

The Regents of the University of California

**COMMITTEE ON HEALTH SERVICES
COMMITTEE ON GOVERNANCE**

September 16, 2015

A meeting of the Committees on Health Services and Governance was held on the above date at the Student Center, Irvine Campus.

Members Present: Representing the Committee on Health Services: Regents Blum, Island, Kieffer, Makarechian, Pattiz, Pérez, Sherman, and Zettel; Ex officio members Lozano, Napolitano, and Varner; Advisory members Brody, Hare, and Schroeder; Staff Advisors Acker and Richmond

Representing the Committee on Governance: Regents Blum, De La Peña, Gould, Island, and Kieffer; Ex official member Varner

In attendance: Regents Davis, Gorman, Newsom, Ortiz Oakley, Oved, Reiss, and Ruiz, Regent-designate Ramirez, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, Senior Vice Presidents Henderson and Peacock, Vice Presidents Budil, Duckett, Humiston, and Sakaki, Chancellors Block, Blumenthal, Gillman, Hawgood, Katehi, Leland, Wilcox, and Yang, and Recording Secretary McCarthy

The meeting convened at 10:35 a.m. with Committee on Governance Chair Gould presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the Committee on Health Services of July 22, 2015 were approved.

2. UC HEALTH GOVERNANCE: DISCUSSION OF PROPOSED AMENDMENTS OF BYLAW 12.7: COMMITTEE ON HEALTH SERVICES AND STANDING ORDER 100.4: DUTIES OF THE PRESIDENT OF THE UNIVERSITY AND PROPOSED NEW REGENTS POLICY: COMMITTEE ON HEALTH SERVICES

[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 on Governance Chair Gould observed that this discussion of the governance of UC Health involved a large part of the University's overall operations. At the July meeting, the Regents had discussed the RAND Report, which had enumerated a range of

governance options for UC Health. The governance of UC Health needed to be balanced, knowledgeable, and nimble in order to respond to the rapidly changing healthcare field. The proposal to add expertise to the Committee on Health Services would enable Regents to make the best possible decisions. Under the proposal that would be discussed, Regents' strategic oversight would be retained, but some decisions regarding clinical operations would move to the Committee level. The current item was for discussion, but a proposal for action would be brought to a future meeting.

Executive Vice President Stobo observed that the rapid changes in the healthcare environment embodied by the Patient Protection and Affordable Care Act strained the efficiency and finances of UC Health. It had become imperative that UC Health operate with the greatest efficiency, financial prudence, and best possible oversight and governance. Dr. Stobo reviewed the chronology of the Regents' recent consideration of the governance of UC Health and would present recommendations that emerged from the discussion at the July Regents' meeting. In March 2015, the five chief executive officers (CEOs) of UC medical centers discussed their strategies, pointing out four areas of concern about the existing system of governance: (1) a cumbersome process of approving transactions, particularly for those with a relatively insignificant effect; (2) the need for additional expertise on the Committee on Health Services from individuals with extensive experience with academic health centers and the healthcare environment; (3) support in determining UC Health's strategic direction; and (4) compensation decisions in a very competitive market. Dr. Stobo emphasized that the CEOs were asking for more, not less, governance. UC Health engaged RAND to review UC Health governance; its report was summarized to the Regents at the July meeting. In July, President Napolitano, Dr. Stobo, Chairman Lozano, and Regents Sherman and Gould made a worthwhile visit to the University of Washington to observe its health system's governance structure. The RAND Report, presented to the Regents at their July meeting, recommended formation of a modified Committee on Health Services with certain delegated authorities, for which Dr. Stobo expressed support. Based on the discussion at that meeting and subsequent consideration, Dr. Stobo would present recommendations for further discussion at the current meeting to be brought to the Committees for action at a future meeting.

