

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

July 17, 2014

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

Members present: Regents De La Peña, Island, Lansing, Makarechian, Ruiz, Sherman, and Zettel; Ex officio members Napolitano and Varner; Advisory member Gilly; Staff Advisors Acker and Coyne

In attendance: Regents Engelhorn, Gould, Kieffer, Lozano, Reiss, Saifuddin, Torlakson, and Wachter, Regents-designate Davis, Gorman, and Oved, 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 Brown, Budil, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Hawgood, Katehi, Wilcox, and Yang, Interim Chancellor Gillman, and Recording Secretary McCarthy

The meeting convened at 9:45 a.m. with Committee Chair De La Peña presiding.

Regent Torlakson expressed support for the formation of the Task Force on Preventing and Responding to Sexual Violence and Sexual Assault, and the work that had already been done to strengthen the University's policies against sexual assault and violence. He thanked President Napolitano, Regent Reiss, and Regent Saifuddin for their leadership on this difficult nationwide problem and commented on the high caliber of the Task Force members. Regent Torlakson noted a disturbing recent statistic indicating that young women are more likely to be sexually assaulted if they go to college than if they do not. He emphasized the importance of the work of the Task Force: a major cultural change must be achieved, campus by campus. He expressed confidence in the Task Force's ability to outline procedures for working creatively and collaboratively with students to achieve President Napolitano's goal for the University of becoming the best in the nation in addressing this campus crisis and providing a safe environment for UC students.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 15, 2014 were approved.

2. UC HEALTH UPDATE

[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 discuss the recent audit of UC's student health centers, part of the commitment of the Committee and Dr. Stobo's office to ensure that UC students have the best possible healthcare delivery system. Dr. Stobo would also provide an update on efforts to leverage the size of UC Health to obtain value. Committee Chair De La Peña thanked President Napolitano for attending and advancing the agenda of UC Health's summit meetings, which have been very effective. He requested that an update on UC Health be a regular item on the Committee's agenda.

Dr. Stobo reported that each of UC's five medical centers was first in its local geographic area in recently released *U.S. News and World Report's* national hospital rankings. He particularly commended the staff and leadership of Ronald Reagan UCLA Medical Center, ranked fifth in the nation, and UCSF Medical Center, ranked eighth.

Dr. Stobo recalled that Marsh USA, Inc.'s report regarding the operations of UC's student health centers was issued three years ago and was followed by a series of interventions addressing the issues pointed out in the report. Two follow-up audits were conducted this year, over a period of two and a half months. Keeling and Associates conducted an audit of the centers' medical documentation, including charting and coding; UC's internal audit group, led by Chief Compliance and Audit Officer Vacca, audited the centers' governance, privileging, and licensing. Both audits indicated that great progress had been made. Of the remaining issues of concern, 85 percent identified by UC's internal audit had already been remedied; the remaining issues would be addressed by September. The internal audit group would conduct an audit in the upcoming year focusing on the issues identified during its recent audit. Subsequently, the audit of the student health centers would be included in UC's normal audit cycle, with thorough audits every three years. Dr. Stobo commended the directors and staff of the student health centers for their successful efforts.

Dr. Stobo discussed leveraging UC Health's scale for value. At the Committee's May meeting, he had discussed taking advantage of UC Health's systemwide size to achieve expense reductions, which would be essential in coming years as changes in the healthcare environment lead to dramatic reductions in revenue. Expenses must be reduced in order to maintain UC Health's operating margins, which are critical to support renewal of its medical centers and programmatic development of its schools of medicine. This discussion would involve finding new revenue opportunities that UC Health could leverage by acting as an integrated system of five medical centers.

Dr. Stobo expressed his view that, in order to continue its enormous success of the past decade, UC Health must adapt to changes in the healthcare marketplace. In the prior volume-based model, UC's five stand-alone medical centers were reimbursed with no financial risk for performing more procedures, without a great emphasis on outcomes, quality, wellness, and prevention. The Patient Protection and Affordable Care Act (PPACA) was a manifestation of an inevitable, deeper change to the healthcare environment where collaboration, patient wellness, and prevention would be rewarded.

UC Health could take advantage of its size as a system to gain new revenue streams. Current revenue is basically of two types. Roughly 60 percent of UC Health's clinical patient revenue comes from contracts with commercial insurance carriers such as Aetna, CIGNA, Health Net, Anthem Blue Cross and Blue Shield; the remaining 40 percent comes from public payers Medi-Cal and Medicare. New sources of revenue could be developed through direct contracting with re-insurance and workman's compensation groups. The workman's compensation market in California is roughly \$5 billion annually. Randall and Quilter, an international insurance holding company headquartered in London, purchases other insurance companies' medical liabilities. UC Health negotiated an agreement to provide services to Randall and Quilter, starting this month in the area of opioid dependency treatment, in which UCLA has a clinic recognized for its best practices. Subsequently, UC would provide services to Randall and Quilter in joint replacement and complicated neurosurgery. UC Health is also beginning to provide treatment for difficult workman's compensation cases to CPC Logistics, a Central Valley trucking company; the first CPC patient at UC would undergo neurosurgery at UC Davis Medical Center. The ability of UC Health's five medical centers to provide high-quality tertiary and quaternary procedures enables it to seek these new types of business.

