

MEETING OF THE BOARD OF TRUSTEES
OF THE
UNIVERSITY OF ILLINOIS
July 24, 2013

This meeting of the Board of Trustees of the University of Illinois was held in the Michèle M. Thompson Rooms A, B, and C, UIC Student Center West, 828 South Wolcott Avenue, Chicago campus, Chicago, Illinois, on Wednesday, July 24, 2013, beginning at 10:07 a.m.

Mr. Edward L. McMillan, chair *pro tem*, called the meeting to order and asked the secretary to call the roll. The following members of the Board were present:

Mr. Ricardo Estrada, Mr. Patrick J. Fitzgerald, Ms. Karen Hasara, Ms. Patricia Brown Holmes, Dr. Timothy N. Koritz, Mr. Edward L. McMillan, Mr. James D. Montgomery¹, Ms. Pamela B. Strobel. Mr. Christopher G. Kennedy and Governor Pat Quinn were absent. Mr. Michael A. Cunningham, voting student trustee from the Urbana campus, was present. The following nonvoting student trustees were present: Mr. Jamaal E. Hollins, Springfield campus; Ms. Danielle M. Leibowitz, Chicago campus. President Robert A. Easter was present.

¹ Mr. Montgomery arrived at 10:09 a.m.

Also present were the officers of the Board: Mr. Lester H. McKeever, Jr., treasurer; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Mr. Thomas R. Bearrows, University counsel; and Dr. Susan M. Kies, secretary. The following vice presidents of the University were in attendance: Dr. Phyllis M. Wise, chancellor, Urbana campus, and vice president, University of Illinois; Dr. Paula Allen-Meares, chancellor, Chicago campus, and vice president, University of Illinois; Dr. Susan J. Koch, chancellor, Springfield campus, and vice president, University of Illinois; and Dr. Christophe Pierre, vice president for academic affairs. In addition, the following persons were also in attendance: Ms. Marna K. Fuesting and Ms. C. Ellen Foran, assistant secretaries; and Ms. Julia L. Kuehn and Ms. Aubrie L. Williams, staff to the secretary.

Mr. Thomas P. Hardy, executive director for University relations, informed the Board that no members of the media were present.

OPENING REMARKS

Mr. McMillan welcomed everyone to the retreat and stated that the topic of discussion would be the clinical medical enterprise of the University of Illinois. He recognized the new student trustees and thanked them for attending the meeting. Mr. McMillan then asked Ms. Strobel to comment on the day's meeting. Ms. Strobel stated that the meeting would include focused discussions regarding the clinical medical enterprise and that the purpose was not strictly educational but rather to create a foundation of factual

information and knowledge of the environment for academic medical centers so that if and when decisions need to be made concerning the medical enterprise, the Board is starting from a solid understanding of the current situation. She encouraged the participants to ask questions and to be sure that Board members are not missing important aspects of this topic. Ms. Strobel then discussed the format of the retreat.

Ms. Strobel asked President Easter to provide remarks and to introduce the day's presenters. President Easter thanked Ms. Strobel and said that, in addition to the trustees and University officers in attendance, deans from the health colleges were also present. He stated that the retreat comes at a critical time in our history and referred to changing health care in the United States. Further, he said the presentations will inform the administration on how we go forward in the training of health-care professionals and delivery of health-care services. President Easter explained that he was inspired by a recent, positive letter he received from a patient. He read the letter aloud and encouraged retreat participants to keep the letter in mind as they focused discussions on four questions:

1. How do we leverage our strengths in education, research and clinical care to become an innovator in the changing health care environment, including new models of care delivery?
2. How do we ensure proper balance between the academic and clinical missions of an academic medical center?
3. How do we optimize services to our patient community?

4. How do we create the appropriate financial model to support the tripartite – teaching, research and clinical care – missions of the academic medical center?

