

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

July 22, 2015

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

Members present: Regents Gorman, Island, Kieffer, Lansing, Makarechian, Pérez, Sherman, and Zettel; Ex officio members Lozano, Napolitano, and Varner; Advisory member Hare; Staff Advisors Acker and Richmond

In attendance: Regents Blum, Davis, De La Peña, Elliott, Gould, Ortiz Oakley, Oved, Reiss, and Ruiz, Regents-designate Brody and Schroeder, Faculty Representative Gilly, 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 Brown, Duckett, and Sakaki, Chancellors Block, Blumenthal, Dirks, Gillman, Hawgood, Katehi, Khosla, Wilcox, and Yang, and Recording Secretary McCarthy

The meeting convened at 11:45 a.m. with Committee Chair Lansing presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETINGS

Upon motion duly made and seconded, the minutes of the meeting of March 17, 2015, and the joint meeting of the Committees on Compensation and Health Services of May 21, 2015 were approved.

2. REPORT ON THE RAND STUDY ON A GOVERNANCE MODEL FOR 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 Lansing introduced this discussion of the RAND report “Governing the University of California Health System” (Report) by recalling that RAND had been commissioned by UC Health in March 2015 to review and recommend an optimal governance structure for UC Health. The Report identified seven areas of importance for the governance of UC Health and presented four options for maximizing those seven areas. To arrive at its conclusions, RAND interviewed 20 individuals including President Napolitano, three Regents, four chancellors, the chief executive officers (CEOs) of UC’s medical centers, the deans of the UC schools of medicine, and others. RAND also examined the governance models of six other academic medical centers and health

systems. The Report had been discussed with the chancellors of the UC campuses with medical centers and several Regents, including Committee Chair Lansing and Chairman Lozano. In addition, President Napolitano, Chairman Lozano, Regents Gould and Sherman, Chancellor Hawgood, and Executive Vice President Stobo recently visited the University of Washington (UW) to view its unique governance model first-hand and discuss its governance with the chair and members of the UW Health board.

Executive Vice President Stobo reported that the prior day *U.S. News and World Report* ranked Ronald Reagan UCLA Medical Center third and UCSF Medical Center eighth in the nation, based on criteria such as quality of care, nurse staffing ratios, and mortality rates. UC's other medical centers were also ranked very highly. As part of its effort to sustain that quality and arrive at a UC Health governance model appropriate in the current rapidly changing healthcare environment, UC Health commissioned the RAND Report.

Dr. Stobo recalled that, at the March Committee on Health Services meeting, UC medical centers' CEOs recounted what they viewed as obstacles to their ability to conduct business and sustain the medical centers' quality. UC Health engaged the RAND Corporation to examine health system governance models. The issues prompting engaging RAND were: concern about the ability of the existing governance to make timely decisions; concern about the expertise on the Board of Regents in issues challenging academic health centers; a realization of the need to think strategically as well as tactically; concern about the ability of the governance board to exercise fiduciary responsibility in matters affecting UC Health. Dr. Stobo emphasized that these concerns did not indicate any dissatisfaction with the oversight of the Committee on Health Services, but rather that the healthcare environment had changed since the time the governance structure was implemented. The current environment is much less forgiving in its pace of change and in tolerating mistakes.

The RAND Report was based on interviews with individuals, including leaders of other health systems, and review of relevant literature. RAND used several criteria to assess governance efficacy and to evaluate possible new governance models: two broad criteria of nimbleness in decision-making and the capability to act as a health system, and seven specific criteria including timeliness and efficacy of decision-making, expertise of the governance board, ability to provide strategic guidance, system-level efficiencies, alignment of missions of research, education, and clinical service, response to local conditions, and feasibility of implementing any new governance model.

Dr. Stobo summarized the findings of the RAND Report. RAND found the following: (1) many perceived barriers to the timeliness of decision-making, such as to close a transaction or an affiliation; (2) concerns over whether the Regents have access to sufficient expertise to enable informed decision-making; (3) too little attention paid to strategic discussions; and (4) the need to balance a systemwide approach with local authority and responsiveness.