The first recommendation was to modify the membership of the existing Committee on Health Services and to provide the modified Committee with certain delegated authorities. The Committee would have 13 members: the present Committee on Health Services Chair and Vice Chair continuing in those roles; the President of the University; three additional Regents selected from the existing Committee on Health Services; four external members serving without vote; and three additional voting members being two chancellors from UC campuses with medical centers and the Executive Vice President of UC Health. Their terms would be staggered and all appointments would be approved by the full Board of Regents. Regents serving on the Committee would be nominated by the Committee on Governance; external members and the two chancellors would be nominated by the President of the University after consultation with the Chairman of the Board and Chair of the Committee on Governance, and approved by the full Board of

Regents. Of the nine voting members of the proposed modified Committee, six would be Regents.

Dr. Stobo enumerated the proposed responsibilities of the modified Committee on Health Services. First, the Committee would work with the medical center CEOs and Deans of the schools of medicine to develop an overall UC Health clinical strategic plan and integrated budget that would be presented to the full Board of Regents each year. Second, the modified Committee would work with the CEOs to develop dashboards for quality, cost, and access, and monitor performance against the dashboards. In these two areas, the proposed governance would be more than existed currently.

The proposed modified Committee on Health Services would have specified delegated authority in transactions, including acquisitions, joint ventures, memberships, partnerships, affiliations, and the development of new entities, at three levels. The chancellor and the President of the University would have authority to approve local individual transactions up to 1.5 percent of the total operating revenue of the campus' medical center or \$25 million per transaction, whichever was less, up to a cumulative annual amount of three percent of the total operating revenue or \$50 million, whichever was less. The second level of delegation would be to the Committee on Health Services for individual transactions greater than 1.5 percent and up to three percent of that campus' medical center's total operating revenue, up to an annual cumulative five percent of total operating revenue. Transactions above those amounts would be approved by the full Board of Regents. Any transaction deemed by the chancellor or the President to have significant reputational risk for the University would be reviewed by the full Board of Regents irrespective of its monetary value. Monetary value of transactions would include not only their initial cost, but also subsequent, downstream costs, such as, for example, the potential for future capital calls.

Additionally, the Committee on Health Services would have the new responsibility of receiving briefings on all systemwide managed care arrangements. Currently, Dr. Stobo's office had the authority to approve systemwide managed care agreements, many for significant amounts of \$1 billion to \$3 billion. He expressed his view that it was important that the Committee understand the financial implications of these agreements.

It was also proposed that capital projects that are part of the UC clinical health enterprise and were currently required to be reviewed by the Committee on Grounds and Buildings for approval or recommendation to the full Board would instead be reviewed by the modified Committee on Health Services for recommendation to the full Board of Regents.

In the area of compensation, it was proposed that the Committee on Health Services approve appointments and compensation of UC Health employees that require Regents' approval and whose incomes would be derived solely from sources other than State general funds, such as clinical revenues or philanthropic contributions. It was further recommended that parameters for compensation be developed and reviewed every two years by the Committees on Health Services and Compensation.

Dr. Stobo added that in addition to these delegated authorities, the Committee on Health Services would advise the full Board of Regents on issues that would have a significant financial effect on UC Health such as an educational issue or an issue relating to UC self-insurance plans. The Committee on Health Services would comment on such issues, but the administrative responsibility for those decisions would not change.

Regarding reporting, any decision made under delegated authority by the Committee on Health Services would be reported to the full Board at its next meeting. An annual report on the overall UC Health operational budget and clinical strategic plan would be presented to the full Board each year.

Regent Blum asked if philanthropic contributions to UC Health employees had to be reported to the University, for instance if an outside institute donated funds to a UC doctor. Dr. Stobo said that question might be better answered by the Office of Ethics, Compliance and Audit Services. Chairman Lozano stated her understanding that the sources and amounts of senior executives' external income had to be reported.

Regent De La Peña expressed his view that governance of UC Health currently functions well for the University and had for quite some time, with excellent financial results and good oversight. The Regents had not delayed or been an obstacle in any proposed transaction. Regent De La Peña acknowledged the changes in the healthcare environment, but asserted that many changes had already occurred.

Regarding proposed changes to UC Health governance, Regent De La Peña expressed support for adding external advisors to the Committee on Health Services, similar to the Investment Advisory Group to the Committee on Investments. He expressed disagreement with having non-Regents as voting members of the proposed modified Committee on Health Services that would have delegated authority to approve transactions of a cumulative significant amount. No other Regents' committee had non-Regents as voting members, and particularly not with delegated transactional authority. He expressed concern that there could be a possible conflict of interest if a chancellor could vote on a transaction involving his or her campus.