President Easter then introduced each of the speakers for the retreat: Dr. Arthur H. Rubenstein, from the University of Pennsylvania, speaking on the academic medical center; Dr. Luis R. Muñoz, a community physician, speaking on the community expectations of our medical center and associated clinics; the Huron Consulting Group, including Mr. James H. Roth and Dr. Andrew A. Ziskind, speaking on the organizational structure of academic medical centers in the United States; and Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer) presenting the financial model.

PRESENTATIONS

Mr. McMillan welcomed Dr. Arthur H. Rubenstein and asked him to make his presentation (materials on file with the secretary). Dr. Rubenstein gave a presentation that began with an overview of his career experiences at the University of Chicago, Mount Sinai of New York, and the University of Pennsylvania. He discussed many different opportunities afforded to him and working to educate the next generation of physicians. Dr. Rubenstein went on to discuss different medical enterprise organizational structures and the importance of incorporating nursing, medicine, pharmacology, dentistry and other allied health groups. He discussed how patient care is at the heart of the medical enterprise and provided a case study of his time at the University of

Pennsylvania. In 2001, that academic medical center was experiencing a financial crisis and considered several possibilities to deal with the crisis, including selling the hospital or changing the structure of the hospital and medical school. Dr. Rubenstein discussed the necessity of alignment of the leadership to develop a unified agreement to make decisions effectively. Further, he stated that fighting over the structure of the enterprise was counterproductive, and external challenges must be the focus. At the time, University of Pennsylvania staff worked to discover the best structure to achieve goals and stated everyone in the enterprise must focus on the institutional goals. The staff also developed an incentive plan where salaries were based on success and held regular meetings to define the goals, building a team approach. Dr. Rubenstein stated that staff were able to change the culture and made everyone feel they were a part of the whole system, which was an important component for the University of Illinois to develop as well. Dr. Rubenstein also reiterated the importance of not spending time in arguments. He also stated that faculty must be informed about the importance of finances and must understand the hierarchy of dollar-generating components (from highest generators to lowest) in clinical revenue, which are used to support the other missions of the medical enterprise; revenue from research; tuition; philanthropy; endowment; and State funding.

Dr. Rubenstein stressed that clinical operations are the most lucrative of these components, and those operations must be successful. He explained that Medicaid pays less than the costs of the hospital in terms of direct and indirect costs, and private insurance is the margin that allows the enterprise to do other things. There are costs for

research, which Dr. Rubenstein explained is underfunded by 20 percent to 30 percent. Next, teaching costs are not covered by tuition, where there is a 20-percent to 30-percent deficit. The research and education components run in deficit, and all deficits are made up by clinical work and State dollars. The flow of dollars must be presented to faculty as a transparent formula. Faculty should be reminded of simple things to ensure success: must maintain revenues greater than expenses; must maintain the physical assets; and must maintain the financial assets.

Dr. Rubenstein then discussed the Affordable Care Act (ACA). He explained that of the wealthiest countries, the United States spends a far greater amount on health care for individuals; however, Americans do not live longer than citizens of other countries. He stated that the ACA will attempt to encourage the country to spend less money for greater value, shifting accountability to providers. Further, he explained that Medicare is already instituting this process, and the current fee for service structure will be based on bundling services so that all members of the health-care team work together to care for a patient and will provide a greater organization of care to the individual.

Dr. Rubenstein closed his discussion with the suggestion of quality changes developed by the University of Pennsylvania that could be duplicated at the University of Illinois. These include establishing a close link between nurses, physicians, management to reinforce high-value care; develop health-information technology to support this

process and assist in communication; make evidence-based practice decisions; and establish teams to work together to provide care to patients.

At 10:55 a.m., Mr. McMillan introduced Dr. Luis R. Muñoz and asked him to come forward to make his presentation (materials on file with the secretary). Dr. Muñoz thanked the Board for inviting him to speak. He stated that health care is the number one issue for those in the low-income, under-employed and under-insured communities. Dr. Muñoz discussed the growth of minority communities, including examples within the Hispanic and African-American communities. He cited demographics and pointed out the growth of the Hispanic community in the State of Illinois. He also pointed out that the Hispanic community is young, with a mean age of 27 years old. Dr. Muñoz stressed the importance of supporting the underrepresented groups and providing educational opportunities and role models for minority students.

