


*Paul*

March 26, 1997

DIRECTORS  
DEPARTMENT MANAGERS  
ACC HEAD NURSES

Attached for your information is a press release dated March 26, 1997, naming the individuals who will hold the Senior Administrative positions in the newly formed UCSF Stanford Health Care. Also included is a memo that was distributed campuswide via email with updates on the most recent developments related to the merger of UCSF's patient care services with Stanford.

Sincerely,



Bruce Schroffel  
Interim Director  
Medical Center

Attachments

## PRESS RELEASE

March 26, 1997

Contact: Judy Frabotta (415) 824-2406

### UCSF STANFORD HEALTH CARE NAMES SENIOR ADMINISTRATORS

CEO Peter Van Etten and Chief Operating Officer Bill Kerr today announced the names of a number of individuals who will hold senior positions in the newly formed UCSF Stanford Health Care. Van Etten noted that while a few of these individuals will assume their new positions immediately in order to devote their full attention towards building the new structure, most positions would not become effective until the date the merger closes, slated for July 1.

Van Etten announced that Patricia Perry, currently Associate Director for Strategic Development at UCSF, will become Vice President for Strategic Development for UCSF Stanford; Ellen Michelfelder, currently Vice President Human Resources and Support Services for Lucile Packard Children's Hospital (LPCH) will be Vice President for Organization Development and Communications; Larry Smith, currently Chief Financial Officer of UCSF will be Vice President of Financial Operations; and, Jim Sulat, currently Chief Financial Officer of Stanford Health Services (SHS) will become Vice President/Treasurer of the new organization.

Kerr named four senior operations managers who will ultimately report to him: Malinda Mitchell, currently Interim CEO of SHS; Bruce Schroffel, currently Interim Director of UCSF Medical; Christopher Dawes, currently Interim CEO of LPCH. Felix Barthelemy, Vice President of Human Resources for SHS, has already assumed the position of Vice President of Human Resources for the new organization.

Van Etten commented, "We are incredibly fortunate to have such strong management talent between our two organizations, and even more fortunate that so many of our strongest individuals have agreed to take on new and more demanding roles in the merged organization. All of the senior managers will be working extremely hard during the transition period to make sure that we move

in an orderly and deliberate fashion in creating new structures and policies. Meanwhile, reporting arrangements for most employees of UCSF, SHS, and LPCH will be unchanged."

The organization will be led by two key committees. The Leadership Group, which is responsible for overall direction, the design of the physician organization, and service line development will include Van Etten, Kerr and Dawes as well as: Chief Medical Officer, Bruce Wintroub, M.D.; Dean of UCSF School of Medicine Haile Debas, M.D.; Dean of Stanford School of Medicine, Eugene Bauer, M.D.; Faculty Representatives on the Board of Directors, Lee Goldman, M.D., Chair of the UCSF Department of Medicine, and Judith Swain, M.D., Chair of the Stanford Department of Medicine; and, additional faculty representatives, Gary Glazer, M.D., Chair of the Stanford Department of Radiology, Peter Gregory, M.D., Associate Dean of Stanford School of Medicine and Chief Medical Officer of SHS, Nancy Ascher, M.D., Director of UCSF Tertiary Care Services, and Larry Shapiro, M.D., Chair of the UCSF Department of Pediatrics.

The Senior Administrative Group, which will be responsible for business plan implementation post merger includes Kerr, Wintroub, and Van Etten, as well as Ellen Michelfelder, Christopher Dawes, Malinda Mitchell, Bruce Schroffel, Felix Barthelemy, Jim Sulat, Larry Smith, and Patricia Perry.

UNIVERSITY OF CALIFORNIA  
SAN FRANCISCO

March 25, 1997

Dear Colleagues:

We are writing to keep you up to date on the most recent developments on three important issues related to the merger of UCSF's patient care services with Stanford.

Transfer of Assets

Both Senator John Burton and Regent Frank Clark have challenged whether The Regents have the authority under the California Constitution to transfer assets to the new nonprofit, public benefit corporation known as UCSF Stanford Health Care. Since this authority is central to the merger, the Office of the General Counsel of The Regents researched this issue very early in the negotiations process. That office produced an opinion that The Regents do have the authority to support the continuation of the University's academic mission through its patient services programs. The Regents had this opinion in hand when they voted in November 1996 to proceed to form UCSF Stanford Health Care. Recently, independent counsel was retained to examine this issue, and he has reached the same conclusion as the Office of the General Counsel. It is understood that UCSF Stanford Health Care will use these assets for exactly the same purposes that the UCSF Medical Center used them, that is, activities to support the University's educational mission.

Critics of the merger, including Senator Burton, continue to express concern that the merger is a "give away of public property" – notably UCSF's patient care buildings which were constructed in part with public funding. The University will not give up ownership of its land or buildings. UCSF Stanford will lease patient care space from the University. While the lease agreements have not been completed, the leases are expected to require that UCSF Stanford will pay operating costs associated with the use of the space, including maintenance, repair, administrative and other costs. Under this agreement, UCSF Stanford would be responsible for the same costs that UCSF Medical Center now pays, and in no case would the lease be less than the cost to service the facilities.

