman Varner had asked Committee Chair De La Peña to oversee an audit by Marsh, Inc. (Marsh) of UC's student health centers as the result of a liability issue at one student health center. Marsh's report pointed out operational areas where improvement was needed and a policy regarding credentialing, electronic health records, and clinical documentation was approved by the Regents in November 2012. The UC Office of Ethics, Compliance and Audit Services and Dr. Stobo's office have been responsible for ensuring adherence to the policy. The Office of Ethics, Compliance and Audit Services and Keating and Associates (Keating) completed follow-up audits in March, the results of which would be reported to the Regents at a future meeting. Dr. Stobo related that both Keating and UC's internal audit indicated that, while there are still some areas that need improvement, remarkable progress had been made in all areas. Keating noted the extremely high-quality care UC's student health centers provide. In the future, UC's routine internal audit cycle would include audits of the student health centers.

Dr. Stobo next discussed UC's two internal self-insured health plans, an important part of a systemwide effort to address the health needs of UC's students and employees in an exemplary way. The current Student Health Insurance Plan (SHIP), combined for undergraduate and graduate students, began in 2010 with all ten UC campuses participating and 130,000 enrollees. As reported to the Board previously, SHIP experienced significant financial deficits over its initial three years and was reevaluated in 2013. The ten campuses could choose to remain in SHIP, or leave SHIP and provide health insurance to their students through a fully insured commercial program such as Aetna Student Health. All UC students are required to have health insurance, either through SHIP or through a comparable commercial health insurance policy. In 2013, roughly half of the campuses decided to leave SHIP; the number of SHIP enrollees dropped from 130,000 to 50,000. Significant administrative changes were made to SHIP, including establishment of an executive oversight board comprised of representatives from the campuses participating in SHIP. Bylaws governing how decisions are made,

participation, and procedures in case of financial loss were signed by the chancellors of the participating campuses. SHIP's information system was revamped to provide timely financial information and utilization data that are reviewed monthly. Dr. Stobo was pleased to report that, while SHIP ran a \$5 million to \$6 million deficit the prior year, it currently had a \$7 million surplus. Campuses participating in SHIP are actively engaged in managing and overseeing the plan. Dr. Stobo expressed hope that campuses currently not participating in SHIP would decide to participate, since he believes the premium cost for students can be controlled through SHIP more effectively than through commercial insurers.

In the fall of 2013, the University initiated UC Care, a similar self-insured health plan as an option for its employees. Administrative oversight of UC Care is through Blue Shield. UC Care has 45,000 enrollees, consisting of 22,000 employees and their dependents. The annual cost of UC Care was \$972 less for a single employee and \$2,832 less for a family than coverage would have been under a comparable Anthem Blue Cross PPO plan. The University's self-insured health plan is more cost effective for employees and Dr. Stobo expressed hope that it would deliver higher quality care. Dr. Stobo observed that it was too early to comment on the fiscal condition of UC Care, but his office is monitoring it closely, along with any accessibility and administrative issues that have arisen.

Another current systemwide endeavor of UC Health is to improve the quality of its clinical care. Three years ago UC Health started a virtual Center for Health Quality and Innovation comprised of representatives from the five UC campuses with medical centers. Each medical center contributed to the capitalization of the Center. Individual campus' innovative projects to improve the quality of clinical care are identified and funded. Best practices can then be spread systemwide. The Center has made 50 competitive awards determined by an operations committee comprised of four representatives from each UC medical center campus. The awards are divided between research grants and promising postdoctoral fellows' research projects, and emphasize the importance UC Health places on quality of care and clinical improvement.

Dr. Stobo concluded by discussing his view of the past and future course of UC Health. After a successful decade with a volume-based approach to the provision of clinical care, UC Health now faces a time when it must adapt to a different healthcare environment to continue to thrive. The volume-based business model was an inpatient, hospital-based, fee-for-service model, under which increased revenue was earned for an increased number of services provided, with little emphasis on how well services were provided or clinical outcomes. The prior model was not rich in technology, nor was it designed to empower patients. It was based on intervening when patients become ill, rather than preventing them from becoming ill by emphasizing wellness and prevention.