At 11:10 a.m. Mr. McMillan invited the Huron Consulting Group to come forward to make their presentation (materials on file with the secretary). Mr. James H. Roth, chief executive officer and president, provided an introduction and overall summary to the activities of Huron with the University since the spring of 2013. Mr. Roth introduced Dr. Andrew A. Ziskind. Dr. Ziskind introduced himself as a cardiologist and expanded on Mr. Roth's presentation. Dr. Ziskind explained that he would be discussing various successful organizational models for academic medical enterprises and would explain strengths and weaknesses of each to provide context as the University moves forward on these decisions.

Dr. Ziskind explained that academic medical centers are experiencing decreased medical reimbursements, and this creates a different climate as medical enterprises change and transform to this new environment. He explained that the key issue of his presentation was to find the optimal organizational and governance structure that will position the University of Illinois health-care enterprise for future success in patient care, academics and research. Dr. Ziskind discussed five primary academic health center organizational structures and stated each had strengths and weaknesses. The five structures included: 1) independent model; 2) academic affiliation; 3) hospital affiliation; 4) practice plan affiliation; and 5) integrated model.

Dr. Ziskind explained that the independent model and the practice plan affiliation were not the best fit for the University. Thus, he focused his discussion on the other models, commenting on their strengths and weaknesses. Dr. Ziskind explained that there is a growing trend toward the unified organizational leadership across hospital, medical school and faculty components so that strategy and resource allocation can be aligned and efficiently managed. He did caution that the culture of collaboration among the academic health center leaders is more important than the structure itself in terms of overall organizational effectiveness, and stated that there are successful institutions in all governance models.

Dr. Ziskind went on to discuss immediate issues that must be addressed by the University. These include clarifying the organizational and leadership alignment, as a lack of clarity in these areas has led to significant inefficiency and the current transition

in leadership provides an opportunity to address this issue and re-establish organizational stability and positive momentum. Further, Dr. Ziskind explained that the University needs to establish an integrated and collaborative process with the University and campus leadership in determining future organizational structure; clearly articulate roles and responsibilities; recruit a new health-enterprise leader; and develop an economically viable health-enterprise vision and strategy. He provided a strategic decision-making tool with a variety of organizational options and explained key advantages and key challenges. Dr. Ziskind then summarized the next steps for the University, which included: establish interim stabilization; identification of interim organization leadership; determination of the desired organizational model that clarifies roles, responsibilities and reporting relationships; clarification of funds; and establishment of a timeline and process to move the organization forward. He also commented that time is of the essence given market pressures.

At 11:51 a.m., Mr. McMillan thanked Dr. Ziskind for his presentation and asked Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer), to present his information regarding the medical enterprise financial model (materials on file with the secretary). Mr. Knorr began his presentation by providing an overview of the University of Illinois Hospital and Health Sciences System corporate structure. He explained all the components, including the University of Illinois Hospital, the College of Medicine, the Outpatient Care Center, and Mile Square Health Center. Mr. Knorr discussed statistics related to patient services and discussed the industry challenges and

opportunities. His discussion regarding revenues into the medical enterprise began with data on enrollment and rising tuition at the College of Medicine. He discussed medical center patient service revenue and operating income, which has fallen sharply over the last three years. He also discussed medical center days cash-on-hand, which has also fallen, but will rebound, according to Mr. Knorr, when the State pays the Medicaid reimbursement dollars. Mr. Knorr discussed the self-insurance plan, which reflects costs that have gone down annually due to improvements in patient safety; the disclosure and rapid settlement program; the positive litigation management; and dropping commercial insurance premiums. He also discussed the projected 2013 performance, which included revenue; and subtracted operating expenses to determine the operating income, which he expects will be \$20.5 million at the end of Fiscal Year 2013.

Mr. Knorr explained key metrics regarding average daily census, which has also dropped over the last year; patient length of stay coupled with admissions; patient days; deliveries; and patient visits.

These presentations were followed by a round of applause.