It is worth noting that UCSF has not received capital funding from the state for patient care facilities since the early 1980's, and all subsequent renovations and new buildings, such as the two medical office buildings at Mount Zion, have been built with UCSF Medical Center's patient care revenues.

The only direct support the Medical Center currently receives from the state comes in the form of an \$11.8 million annual payment for clinical teaching support. These funds are intended to reimburse some of the additional costs of our hospital's teaching mission and to provide financial support for indigent patient care. Even so, these funds pay for only a small fraction of the indigent care that UCSF Medical Center now supports from its other patient revenues. These state teaching funds will now go to the UCSF School of Medicine to be used to support clinical education in accordance with University rules and will not go to UCSF Stanford Health Care.

Employment Concerns

As you know, since last summer UCSF has been committed to seeking to impose upon UCSF Stanford Health Care that the following conditions apply to all UCSF employees who are offered and accept employment with the new organization, thereby resigning their position with the University:

- UCSF Stanford Health Care will offer a competitive base wage/salary equal to what an employee earned when employed by UCSF and will continue the initial base wage/salary for at least the first two years of employment. Medical Center salaries are currently based on a competitive market analysis and they are expected to continue to be;
- UCSF length of service will be used for those terms and conditions of employment where UCSF Stanford Health Care uses length of service;
- Employees will be allowed to transfer accrued compensatory time off, vacation, and sick leave balances for use at their new employment;
- UCSF employees who have successfully completed their probation with UCSF will not have a new probationary period;
- UCSF Stanford Health Care will provide a health plan, dental plan, vision plan, disability plan, life insurance plan and retirement for its employees, comparable to other plans in our market.

UCSF representatives have repeatedly restated those commitments. We are seeking to find a means by which long-term University of California employees would continue to build service credits while employed by UCSF Stanford Health Care. It may be possible for UCSF Stanford to consider "leasing" a limited number of long-term University employees who are not part of management, to allow these employees to remain in the University retirement system. We remind all employees vested in the University retirement system that under any circumstances they will continue to have access to the retirement benefits that they have earned for their years of University service. Employment with UCSF Stanford Health Care would not affect those vested benefits.

Last June we indicated that the University would require that UCSF Stanford offer employment to no fewer than 95 percent of all UCSF Medical Center employees and others directly affected by the new corporation's assumption of responsibility for patient operations. An analysis prepared for the two universities last year projected that over a five-year period there should be an overall reduction of 240 full time employees, of which 122 were expected to be managers and supervisors. Much of these savings would be in areas such as materials management, finance, and other administrative overhead. Assuming that about half of these employees came from the UCSF work force, the reduction would be less than we have seen in recent years in the Medical Center. The same analysis projected over the same five-year period, employment of patient care-related positions would increase by a projected 212 to 245 employees if UCSF Stanford reaches its goals for new patient volume.


#### Medical Center Finances

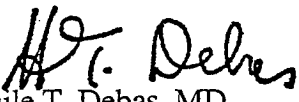
At Senator Burton's hearing and at The Regents' meeting last week, we reported that the UCSF Medical Center is expected to have a higher operating gain than originally budgeted. We are projecting an operating gain of \$13.6 million in the current fiscal year. The medical center has had higher revenues than expected because it has had a higher proportion of patients whose insurance covers our costs, and more of its patient days have been associated with patients receiving complex care, such as bone marrow transplants and children's heart services. Our expenses have also risen as we provide care to these complex patients, but with hard work on the part of many employees, we have been able to keep those additional costs to a minimum. Included in these projections are \$17.5 million in merger-related expenses to cover vested UCSF employee sick leave, severance and other related expenses which are expected to occur this year, but may carry forward into 1997-98 instead.

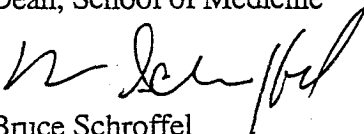
We are pleased with the improvement in our finances this year, but we cannot become complacent. We still anticipate significant cuts in Medicare and Medi-Cal payments as the federal and state governments struggle to balance their budgets. We expect competition in the marketplace to continue to intensify as more patients convert to more restricted managed care plans.

We remain convinced that UCSF cannot sustain its scope of clinical and educational programs without pursuing change. The proposed merger with Stanford is not, and never has been, simply a response to current year financial challenges. By forming UCSF Stanford Health Care, a nonprofit corporation obligated to provide the clinical facilities necessary to support the educational mission of both universities, we are creating a responsible long range plan to secure our future. We believe strongly that more can be accomplished by coming together than by pursuing our own independent strategies.

Please pass this letter on to your colleagues and look for continuing coverage of the latest developments in Newsbreak.

  
Joseph B. Martin, MD, PhD  
Chancellor

  
Haile T. Debas, MD  
Dean, School of Medicine

  
Bruce Schroffel  
Interim Director, UCSF Medical Center

**BRUCE SCHROFFEL**  
**MED. CTR. ADMINISTRATION**  
**BOX 0296**

*Handwritten signature*