Based on these findings, RAND developed four options. The first option is to do nothing, maintaining the status quo. The second option is to create a systemwide advisory board to the Regents without delegated authority. The third option is to create a UC Health oversight board with some delegated authority. The fourth option is to spin off UC Health as a separate entity. Using their seven criteria, RAND recommended option three, that UC establish a UC Health oversight board with some delegated authority. Dr. Stobo reported that and other UC Health leaders found the Report to be accurate, comprehensive, thoughtful, and well-balanced, and would also recommend option three.

Based on his consultation with President Napolitano, the chancellors, the UC medical center CEOs, the deans of UC medical schools, and several Regents, and their visit to the University of Washington, Dr. Stobo presented suggestions for the composition of such a board and its possible responsibilities. He emphasized that these were only suggestions put forth for discussion and for the Regents' feedback. A proposed composition of this "UC Health Board" would include 11 individuals: the President of the University; four sitting UC Regents including the Chair and Vice Chair of the Committee on Health Services who would also be the Chair and Vice Chair of the UC Health Board; four external advisors chosen for their expertise in areas related to academic medical centers, health, and the changing healthcare environment; representatives from UC campus medical center leadership; and the Executive Vice President of UC Health. The RAND recommended an 18-member Board, but Dr. Stobo expressed his view that between 11 and 18 members would be effective.

Examples of individuals who could be possible external advisors were Steve Lipstein, President and CEO of BJC HealthCare in St. Louis. Mr. Lipstein participated in UC medical center CEO retreats and serves on UC Health's Shared Services Management Council, sharing advice and wisdom that have been exceedingly helpful. Another possible advisor could be Dr. Edward Miller, the recently retired and founding CEO of Johns Hopkins Medicine, which brought together the Johns Hopkins Health System and the Johns Hopkins School of Medicine. A third possible advisor could be Dr. Mark Smith, recently retired CEO of the California HealthCare Foundation, who has played a variety of roles in academic medicine and has a demonstrated commitment to addressing the health needs of medically underserved populations. Dr. Michael Johns, Chancellor of Health at Emory University and then Interim Chancellor for Medicine at the University of Michigan, member of the Institute of Medicine, is well-regarded by UC Health leaders. Dr. Stobo said these individuals had not been approached or agreed to serve, but were examples of the type of candidates with natural stature who could add significantly to UC Health's deliberations as it faces current challenges.

Dr. Stobo enumerated possible responsibilities of the UC Health Board, which would replace the existing Committee on Health Services. Dr. Stobo suggested that the Regents consider delegating authority to the UC Health Board to approve certain transactions within defined financial parameters. These transactions would involve affiliations, acquisitions, mergers, and equity positions. He envisioned three levels of authority. The first level would be authority for transactions below a certain financial threshold delegated to local responsibility, meaning the President of the University and the campus

chancellor. A second level of authority would lie with the UC Health Board and a third level with the Regents. The financial thresholds for the three levels had yet to be determined. Such delegation of authority could improve the timeliness of decision-making without causing undo financial or reputational risk to UC Health or the Regents.

Another responsibility of the UC Health Board would be to work with campus leadership to develop and present an overall UC Health strategic plan to the Regents. Presently the individual medical centers have robust strategic plans and the need for an overall UC Health strategic plan has become clear. The UC Health Board could also help the Committee on Grounds and Buildings with decisions about capital projects for UC Health, by reviewing and making recommendations on capital projects before they are brought to the Committee on Grounds and Buildings. The UC Health Board could oversee development of a dashboard delineating benchmarks and parameters for quality, access, and cost of clinical care, and monitor performance against those benchmarks. The UW Health Board developed such a dashboard, which was considered very helpful to its clinical enterprise. The UC Health Board could work with the Committee on Compensation to develop a framework for review and approval of compensation in the clinical enterprise funded solely from clinical income. Dr. Stobo acknowledged that authority to approve compensation was a sensitive issue that would require more discussion.

