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FOR YOUR INFORMATION
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UCSF AND STANFORD MERGER DISCUSSIONS GO FORWARD

Discussions between the UCSF Medical Center and Stanford University Medical Center have gained momentum since last month, when The UC Regents reviewed progress of the talks. At that time the Regents encouraged the campus to proceed with the discussions, which may lead to a proposed merger of the medical clinical enterprises of the two institutions.

UCSF administrative and faculty leadership have been involved in talks with Stanford since last summer to explore a collaboration that would enable the campus to preserve its long-standing missions in teaching, research, and patient care.

In November it was announced publicly that UCSF and Stanford had entered into preliminary discussions about collaboration in patient care programs. Governor Wilson cited the negotiations as a "bold, innovative approach" in his annual budget message in January.

"While the economics of the current managed care environment are affecting all health care providers, the very survival of teaching hospitals like UCSF and Stanford is threatened," says William B. Kerr, director of the Medical Center. "We are the institutions entrusted by the public to advance medical science, train the next generation of doctors, develop sophisticated life-saving techniques and technologies, and care for patients, including the underserved and the uninsured."

Yet government at the national and state levels has reduced its support and private payors has detached themselves from the responsibility to share the costs of academic medicine -- the educational costs and the cost of providing indigent care. Hence, UCSF

(more)

CF: UCSF/Stanford merger

is challenged to explore every opportunity to attract new patients and reduce costs to secure its future as a teaching institution.

"The distinctiveness of UCSF's contribution in Northern California flows from our commitment to educate health professionals," says Chancellor Joseph B. Martin. "Everything we do, everything we are known for, is done in support of educating the best possible new generation of health care providers."

The talks with Stanford are exploring the possibility of creating a new independent entity to administer the UCSF Medical Center, UCSF/Mount Zion, Stanford Health Services (which includes both the hospital and the clinics), Lucile Salter Packard Children's Hospital at Stanford, and the affiliated clinical practices of the full-time faculty at these locations. The affiliated San Francisco General Hospital and VA Medical Centers are not part of these discussions. The medical schools themselves would remain independent.

A Partnership Of Equals To Create A Premier Academic Health System

The preservation and continuation of the teaching mission into the 21st Century is driving efforts to find a way to collaborate in a significant way with neighboring Stanford. To do so, UCSF must assure its continued economic viability in a way that complements that mission. That can best be assured by combining forces with an institution with a similar academic culture.

Individually, the medical centers are now financially sound and internationally distinguished centers of excellence. A merger could create one of the country's premier academic health systems, providing highly specialized care to adults and children. Combining the individual strengths of the medical centers could improve the clinical and financial performance of patient care services as well as strengthen the teaching and research programs of the respective medical schools.

The medical centers are within 40 miles of each other. The new entity would be able to reduce administrative costs as well as capital investment. In a managed care-driven health care environment, an improved financial position leading to organizational stability is more likely to be achieved by combining forces than by attempting to go it alone. By combining rather than remaining separate, a new entity could

compete more effectively for patient volume from managed care plans, integrated delivery systems, and capitated medical groups.

"The decision to begin discussions with Stanford was not based solely on economics," says Haile T. Debas, dean of the School of Medicine. "The similarity of the institutions' basic missions and the excellence for which we are known suggests there is a strong strategic fit that would produce synergy and vitality in areas beyond patient care."

Combining in the clinical arena opens up the potential for additional joint ventures in education and research and increased linkages to biotechnology firms to assure that the findings of basic research lead to improvements in the prevention, diagnosis and treatment of disease. UCSF and Stanford have engaged in many research collaborations over the years.

Why Not Merge with Another UC Medical Center?

Health care delivery is local. Two-thirds of UCSF's patients come from this area, while the patients of other UC medical centers come from their geographic regions. Merging with another UC medical center would not deliver the critical mass of patients that is needed to compete successfully in the Bay Area and provide for the educational needs of the School of Medicine.

What Would a Merged Medical Center "Look Like?"

A new, not-for-profit company would be formed to operate the clinical facilities at their existing locations. The new organization would have its own management and governance structure. If the governing boards approve an agreement in principle, an independent transition board would be appointed to make decisions pertaining to programmatic, departmental and personnel policies. It is not likely that the new entity would be operational before the beginning of the next year.