At 12:15 p.m., Mr. McMillan suggested that the Board take a short break. The meeting resumed at 12:30 p.m., with all Board members previously recorded as being present in attendance. Mr. McMillan asked the health sciences deans to come to the podium and answer the following question, “What is the greatest challenge that your college will face in the new health care environment and how will you address it?”

First, Dr. Jerry L. Bauman, dean of the College of Pharmacy, addressed the retreat by stating his concerns regarding “how pharmacists are paid.” Dr. Bauman explained that pharmacists are currently paid according to the profitability of the drugs dispensed. He stated this will be changed under the ACA, which he anticipates will provide a unique model to pharmacists that will be continually challenged. Dr. Bauman also stated that there are many opportunities for clinical pharmacists.

Dr. Dimitri T. Azar, dean of the College of Medicine, discussed the risk of not responding to the opportunities that are ahead with the ACA and the number of patients added to the system. He believes there will be an expansion of Medicaid, but there is a risk of not partaking in increasing the volume to value-based practice. Dr. Azar see this challenge as a balancing act and is concerned that graduate medical education will be reduced and graduate medical education caps will affect the training and hospital. He expressed concern that the National Institutes of Health (NIH) grant portfolio will be limited for research. Dr. Azar commented that there will be pressure on clinical revenues, and this may have a negative effect on the academic mission. He stated that ways to stabilize the situation must be developed.

Dr. Bo Fernhall, dean of the College of Applied Health Sciences, was stated that he is concerned about his college’s ability to become part of the integrated health-care team. He commented on the faculty levels in occupational and physical therapy and feels the faculty practice must be started to generate funds.

Dr. Bruce Graham, dean of the College of Dentistry, discussed the financial risks for his college. He commented that the college provides care for thousands of Medicaid patient visits in a poor reimbursement environment, and provided statistics on fee structures and reimbursement rates. Dr. Graham discussed the possible expansion of the post-graduate programs and the quality of care those students provide patients, which could make up in volume what is being lost in reimbursement.

Dr. Terri E. Weaver, dean of the College of Nursing, discussed the limitations for nurses to be paid for services. She stated that health care is moving out of the hospital and will be centered in the community, and that nurses provide great quality care and need to get the recognition they deserve. Dr. Weaver also commented that there will not be enough nurses to meet the needs in the future.

Mr. McMillan commented that the University must find a way to make this difficult challenge work and must serve the community of mankind. He then provided direction to the participants to break into the afternoon groups. At this point, the meeting was in recess at 12:57 p.m.

The Board meeting resumed at 3:32 p.m., with all Board members previously recorded as present in attendance. Mr. McMillan explained that the scribe trustees from each group would now report on the discussions held during the breakout sessions. These summaries were also added to slides that were projected throughout the session (materials on file with the secretary).

The following individuals had been selected to record and provide a summary of the discussions that were held in groups during the breakout sessions: Mr. Estrada; Mr. Montgomery; and Mr. Fitzgerald. These individuals provided summaries of their group's responses to the questions listed above.

Mr. McMillan asked Ms. Strobel if she had any comments. She thanked President Easter and the trustees for coordinating the retreat and stated that there was more to come, as the retreat provided a sense of urgency regarding the tremendous opportunity ahead of us. Ms. Strobel expressed that she was looking forward to continuing to move this forward. President Easter commented that this is an historic opportunity to make positive changes and become the leader in health care in the new ACA environment. President Easter stated that we will move the discussion to the University Healthcare System committee and produce a time frame of activities.

Mr. McMillan thanked everyone for their participation in the retreat and thanked Dr. Rubenstein for his presentation, as he felt it was a great motivation to the University.

MOTION TO ADJOURN

With no additional questions or comments, Mr. McMillan asked for a motion to adjourn the meeting. On motion of Ms. Holmes, seconded by Mr. Montgomery, the meeting adjourned at 4:07 p.m. There were no "nay" votes.

SUSAN M. KIES
Secretary

EDWARD L. McMILLAN
Chair pro tem