Dr. Stobo suggested that a possible next step could be for his office to work with the Committee on Governance to further develop the possible composition and responsibilities of a UC Health Board and to come back to the Regents at a future meeting with a more definitive outline.

Committee Chair Lansing observed that the suggested UC Health Board would appear to be a hybrid of options three and four proposed by the RAND report.

Regent Blum congratulated Dr. Stobo, noting that this governance change was overdue in an industry undergoing enormous change and in a part of UC that receives very little State support. He recalled that former Chancellor Desmond-Hellmann was in favor of such a governance change and had created a board of advisors for UCSF. Regent Blum expressed his view that the UC Health Board should be delegated some authority in order to attract the level of talent desired. He recommended including individuals with private sector experience. He expressed support for establishing a new way to approve compensation for UC Health personnel.

Regent Island expressed support for the comments of Regent Blum and expressed his concern that current governance practices could be an impediment in the rapidly changing healthcare marketplace. He urged Dr. Stobo to encourage the Regents to move quickly to streamline decision-making along the lines suggested by the RAND Report. He asked Dr. Stobo to identify current policies and practices that could be stumbling blocks in the healthcare environment. Regent Island expressed support for finding ways to change compensation approval processes, particularly for individuals whose salaries are funded by clinical revenues.

Regent Zettel welcomed the analysis and research of the RAND Report. She observed that the RAND Report noted that some governance changes could require legislative changes to implement and expressed her view that it would be wise to focus initially on governance changes that would not require legislative action. She asked how the proposed UC Health Board would comply with transparency requirements of public meeting laws. Working with the Committee on Governance would be essential and Regent Zettel suggested working with the Committee on Compliance and Audit as well.

Regent Makarechian asked Dr. Stobo to comment on the differences between the options of creating an advisory board with some delegated authority and creating one without delegated authority. Dr. Stobo commented that an advisory board with some delegated authority would be able to make a decision that would not involve undue reputational or financial risk in a more timely and efficient fashion. For example, the advisory board at Johns Hopkins has delegated authority; the UW Health board did not have official delegated authority, but in effect functioned with authority. He agreed with Regent Blum's earlier comment that unless the advisory board feels it has some empowerment it would be difficult to recruit and keep top talent. Regent Makarechian asked if some of the desired changes could be accomplished without approval of the Regents. Committee Chair Lansing said the changes would require the Regents' approval because the Committee on Health Services would be eliminated and some authority would be delegated to an advisory board whose 11 members might include only four Regents.

Regent Makarechian asked if delays in decision-making were the driving factor behind this proposal. Dr. Stobo responded in the negative, adding that the creation of such a board had been discussed internally by UC Health for a few years. RAND was engaged to have an independent third party with a reputation for excellence in this area provide an objective, impartial view. Regent Makarechian expressed support for having advisors with expertise in the healthcare field, like the Investment Advisory Group. Dr. Stobo expressed his view that the Committee on Health Services was effective for the time when it was created, but the University must keep pace with rapid changes in the healthcare field. Many major health systems have made changes in response to a crisis, but it would be far preferable to establish the appropriate governance proactively.

Regent Ortiz Oakley commented that it was not exactly clear what problem the Regents were being asked to solve by going so far as to delegate authority to an advisory board. He expressed his view that so long as UC Health uses the University's logo and reputation, UC Health's governance should be by the Regents. He acknowledged rapid changes in the healthcare industry and that it might be appropriate to make changes to the operations of the Committee on Health Services. He stated that he would be more comfortable with option two, as he was not convinced of a threat to UC Health that would require a change to the delegation of authority. UCSF Chief Executive Officer Mark Laret expressed his view that there was a threat to the University, which relies on UC Health to contribute one-third of the University's budget. The dynamics of the healthcare marketplace were currently so volatile that UC Health was being forced to take greater risks to compete. Having an engaged, knowledgeable advisory board would provide the Regents with more information about the risks and benefits of possible

courses of action. Mr. Laret expressed appreciation for the longstanding leadership of Regent De La Peña on the Committee for Health Services. Another factor is that UC Health's competitors have boards that meet every month, with subcommittees that meet more often, enabling them to act more responsively in retention of key personnel or acquisition opportunities. Having an advisory board without delegated authority could make action even less efficient, by adding another level of consultation. The medical centers were not asking for less oversight; rather, they are asking for more knowledgeable and timely oversight.