Regarding the proposed delegation of authority to approve transactions, Regent De La Peña observed that the Committee on Health Services had delegated authority currently to approve transactions up to a certain amount. He expressed concern about aspects of the proposed delegated authority to approve transactions. He would support delegating authority for local transactions within the proposed parameters, but expressed his view that any transactions in which the University would not be the controlling partner or any systemwide transactions should be approved under current procedures, regardless of their monetary value. Regarding capital projects, Regent De La Peña expressed his view that the Committee on Health Services should not have the authority to approve building projects and capital expenditures. Proposed UC Health capital projects should be reviewed first by the Committee on Health Services, then referred to the Committee on Grounds and Buildings or Committee on Finance according to current procedures for

consideration and recommendation to the full Board. He cautioned that terms defining capital purchases need to be clearly defined.

Regent De La Peña supported the proposed provision that all UC Health managed care contracts be reviewed by the Committee on Health Services. He expressed his view that the modified governance of UC Health should be considered as a pilot project, with an annual report to the Committee on Health Services and the full Board, including review of all projects approved in the past two to three years, their status, and identification of underperforming transactions. Transactions approved at the local level under delegated authority should be reviewed annually as part of the pilot project. Student health centers should be reviewed by the Committee on Health Services, with annual reports or audits, and perhaps a subcommittee. Regent De La Peña expressed his view that any UC Health contract should include language to the effect that the University's participation in the contract would be governed by Regents Bylaws, irrespective of any other contract terms.

Regent De La Peña believed that the proposed terms of the members of the Committee on Health Services were too long. Initial terms should be one or two years, with the possibility of reappointment.

Regent Gould clarified that six of the nine voting members of the proposed modified Committee on Health Services would be Regents. He expressed support for an annual review of the delegation of authority.

President Napolitano commented that some suggestions involved clarifying the language of the governance proposal. The purpose of the proposed governance change was to be proactive in ensuring that UC Health had access to the best ongoing advice, counsel, and support from the Committee on Health Services in the changed healthcare environment.

Regent Varner expressed his support for adding external advisors to the Committee on Health Services. However, he would not support non-Regents voting because of potential conflicts of interest in areas of compensation or transactions that could be beneficial to one campus. Typically any delegation from the Regents was made with specific guidelines, but the proposed delegation would include the authority to make decisions. He supported Regent De La Peña's view that UC Health capital projects should be reviewed and acted upon by the Committee on Grounds and Buildings.

Regent Kieffer expressed appreciation for the comments of Regent De La Peña, particularly that the proposed term of the Chair of the Committee on Health Services was too long. He expressed general support for the proposed revisions to UC Health governance. It would be beneficial if the six Regent members of the modified Committee on Health Services had varied backgrounds, for instance by including a Regent with real estate expertise. Regent Kieffer expressed support for proposed delegation of authority to approve transactions within specified parameters. The delegation of authority could be taken back if it did not function as desired. He expressed his view that even State-funded UC Health compensation should be handled through the Committee on Health Services

and approved by the full Board of Regents, rather than through the Committee on Compensation.

Regent Ortiz Oakley expressed support for the earlier comments of Regent De La Peña and expressed reluctance to support any erosion of Regents' authority and their ability to make decisions. He would not support non-Regents having voting positions on the modified Committee on Health Services. Regarding compensation, he expressed his view that, even if funding for some UC Health executives was from clinical revenues rather than State funds, UC is a public institution and the Regents have the ultimate responsibility to review all compensation to ensure that it is in the best interest of the entire University. It was important for the Regents to have an overview of compensation across the entire University.

Regent Oved asked about the status of the student observer to the Committee on Health Services and suggested having a non-voting student member of the modified Committee on Health Services to provide input, particularly about student health and counseling services.