What Has Been the Process Until Now? What Is the Process Going Forward?

Highly structured weekly meetings of the respective University and medical center administrators and medical school leaders, accompanied by

consultants, accountants and attorneys, have been taking place since early January. Key documents to be prepared include the articles of incorporation and bylaws for the new corporation, affiliation agreements between the two schools of medicine and the new corporation, and a professional services agreement between faculty, physician groups and the new entity. Much of the key business information is known only to third parties because UCSF and Stanford are still competitors and anti-trust regulations prohibit sharing this information with each other. An independent accounting firm is conducting a confidential examination of each organization's financial status, benefit structure, governance and administrative policies. The consultants are looking at what "fits" and presenting the leadership with issues that need to be resolved before discussions can move to the next stage.

Results of the ongoing discussions will be shared with The Regents and The Stanford Trustees over the next few months. Agreement of both boards would be necessary for a full merger. Following a formal agreement among the parties to merge, a number of steps need to be completed to consummate the merger, including regulatory body review to ensure the agreement does not violate anti-trust or other merger-related regulations.

Could the Proposed Merger Fall Through?

All parties are optimistic about the potential for a merger, and are working hard to make it happen. Nonetheless, many issues remain to be resolved, and there are difficult hurdles to overcome. For example, how would revenue generated by the new enterprise be allocated to support patient care and academic programs? Would the new organization retain state financial subsidies for teaching? How would assets be transferred to the new organization? These are just a few of the major issues.

When Will I Know How it Will Affect Me as a Member of the Medical Center Staff?

The detailed information about how this new arrangement would affect faculty and staff will not be known for several months. If a merger occurs, the new organization would set new employment terms for all of its employees. In doing so, it would likely consider terms which

are competitive in the local employment market, while also considering the terms and conditions of current UCSF, Stanford and Lucile Packard employees.

"While future employment decisions would be up to the new organization, and we cannot know the future, we emphatically believe that a combined organization would be in a stronger position to continue, over the long term, to provide competitive salaries, benefits, and jobs than either UCSF or Stanford would be by attempting to survive on its own in the new managed care environment," says Debas. The new organization would continue to operate clinical facilities in both San Francisco and Palo Alto, and, it is expected, would be able to attract an expanded patient population.

The status quo is not an alternative. "If we do nothing, we believe the academic medical center will slowly atrophy, more jobs will be lost, and the region will lose the extraordinary leadership and innovation in medicine provided by institutions like UCSF and Stanford," says Director Kerr.

What Are the Implications of a Merger for the Non-Medical Center Parts of the Campus?

Vice Chancellor of Administration Steve Barclay is looking at the potential impact on campus departments that currently provide services to the Medical Center.

Once the new entity is established, it is anticipated that it may also provide academic program opportunities for the Schools of Dentistry, Nursing and Pharmacy.

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FACTS AT A GLANCE

	UCSF	SHS	LPCH
Licensed Beds	925	663	156
Inpatient Admissions	25,477	23,370	5,069
Outpatient Visits	349,279	277,000	51,773

HISTORICAL MILESTONES

UCSF

- 1864 Hugh H. Toland starts the Toland Medical College in North Beach.
- 1873 Toland Medical College becomes the Medical Department of the University of California.
- 1906 UCSF sets up makeshift hospital on the Parnassus campus and in Golden Gate Park to care for those injured in the earthquake.
- 1970 The campus is renamed the University of California, San Francisco.
- 1990 UCSF Medical Center and Mount Zion Medical Center integrate.

STANFORD

- 1858 Medical school started in San Francisco as the medical department of the University of the Pacific.
- 1882 Cooper Medical College established by the faculty of Medical College of the Pacific.
- 1968 Palo Alto-Stanford Hospital Center purchased by Stanford University and incorporated as Stanford-University Hospital.
- 1982 Agreement signed with Children's Hospital at Stanford for consolidation of all pediatric services in the new Lucile Salter Packard Children's Hospital at Stanford.
- 1991 Lucile Salter Packard Children's Hospital at Stanford opened.
- 1994 Creation of Stanford Health Services through the merger of Stanford University Hospital and Stanford University Clinic.