Committee Chair Lansing commented that she had been supportive for years of establishing a committee composed of Regents, medical center leadership, and healthcare experts. Currently however, UC Health faced a crisis because of rapid changes in the healthcare environment, which should be addressed proactively. Chairman Lozano added that the purpose of this discussion was to present the most important factors for the Regents' consideration. The ultimate governance structure was yet to be determined.

Committee Chair Lansing asked if there would be any issues that would still be appropriate to be considered by the Committee on Health Services, and if the four Regents on an 11-member UC Health Board could be overruled. Dr. Stobo responded that such a situation could be handled in several different ways. The outside advisors could be non-voting members or a super majority could be required for certain issues. Committee Chair Lansing expressed her view that some protection like that would be important.

Regent Oved expressed his view that outside advisors to UC Health should include those with expertise in healthcare education and in addition students should be represented. Dr. Stobo responded that it was not the intent that the advisory board would have jurisdiction over research and education. The entire reason for creation of the advisory board would be to allow the medical centers to continue to support the University's research and education missions. If the governance of the medical centers is not effective, the research and education missions could be at grave risk. Currently 50 percent of the medical centers' operating margins supports UC schools of medicine, which receive three or four times as much funding from UC medical centers as they receive from the State. UC Health would seek to have advisory board members who could contribute substantially to its purpose.

Regent Davis commented that the only RAND Report option he could support was option one, which called for the status quo governance structure, with best practices. That option would enable the Committee on Governance to address concerns about approval of compensation. He questioned creating a board with up to 18 members that would be placed between the Regents and UC Health, adding a level of complexity that would not increase timeliness or efficiency. Regent Davis added that the RAND Report itself commented about its recommended option three that RAND could not locate any information to assess whether performance on the timeliness and efficiency criteria had indeed been better in systems that have tried this option. During his one year of experience at Regents' meetings, Regent Davis said he could not recall an instance of a

proposed health system employee salary increase or a recommendation of Dr. Stobo or other health system leadership not being approved. He questioned the wisdom of modifying the governance structure of the Regents without showing that a problem exists. Many concerns raised could be effectively addressed through the Committee on Governance and implementing best practices.

Committee Chair Lansing commented that there have been times when the Regents have not been able to act as quickly as would have been desirable and these pressures would increase as the healthcare industry becomes more competitive. It would be beneficial to find a governance model that could enable greater efficiency.

Regent De La Peña recalled that he had served four years as Vice Chair and four years as Chair of the Committee on Health Services. The joint governance system of the University must be considered. He noted that transactions involving medical facilities usually take some time to develop. It would be beneficial for each UC medical center to have a high-caliber local advisory board similar to UCSF's. The Investment Advisory Group is a good model that would not require a major change in governance structure. It could be helpful to the medical centers if authority to act on transactions up to a certain amount were delegated to the Chair of the Committee on Health Services or the Committee itself.

Committee Chair Lansing observed that there seemed to be support among the Regents for an advisory board and some delegated authority, although opinions varied about delegation and the limits of that delegation.

Regent Kieffer commented that UC's healthcare system had changed dramatically over the years, having become the state's fourth largest. The healthcare environment had changed in a way that creates an existential threat to UC Health. He expressed support for the direction indicated in the presentation. He would not support a requirement for a supermajority vote. The fact that the Regents have approved transactions requested by the medical centers did not mean that UC Health would not benefit from having a board more experienced in the healthcare field. Regent Kieffer commented that an updated governance model could be created and then changed if necessary, and expressed confidence in the Regents' ability to work with this proposal over time. The nature of the Board and the setting of the Regents' public meetings had also changed over time, sometimes limiting the Regents' ability to address detailed proposals in many areas, not just health care.

