

The Regents of the University of California

HEALTH SERVICES COMMITTEE

July 19, 2023

The Health Services Committee met on the above date at the UCSF–Mission Bay Conference Center, San Francisco campus and by teleconference at 106 E. Babcock Street, Bozeman, Montana.

Members present: Regents Makarechian, Park, Pérez, Reilly, Sherman, and Sures; Ex officio members Drake and Leib; Chancellors Hawgood and Khosla

In attendance: Regents Anguiano, Cohen, Elliott, Ellis, Hernandez, Lee, Raznick, and Tesfai, Regents-designate Beharry and Pack, Faculty Representatives Cochran and Steintrager, Secretary and Chief of Staff Lyall, General Counsel Robinson, Interim Senior Vice President Reese, Vice President Leasure, Chancellors Christ, Larive, Muñoz, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 4:25 p.m. with Committee Chair Pérez presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 17, 2023 were approved, Regents Drake, Leib, Makarechian, Pérez, Reilly, Sherman, and Sures voting “aye.”¹

2. ACQUISITION OF GENERAL ACUTE CARE HOSPITAL ASSETS, SAN FRANCISCO CAMPUS

The President of the University recommended that:

A. Subject to satisfactory completion of due diligence and the requirements set forth in Section B below, the following actions are authorized:

- (1) UCSF Health (UCSFH) may acquire certain assets controlled by CommonSpirit Health (CSH), including St. Mary’s Medical Center (SMMC), Saint Francis Memorial Hospital (SFMH), select supporting outpatient clinics, and select real property assets as listed in Attachment 1.
- (2) At conclusion of the Proposed Transactions the Regents, through UCSFH, will control all operations of SMMC, SFMH and the other assets included as described above either directly or through an entity controlled by the Regents.

¹ Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

- B. The following business terms will be required in connection with the closing of the Proposed Transactions:
- (1) Purposes/Mission: The Proposed Transactions shall be in furtherance of UCSFH's mission of promoting health and expanding access to healthcare services for a broad cross-section of the community and consistent with its clinical and academic purposes.
 - (2) Capital Commitment: UCSFH will commit no more than \$100 million in consideration to acquire the assets included as part of the Proposed Transaction. In the event UCSFH does not commit to pay the total negotiated consideration at closing, UCSFH will pay the balance of the total consideration, as may be adjusted by customary post-closing adjustments and indemnification obligations, over no longer than a seven-year term.
 - (3) Excluded Liabilities: Except for the specific liabilities negotiated in connection with the definitive agreements executed to effectuate the Proposed Transactions, UCSF will not assume or be liable or responsible for any of the liabilities of CSH (or any affiliate of CSH), including debt and other liabilities relating to the assets included in the Proposed Transaction, incurred prior to the closing of the Proposed Transaction.
 - (4) Policies Applicable to Acquired Assets: As a condition to closing the Proposed Transaction, all assets will be deconsecrated. Thus, as of the closing date, neither the Ethical and Religious Directives nor the Statement of Common Values will apply to the facilities nor govern facility operations, policies, or staff.
 - (5) Systemwide Initiatives: Nothing in any agreement signed in connection with the Proposed Transaction shall bind the University as a whole, UC Health, or any UC campus or medical center other than UCSF; and all definitive agreements shall preserve UCSF's right to participate directly or through new companies in systemwide (i.e., UC Health) initiatives.
- C. The President or his designee, after consultation with the Office of the General Counsel, and following action pursuant to the California Environmental Quality Act, be authorized to approve and execute any agreements reasonably required to implement the foregoing, including any subsequent agreements, modifications, or amendments thereto, provided that such agreements, modifications, amendments or related documents are materially consistent with the terms above, and do not otherwise materially increase the obligations of the Regents or materially decrease the rights of the Regents.

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

Chancellor Hawgood described this action item as an exciting moment in the history of UCSF Health that would allow UCSF to maintain critically needed programs for the City of San Francisco and, in general, to increase patient access to healthcare services in Northern California.

UCSF Health Chief Executive Officer Suresh Gunasekaran provided background to this request to allow UCSF to acquire CommonSpirit Health/Dignity Health assets in San Francisco: St. Mary's Medical Center, Saint Francis Memorial Hospital, and related outpatient assets. CommonSpirit/Dignity's current operations in San Francisco were complementary to UCSF Health operations. This was an outstanding opportunity for UCSF to advance the health of the community and preserve valuable and essential services at these hospitals, which had a long history in the city. This acquisition would allow UCSF to meet unprecedented demand on its capacity in a way that would benefit the community. UCSF had been in negotiations with CommonSpirit/Dignity for the past several months. These hospitals had a history of caring for all members of the community, partnerships with civic agencies, and unique approaches to outreach. It was currently very challenging to operate a community hospital, including recruitment of staff and financial management. These hospitals had been experiencing these difficulties and diminished patient volumes.