Regent Pattiz expressed his view that the questions raised by Regent De La Peña should be addressed. He expressed support for being proactive in anticipation of continuing changes in health care, although he was unaware of any past opportunities that had been missed because of the existing governance structure. He asked why the University of Washington health system was chosen to visit and why RAND was chosen to review UC Health governance. Dr. Stobo agreed that the proposed changes to UC Health governance were anticipatory in an attempt to have the best governance in place before a crisis occurred. He cited some examples of governance changes in response to crises in other large academic health systems. The healthcare environment would be extremely challenging in the future, requiring the most efficient governance. RAND was chosen because it was an independent, highly qualified third party that could objectively examine UC Health governance. The University of Washington was chosen to visit because its health system most closely resembled UC's. The most impressive lesson learned from that visit was that Washington's health system executives used its governance committee very effectively to help make important decisions.

Regent Pérez associated himself with the comments of Regent De La Peña. He agreed that having a nimble governance structure was important, but these considerations rested on questions of governance and accountability. He cited the Legislature's concern about the opacity of accountability in the UC system and the responsiveness of the Regents to the University's public charge. He expressed doubt that adding another layer of governance would increase nimbleness. Nimbleness would be increased by the delegation of authority. Regent Pérez expressed particular concern about the proposal to give non-Regents voting authority on the Committee on Health Services. He questioned the actual likelihood of the Regents' taking back an authority that had been delegated. If compensation of healthcare executives were handled differently from other University compensation, it would be more difficult for the Regents to resist external pressure to limit compensation.

Regent Reiss expressed respect for the opinions of UC's senior healthcare executives, but concern about delegating authority to voting non-Regents. She pointed out that the Board of Regents would retain the right to confirm appointments to the Committee. Regent Reiss expressed support for delegating authority within the specified parameters, subject to an annual review. Regarding compensation, she stated it might be wise for the Regents to retain authority over compensation in order to satisfy concerns of the Legislature and to maintain public transparency. She suggested considering adding the Chairs of the Committees on Grounds and Buildings and Compensation to the Committee on Health Services. She asked Dr. Stobo about oversight of the student health centers. Dr. Stobo responded that currently UC Health oversees the student health centers. He would review Regents' policies to see how oversight of the student health centers would fit the proposed modified governance model.

Regent Ruiz agreed that the healthcare environment was changing and that the University must be proactive in having good governance in order to continue to grow to remain competitive. He requested a business plan for UC Health, including future projections and a breakdown by areas such as clinical, student health centers, research, employee health care, and UC Health's effect on the larger University.

Regent-designate Ramirez supported Regent Oved's earlier comments in support of having a student in advisory capacity on the Committee on Health Services.

Regent Island agreed with Regent De La Peña that the current governance of capital projects through the Committee on Grounds and Buildings should be retained, and that the proposed term of the Chair of the Committee on Health Services was too long. Regent Island expressed support for Regents De La Peña and Varner's views that only Regents should have voting authority on the Committee. Regent Island stated he would be more comfortable with the delegation if only Regents were voting members. He expressed support for the proposed changes regarding approval of compensation and delegation to approve transactions within certain parameters, which he characterized as relatively modest. He expressed his view that the proposed changes should not be enacted as a pilot program, but rather as the new governance structure that could be reviewed annually or as necessary, to challenge the University to make the structure work. Regent Island agreed about the critical importance of the student health centers and the importance of elevating their consideration to the Regents under the proposed governance structure.

Regent De La Peña asked how delegating authority to the campuses would increase nimbleness of decision-making, since the Regents have been prompt in their review of proposed transactions, which can be slowed down by review at other levels on the campuses or at the Office of the President. Even if transactions were delegated to the campuses, governance still may not be nimble, unless structures were put in place that required prompt action. He recommended that each campus with a medical center have its own local health advisory committee. Regent De La Peña stated that he would be more comfortable delegating authority to the campus level if the transaction had been approved by such a local health advisory committee.

Regent-designate Brody asked for a clarification of the rationale for proposing that non-Regents have voting positions on the proposed UC Health governance committee.

Committee on Governance Chair Gould commented that the proposal would be revised in response to concerns expressed during this discussion. Chairman Lozano expressed her view that the discussion had been most helpful in clarifying Regents' concerns.

The meeting adjourned at 12:00 p.m.

Attest:

Secretary and Chief of Staff