Regent Sherman recalled that a staff member of University of Washington Health commented that its health system would be much smaller if it had to work under UC Health's governance procedures. While the UW Health board had no delegated authority, authority was delegated to the president of the University, creating a more streamlined governance. The president actively consulted the board, and UW Health has thrived under this system. Regent Sherman expressed support for moving in that direction and suggested that a plan be brought back to the Regents with more financial details. He anticipated that an annual strategic plan including a budget and operating framework

would be submitted to the Regents for approval, but under which operational authority could be delegated. Some decisions should be made on a centralized basis to take advantage of the scale of UC's medical centers.

Regent Gould commented on his visit to the University of Washington. The UW Health Board improves UW Health's ability to act responsively and nimbly. The level of talent the University of Washington was able to recruit for its board was impressive. Regent Gould agreed that it might be difficult to attract top-flight talent for a UC Health board if it were only advisory. Some authority might be retained by the Regents. This discussion was an important airing of concerns, but the time was right to move forward to consideration by the Committee on Governance in consultation with the Committee on Health Services and the Office of the President. He expressed support for moving toward a structure that would allow for delegated authority for transactions below a certain threshold. Some transactions might be below that financial threshold, but should come to the Regents because of issues such as complexity or reputational risk.

Regent Reiss expressed respect for the opinions of Dr. Stobo and the leadership of UC medical centers regarding UC Health's governance needs. She noted that under RAND Report option three, the Regents would retain ultimate authority over UC Health. Over the years, the Regents have delegated authority in many areas.

Regent Varner expressed concern about delegation of Regents' responsibilities to a board that would not be controlled by Regents.

Regent Ruiz expressed his view that doing nothing could put UC Health at risk in an environment where the healthcare system was growing and becoming ever more risky. It would be increasingly important to bring top-level national expertise to decision-making. There would be a risk in not being able to accelerate decision-making. He saw the role of the Regents as oversight. He stressed the importance of ensuring that UC would continue to improve in providing health care and conducting research to serve the people of California and the nation.

Regent Blum recalled that he had been asked by UCSF to organize a presentation about the healthcare industry and chose J.P. Morgan because of its experience in the field. Regent Blum suggested inviting J.P. Morgan to make a similar presentation to the Regents. The healthcare industry represents 15 percent of the U.S. economy and is undergoing radical change.

Regent De La Peña commented that an earlier review of UC Health governance by a task force during former UCSF Chancellor Desmond-Hellmann's tenure had concluded that it would not be legally permissible for an advisory board to have fiduciary responsibility at UC. He suggested dividing consideration of the governance structure into two areas: one involving financial thresholds for delegation and another clarifying to whom responsibilities would be delegated.

Committee Chair Lansing thanked Dr. Stobo and his team for their clear presentation. She summarized that the goal was to help UC Health move more efficiently while maintaining the Regents' oversight. She expressed optimism about moving forward in this effort.

Regent Makarechian recalled the Committee on Grounds and Buildings' Pilot Delegated Process for Capital Improvement, suggesting a similar approach could be effective in this instance. Approval was delegated to the chancellors for projects up to \$60 million for a trial two-year period.

Student Observer Alexander Hill commented that more than one-third of the University's revenue, over \$8.6 billion annually, was at risk in changes to UC Health's governance. The RAND Report made clear recommendations for changes to the governance system. Students do not object to the stated goals of increased efficiency and support increasing the effectiveness of UC Health staff. Mr. Hill expressed concern about maintaining the influence of the student voice in a changed governance model. The Report's recommendation of option three included no provision for student involvement. Mr. Hill suggested formally designating a method of collaboration between students and representatives of medical center leadership, the results of which could be presented to the advisory board.

Mr. Hill commented that the University has taken a strong step in the right direction with the allocation of funds from student services fees to support tier one student mental health services, but a front-end loan is needed to ensure that students will be able to access mental health services at the beginning of the upcoming academic year.

The meeting adjourned at 1:10 p.m.

Attest:

Secretary and Chief of Staff