UCSF Senior Vice President Shelby Decosta observed that this transaction not only responded to immediate needs of UCSF; it was also consistent with UCSF Health's strategic plan. Both hospitals had served San Francisco for over 100 years. In addition to investments made in programs that are utilized widely throughout San Francisco, the hospitals have collaborated with many agencies and entities, including UCSF. There was a large number of UCSF faculty working at the hospitals collaboratively with independent physicians. The two hospitals had about 569 beds with average occupancy of about 25 percent. They were operating at a loss, which was putting critical programs and jobs at risk. There were almost 800 physicians and advanced practice providers in place there today, three residency programs, as well as about 1,900 employees across all sites. Ms. Decosta outlined some key terms of the negotiated deal. This would be an outright acquisition of the hospitals and associated assets. The price would be less than \$100 million, debt-free, with payment terms to be negotiated. Once transferred to UCSF, the hospitals would have no Catholic affiliation and no restrictions on care of any kind. Regarding employees, UCSF would plan to maintain the existing workforce, subject to vetting. UCSF had committed to maintain the important programs that the hospitals had provided for many years.

Mr. Gunasekaran explained that UCSF intended to invest over \$300 million over the next six years in upgrading these facilities, integrating them into UCSF Health, and ensuring that they are able to provide the community high-quality and efficient services. UCSF would financially stabilize these two facilities from an operating margin loss to a positive margin by the 24th month. UCSF anticipated maintaining the profit margin and slightly improving it over time. UCSF believed that its investment of over \$300 million would be renewed in terms of positive margins, both in the growth of these facilities and in the backfill opportunity through moving patients from UCSF's main campus facilities and refilling those spaces with patients needing more complex care. Any transaction of this size

has risks, and UCSF was going into this transaction very much aware that there were numerous risks. UCSF would work through the transition and integration process to mitigate these risks. There would be risks associated with creating one collaborative team and leveraging the existing workforce. There would be issues of concern regarding the physical facilities, anticipated and unanticipated, that could be a challenge to operations. UCSF understood that it needs to provide a high quality of service at these locations. An integration of this scale, affecting thousands of employees and tens of thousands of patients, would be difficult. UCSF would have to make improvements and work diligently with the community, listening to stakeholders and working with existing physicians and existing staff to understand how best to move these facilities forward. Ultimately, UCSF believed that it could mitigate these risks.

Ms. Decosta outlined the next steps. UCSF would finalize due diligence, begin integration planning, which would include both UCSF and Dignity-affiliated leaders, staff, and faculty, and finalize the agreements. The campus anticipated that this would take several months and that the hospitals would transition to UCSF in 2024. Mr. Gunasekaran added that the nature of the timeline would allow UCSF to incorporate significant stakeholder feedback on the future of the hospitals. UCSF would be deeply involved in working with the community to ensure that the services provided at these hospitals meet community needs.

President Drake recalled that, as a faculty member, he had worked at St. Mary's Medical Center. The cooperation between St. Mary's Medical Center and UCSF had traditionally been very good. The acquisition seemed a natural step, and given, the challenges faced by UCSF in meeting patient demand, this was a tremendous opportunity that would benefit San Francisco.

For the record, Committee Chair Pérez asked UCSF to state its commitment to maintain the core community benefit services provided at St. Mary's Medical Center and Saint Francis Memorial Hospital. Mr. Gunasekaran responded that UCSF was committed to preserving these services, which included the burn unit at Saint Francis and behavioral health services for adolescents at Saint Mary's. UCSF was very much interested in preserving these community services.

Committee Chair Pérez emphasized his expectation that UCSF would preserve not just the services mentioned by Mr. Gunasekaran, but the broad-based services that are provided at these hospitals. Regarding the large employee base at both hospitals, Committee Chair Pérez wished to ensure that UCSF made a commitment to keep the current employees in their current capacity. Mr. Gunasekaran responded that this was UCSF's commitment.

Committee Chair Pérez wished to ensure that there would be no disruption or degradation of wages and benefits and asked if this would be the case. Mr. Gunasekaran responded that this was correct.

Regent Park expressed optimism about and support for this transaction. The healthcare market was complex. This was an opportunity to expand UCSF's work to communities that needed UCSF care.

With respect to physicians and other employees at these hospitals, Regent Hernandez encouraged UCSF to bring these stakeholders into the process and into decision-making early on. He referred to comments made earlier by speakers during the public comment period.

