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FOR YOUR INFORMATION
May 1, 1996

UCSF AND STANFORD DISCUSSIONS PROGRESS

The University of California San Francisco and Stanford University informed their employees last month that ongoing discussions have progressed to the point that the institutions are considering a possible merger of the UCSF Medical Center, Stanford Health Services, Lucile Packard Children's Hospital, and other clinical activities.

UCSF and Stanford announced in November 1995 that they had begun preliminary discussions about collaboration in patient care programs.

As the discussions continued, members of the UC Board of Regents and the Stanford Trustees have received briefings. Campus representatives also have met with labor union leaders and provided published updates for employees.

Under the proposal being explored by UCSF and Stanford, a new independent entity would be created to administer the merged medical clinical enterprise. Under the proposal, both institutions would transfer their medical centers and other properties of their clinical enterprises to a new nonprofit public benefit corporation.

Hospital and clinical care would continue to be delivered in San Francisco and Palo Alto and at other sites.

The two medical schools and their faculties would remain independent.

The primary goals of such an agreement would be to ensure strong medical education programs, provide cost effective health services, and improve community access to the latest advances in medical science.

Results of the ongoing discussions will be shared with The Regents and The Stanford Trustees over the next few months. If the Regents and the Trustees approve an agreement in principle, the new entity would make decisions about programmatic, departmental, and personnel policies. It is not likely that any new entity would be operational before the beginning of next year.

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TEXT OF ARTICLE IN UCSF NEWSBREAK/MEDSOUNDS
MAY 18-31, 1996

REGENTS CALL FOR MORE DISCUSSION ON MERGER

As Newsbreak went to press, a committee of the UC Regents called for more time to study the proposed merger between UCSF and Stanford.

At its May 15 meeting at Laurel Heights, the Health Services Committee of the UC Board of Regents called for a special meeting of the committee to address a number of questions related to legal and other issues. A meeting could be scheduled in the next several weeks.

After hearing from UCSF officials who outlined the merger proposal, the committee encouraged the campus to continue discussions with Stanford and expressed general support for the concept. However, committee members raised legal questions about the transfer of the Medical Center to a private, nonprofit corporation and said employees' concerns about layoffs, wages and retirement benefits still need to be addressed.

The proposed merger, which involves only the clinical enterprises at both institutions, would need to be approved by the Regents and by the Stanford Trustees as well.

In other action, the committee forwarded the proposal to execute a merger agreement between the UCSF Medical Group and the California Pacific Medical Group for the purposes of managed care contracting in San Francisco to the full Board of Regents for discussion at the May 17 meeting.

In an attempt to explain the economic realities behind the proposed merger with Stanford, and allay fears that the UCSF Medical Center is being "sold," Chancellor Joseph Martin, School of Medicine Dean Haile Debas and Medical Center Director Bill Kerr held a town-hall meeting on May 3 in the Millberry Union gymnasium.

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CF: UCSF/StanNBMay18

A standing-room only crowd of nearly 500 people heard a grim analysis of the impact of managed care, market forces and declining federal subsidies on teaching hospitals, which by definition, must secure an adequate patient base for the training of medical students and residents.

Securing this base has become increasingly difficult. Over the past five years, patient days at the Medical Center have declined 28 percent. There has been a 10-fold drop in operating gain as well, from $9.5 million in 1990 to just over $1 million last year. As Kerr explained, the "profit" represented by the operating gain allows UCSF to invest in new technology and facilities.

"If we do not invest in new technology and clinical programs, we will no longer attract the patients who come to us for state-of-the-art solutions to their health care problems," Kerr added. "The institution cannot survive for long as a break-even operation."

The proposed new corporation — to be headed by an independent transition board consisting of UCSF and Stanford representatives — would have the complicated task of weaving together new departmental and personnel policies and deciding program priorities that would affect not only UCSF's Parnassus-based hospitals and clinics, but also UCSF/Mount Zion, Stanford Health Services and the Lucile Salter Packard Children's Hospital. Because this process involves decisions about staffing levels, salaries, terms and conditions of employment, and the scope and functions of different departments and programs, it has sparked concern, and in some cases, alarm, among Medical Center employees.

Although respectful, some questioners remained skeptical of the merger process, the new corporation that would result, and the motives of those making the decisions. Union representatives were particularly critical, concerned as they are about the future of their bargaining contracts in a private corporation governed by the National Labor Relations Act and not the Higher Education Employer/Employee Relations Act.

The responses from Martin, Debas and Kerr — which they explained were sometimes constrained by the legal requirements surrounding the delicate negotiations — all echoed the same reality, that the continued financial health of the Medical Center was at stake and that any jobs lost or changed by a bold move now would offset the more painful cuts that could arise if UCSF tried to go it alone. Partnerships are the best reaction to the marketplace, Chancellor Martin asserted. Moreover, Martin reminded the audience, the

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proposed merger of two strong institutions creates "an extraordinary opportunity to create together the world's best academic health center."

Although the full impact of the proposed merger remains unclear, some points raised at the meeting bear repeating.

- The Medical Center is not being sold. Both Stanford and UCSF would transfer their medical enterprises to the new nonprofit public benefit corporation.
- SFGH and the VAMC are not part of the proposed merger. Both institutions will remain primary teaching sites for the UCSF medical school.
- The new corporation likely will have a new name. It will not be "newco," however. That is simply a working title which means new company or new corporation.
- A new corporation has to be created. The reason: the merger brings together a public and a private institution. A joint enterprise is impossible unless a third organization is created.
- The new corporation will make its own personnel decisions. But as Chancellor Martin stated, the proposed merger is intended to preserve excellence, not compromise it, and since both hospitals will remain open, staffing levels may not fluctuate far from current levels. The greater impact may come at the administrative levels where the need to create one structure and avoid duplication could result in substantial reductions in executive and management positions.
- The two medical schools will remain independent. Both will continue to enroll their own students.
- The new corporation will decide salaries and benefits.
- There is no decision as yet on retirement programs. UCSF's retirement plans are more generous than those of comparable hospitals in the community. Chancellor Martin, who described retirement benefits as one of the most important issues still to be resolved, explained that various options now are being considered that might mitigate the impact of differences between the UC Retirement Plan and those that most commonly exist elsewhere.
- There is no decision as yet about relocating existing services. The new corporation will have to decide what if any services will be moved from one location to another.

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- Some staff may be relocated. Who and how many is unknown. But considering that hospitals and outpatient practices will operate in both San Francisco and Palo Alto, staff will obviously be needed in both locations.
- The University General Counsel has advised that the Regents can approve the merger without the approval of the state Legislature. The California Constitution and the education code grant the Board of Regents statutory authority to enter into mergers, but UCSF is keeping public officials — including those in the Departments of Health and Human Services and Finance — informed of the progress of the talks.
- The decision about combing any clinical programs would be made in partnership with the faculties of both medical schools. The criteria that would guide any such decision have not yet been developed. And the hope is that by combining forces, the critical mass of talent assembled and the consequent reductions in duplication and expenses would make many programs stronger. The fact that the two facilities are 40 miles apart, and that they serve different markets, means that they will continue to operate in Palo Alto, San Francisco and other satellite locations. Over time, some smaller programs and services could be combined at one location or another. There are likely to be situations where physicians are the ones doing the traveling back and forth between locations. In the short-term, some of the most intense planning will be in pediatrics, where the two institutions complement each other, and where the advantages of collaboration for patients and students is most clear.

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