Dr. Stobo stated that the PPACA was one impetus in an unprecedented larger change in the healthcare environment, which in his view would be permanent. Dr. Stobo expressed his conviction that UC Health must move from a volume-based to a value-based model, as an integrated healthcare system of academic medical centers working in conjunction with community partners to address issues related to excellence in the provision of

clinical care, education of health professionals, and medical research. UC Health must accept financial risk based on the outcome of the clinical care it provides. Technology enabling patients to make important decisions would be critically important. Under the new model, UC Health must examine costs and be committed to making healthcare more affordable, with a focus on wellness and prevention. Dr. Stobo expressed his view that if UC Health functions more as a system, the sum of its five medical centers would be much greater than the five alone, and UC Health would continue its success into the upcoming decade.

Regent Lansing expressed appreciation for Dr. Stobo's leadership as well as that of the UC's medical center CEOs and the deans of its medical schools.

Governor Brown commented that the projected decrease in medical center revenues could have serious financial consequences for the University unless strategies to reduce costs prove effective. He stated that he had a realistic perspective on attempts at cost reduction, noting that the State faced higher than projected expenses relating to increased Medi-Cal enrollment under the PPACA, where increased involvement of the federal government could reduce the State's flexibility. From January until May, the State experienced a \$1 billion increase in its Medi-Cal program, which could have a large effect on the State's ability to support other programs. Governor Brown expressed interest in the details of UC Health's proposals to decrease costs. Dr. Stobo responded that each UC medical center was currently undertaking activities to reduce its own expenditures, but these efforts alone would be insufficient to achieve the goal of \$900 million in systemwide cost reductions by 2020. UC Health has consulted with other major medical centers across the nation; they are all leveraging their scale to reduce costs in areas such as purchasing. In response to a question from the Governor, Dr. Stobo projected that savings in purchasing could amount to \$150 million annually, supply chain savings could generate \$250 million, clinical laboratories \$30 million. Other areas would have to be examined systemwide to find further cost reductions.

Dr. Stobo expressed his view that a top-down approach had not been the most effective in the past, and a cooperative approach with active participation from those directly involved with providing care was required. The incentive was the reality of the current healthcare environment and UC's exceptional ability to deal with such challenges. Governor Brown pointed out the importance of the results of these efforts, since revenues from UC Health comprise approximately half of the University's revenue.

Regent Pattiz complimented the work of Dr. Stobo and Committee Chair De La Peña, and expressed support for Dr. Stobo's approach of seeking advice and participation from those actually involved at the medical centers. It would be important that everyone understand the magnitude of the challenge UC Health faces in controlling costs.

Chairman Varner expressed appreciation for the leadership of Dr. Stobo and Committee Chair De La Peña, and their anticipating healthcare trends sufficiently in advance. He expressed confidence in the talent of those working to solve this problem. Chairman Varner pointed out that part of the University's public service mission is fulfilled by UC

Health's providing unreimbursed medical services to those who are uninsured or unable to pay, providing a benefit to the entire state. Dr. Stobo stated that the value of these services had been \$444 million the prior year. Chairman Varner commented that the nature and value of these beneficial services provided by UC Health should be publicized.

Regent Kieffer suggested that another Regent be added to the UC Health Shared Services Management Council to foster continuity, since Regents' committee assignments can change from year to year. Dr. Stobo supported his suggestion, pointing out that it had been valuable to have several Regents participate in the UC Health summit meetings. Committee Chair De La Peña commented that the UC Health Shared Services Management Council would focus only on issues related to supply chain, revenue cycle, and clinical laboratories. Regent Kieffer asked how often the Shared Services Management Council would meet. Dr. Stobo responded that it was currently structured to meet quarterly, but should be kept small enough to be able to meet more often if necessary. Regent Kieffer stated that the issues involved and their financial consequences to the University were so significant that ensuring continuity for the Regents would be important.

Regent Kieffer asked about the size of UC Health and its market share in comparison to other large health systems. Dr. Stobo said that in terms of revenue UC Health is one of the top 15 healthcare systems nationally. In terms of market share, each UC medical center had a relatively small share of the market for overall clinical care in its geographical area compared with health systems such as Kaiser or Sutter Health. Increasing market share was currently a major focus. For high-end care, no other system comes close to UC Health's market share. For example, UC Health performs 50 percent of the transplants in California. But since these high-end services comprise only half of UC Health's business, they alone would not provide sufficient revenue to support its research and clinical care missions. Dr. Stobo said UC Health is the state's third or fourth largest healthcare system, depending on whether it is determined by revenue or number of beds. Regent Kieffer asked what UC Health's market share goal was. Dr. Stobo said UC Health's goal was twofold: first, to increase market share, and more importantly, to act more like a system.