Regent Reilly emphasized that these hospitals are two important San Francisco institutions and care for many patients in need in the city and county. She expressed confidence that UCSF would continue this mission of caring for the underserved.

Regent Makarechian asked why patient volumes at these hospitals were at 25 percent and about UCSF's plans to increase occupancy. Mr. Gunasekaran responded that in the not too distant past, occupancy rates at these hospitals were much higher, around 50 percent to 60 percent. UCSF felt confident that this 50 percent to 60 percent demand still existed and that this occupancy rate would be realized if UCSF were able to comprehensively offer services that are needed in the community. This was simply a matter of providing care in a structure that was convenient for patients, close to home, and comprehensive. Providing community care would substantially increase occupancy. Another factor was that existing UCSF hospitals were full, with many patients receiving secondary care. These patients could be moved from the Parnassus and Mission Bay hospitals, and the main campuses could receive patients who require more complex care. Ms. Decosta added that UCSF would not be seeking to fill these hospitals completely. UCSF would hope to serve San Francisco patients closer to home in locations that can provide all the services they need. Growth would be moderate and appropriate.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Drake, Leib, Makarechian, Park, Pérez, Reilly, Sherman, and Sures voting "aye."

The meeting adjourned at 4:45 p.m.

Attest:

Secretary and Chief of Staff

Real Property Included in the Proposed Transaction

The combined owned parcels on the St. Mary's Medical Center and Saint Francis Memorial Hospital campuses to be included in the Proposed Transaction reflects a total of 7.95 acres.

Dignity Health, SMMC, owns the following parcels, to be included in the Proposed Transaction:

Address	Type	Building Size (Sq ft)	Key Features
450 Stanyan St., San Francisco, CA	Acute Care Hospital	402,799	<p><u>Licensed Space:</u></p> <ul style="list-style-type: none"> ▪ 167 Med Surg Beds ▪ 37 Intensive Care Beds ▪ 36 Acute Rehabilitation Beds ▪ 9 Operating Rooms ▪ 3 Cath Labs <p><u>Leased Space:</u></p> <ul style="list-style-type: none"> ▪ Kentfield Long Term Acute Care Unit: Lease Expires in 2026; Space - 27,297 sq ft; 60 beds (6th floor) ▪ Crestwood Stabilization Unit: Lease Expires in 2028; Space – 26,857 sq ft; 54 beds (5th floor)
2200 Hayes St., San Francisco, CA	Psychiatric Hospital	41,198	35 Beds
One Shrader St., San Francisco, CA	Medical Office Building	55,000	10 medical offices/clinics; parking
2250 Hayes St., San Francisco, CA	Medical Office Building	75,362	24 clinic / administrative spaces; parking

Dignity Community Care, SFMH owns the following parcels, to be included in the Proposed Transaction:

Address	Type	Building Size (Sq ft)	Key Features
900 Hyde St., San Francisco, CA	Acute Care Hospital	470,856	<p><u>Licensed Space:</u></p> <ul style="list-style-type: none"> ▪ 205 Medical/Surgical Beds ▪ 20 Acute Rehabilitation Beds ▪ 10 Intensive Care Beds ▪ 8 Coronary Care Beds ▪ 16 Intensive Burn Care Beds ▪ 11 Operating Rooms ▪ 35 Psychiatric Beds
909 Hyde St., San Francisco, CA	Medical Office Building	93,796	35 medical offices/clinics; administrative spaces; parking
1199 Bush St., San Francisco, CA	Medical Office Building	80,987	21 medical offices/clinics; administrative spaces; parking
1234 Pine St., San Francisco, CA	Parking Lot	11,600	Freestanding, attended parking garage

St. Mary's Medical Center



Saint Francis Memorial Hospital



Dignity Health, St. Mary's Medical Center, leases the following parcels, which will be included as a lease transfer in the Proposed Transaction:

- San Francisco International Airport, International Terminal, Level 3, San Francisco, CA: Medical Clinic

Dignity Community Care, Saint Francis Memorial Hospital leases the following parcels, which will be included as a lease transfer as part of the Proposed Transaction:

- 24 Willie Mayes Plaza, San Francisco, CA: Medical Clinic known as "Saint Francis Health Center at the Ballpark" which currently has three clinic units: (1) Occupational Health Center (lease expires 12/2029), (2) Outpatient Physical Therapy Clinic (lease expires 11/2024), and (3) the Dignity Health Medical Foundation Clinic (lease expires 11/2024)
- 1777 Botelho Drive, Walnut Creek, CA: Medical Clinic that is a Center for Sports Medicine and Therapy.