UC Health could also take advantage of its size through its centers of excellence such as the Athena Breast Health Network, which uses cutting-edge techniques, including genomics, in the diagnosis, treatment, and prevention of breast cancer. The directors of cardio/thoracic surgery at the five UC medical centers meet regularly to share best practices to improve outcomes and reduce costs. The three UC medical centers in southern California, UCLA, UC San Diego, and UC Irvine, are coordinating their services for liver transplants, which can be performed at UCLA and UC San Diego. UCLA would place a hepatologist at UC Irvine to evaluate individuals for liver transplantation, so that patients in Orange County can be evaluated without having to travel and then could be referred for transplants to UCLA or UC San Diego.

UC Health offers two self-insured products for which UC assumes the financial risk: UC Care and the UC Student Health Insurance Plan (SHIP). UC Care is the preferred provider organization first offered to UC employees the prior year; 22,000 employees signed up, with 45,000 enrollees. SHIP has a current enrollment of 60,000 students. One goal of UC Health is to run these self-insured programs in a financially prudent way so that increases in medical costs can be kept below the rate of medical inflation. Dr. Stobo expressed his belief that UC Health is better suited than commercial insurance carriers to improve the health of these plans' enrollees through innovative programs in healthcare delivery and financing.

These self-insured programs have the advantage of spending a larger proportion of the University's employee healthcare premiums within the UC healthcare delivery system. For example, most of the UC employees who enrolled in UC Care had been enrolled in a commercial insurance program in which only 20 percent of the funds UC paid for its employees' premiums were spent within UC's healthcare provider system; 80 percent of those funds went to healthcare providers outside the University. In UC Care, currently 50 percent of premiums paid by the University were spent within the UC healthcare

provider system. Initial discussions were being held with California State University (CSU) to explore opportunities for UC Health to use its student health insurance program for a subset of CSU students and to explore the possibility of including CSU employees in UC Care.

Regent Gould expressed support for extending UC Health's self-insured programs and asked whether UC Care could be applied broadly to State employees. Dr. Stobo expressed his view that there could be substantial opportunities in this area. He has held discussions with the California Public Employees' Retirement System, which he said would be the next logical group to approach.

Regent Makarechian asked for an estimate of the value of medical services that UC Health provides for which it receives no payment and whether the PPACA would help UC receive payment for a larger portion of these services. Dr. Stobo estimated that amount at \$400 million annually, or ten to 12 percent of its total services. Since January, the proportion of UC Health's revenue from Medi-Cal had increased and the proportion of treatment for uninsured patients had decreased. This would be beneficial to UC Health, provided that the rate of reimbursement is sufficient to cover the costs of treatment. Medi-Cal reimburses only 60 percent of the cost of treatment. The total economic effect of the PPACA would be complicated by the fact that in three years the Medicaid Disproportionate Share Hospital (DSH) payments UC Health receives from the federal government for taking care of complicated uninsured patients would decrease. Regent Makarechian asked when it would be possible to determine the financial effects of the PPACA. Dr. Stobo responded that by the end of the year it would be possible to see the effects of uninsured patients becoming insured. Committee Chair De La Peña added that UC receives \$700 million annually in DSH payments because of the high percentage of uninsured patients it treats; this amount is negotiated each year. UC Health was also trying to negotiate systemwide three to five year contracts with commercial insurers so that the contracts could keep pace with medical inflation and increases in labor costs. He expressed his view that it was difficult to predict the ultimate effects of the PPACA.

Regent Ruiz thanked Dr. Stobo for his leadership and asked about plans to increase the numbers of doctors and nurses in California to handle the anticipated increase in patient volume, particularly since it would take several years to implement such plans. Dr. Stobo agreed about the importance of the number of healthcare providers and said the issue deserves a full presentation at a future Committee meeting. He acknowledged that UC Health is not as advanced in its planning in this area as in its planning in the clinical services area. Workforce issues will have to be examined not only in terms of how many doctors and nurses would be trained, but also how they can be best utilized. Committee Chair De La Peña added that strategies to affiliate more doctors' existing practices with UC Health could also help provide services.

Regent-designate Davis asked Dr. Stobo to address at a future presentation the capacities of UC's medical schools, and whether those capacities should be increased.

The meeting adjourned at 10:15 a.m.

Attest:

Interim Secretary and Chief of Staff