Regent-designate Leong Clancy expressed appreciation for the leadership of Dr. Stobo and Committee Chair De La Peña in projecting the effects of the changing healthcare environment on UC's clinical enterprise and medical education. She asked whether consideration had been given to integrating the SHIP with UC Care, and whether California State University (CSU) and California Community College (CCC) students could be included in SHIP, particularly students whose campuses were located close to UC campuses with medical centers. Dr. Stobo responded that this type of integration would be considered, but cautioned that it would be important to first ensure that UC Care was functioning well, since it was in only its first year. He confirmed that UC Health would welcome discussions with CSU and CCC about how the systems could cooperate on health insurance for students and employees.

Regent Lozano stated that Dr. Stobo's presentation reflected a broad shift in the way healthcare would be delivered. The new paradigm would require focus on a different set of outcomes such as prevention and wellness, using technology, and empowering patients. She asked whether there was a focus on providing care under these new definitions of quality at the medical centers corresponding to the focus on decreasing costs. Dr. Stobo responded that on a systemwide level, UC Health's Center for Health Quality and Innovation had been useful in revealing variances among UC's five medical centers in cost and outcomes for the same procedure. For example, the cost for a coronary artery bypass graft can differ substantially at different UC medical centers. Outcomes measured by the amount of blood utilized or the amount of time spent in the intensive care unit can also differ dramatically. The best practices from medical centers with the most successful outcomes could be inserted into the protocol of other UC medical centers, decreasing costs and improving outcomes. Best practices should be standardized throughout the system, and subsequently optimized. Slow progress was being made and Dr. Stobo acknowledged that this process would require an enormous change in culture. He expressed his view that the pace of change needed to be accelerated. UC began these efforts relatively recently; University of Pittsburgh Medical Center (UPMC) had been working on such improvements for the past ten years and Johns Hopkins Medicine for seven years. UC Health has the advantage of its strong financial position, but large changes must be accomplished in a short period of time. Regent Lozano commented that the governance structure of UC Health would be important. Dr. Stobo observed that the leadership of President Napolitano and her setting deadlines to encourage movement had been crucial.

Governor Brown asked for the best example of a cost reduction strategy from another healthcare system. Dr. Stobo responded that such a comparison would have to be with a system with public research and education missions similar to UC's, such as Johns Hopkins Medicine. Various healthcare systems excel in different aspects. For example, UPMC has an excellent supply chain system; Johns Hopkins has an excellent physician preference approach, in which physicians agree to limit their choices of surgical supplies to two or three options rather than 20 to 30. Governor Brown observed that in order to succeed in this effort, UC would have to take the best practices in different areas from various medical centers and succeed in all areas.

Staff Advisor Barton asked whether the UC Select provider tier in UC Care would be expanded. Dr. Stobo explained that a main component of reducing the cost of premiums for UC Care was that the physicians in UC Select agreed to discount their fees a minimum of 15 percent. Not all providers were willing to provide such a discount. An effort was made to have those providers available to UC employees through some other health plan option, such as UC Care's Blue Shield select tier or the Health Net Blue and Gold plan. In order to control costs, a balance had to be achieved between availability and cost.

Faculty Representative Jacob expressed faculty concerns that information about UC Select providers in UC Care was sometimes not complete even during the open enrollment period. He asked if this information could be made available earlier for the

next open enrollment period and requested consultation with campuses and the Academic Senate. Dr. Stobo commented that the Academic Senate had supplied his office with a list of medical service providers it would like to have included in the UC Select tier. Dr. Stobo reiterated that only providers who agree to discount fees by 15 percent could be included in that tier, if the cost of the plan was to be controlled. If faculty want particular providers to be included in UC Select, then they could encourage those providers to so discount their services so they could participate. Dr. Stobo expressed his expectation that information would be available earlier during the next enrollment period.

The meeting adjourned at 10:00 a.m.

Attest:

Interim Secretary and Chief of Staff