

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE HEALTH AFFAIRS COMMITTEE

January 28, 2013
Nashville, Tennessee

The Health Affairs Committee of The University of Tennessee Board of Trustees met at 1:00 p.m. CST on Monday, January 28, 2013, in the offices of Bradley Arant Boult Cummings in Nashville, Tennessee.

I. CALL TO ORDER

Charles C. Anderson, Chair, called the meeting to order.

II. ROLL CALL

Steve J. Schwab, Chancellor of UTHSC, called the roll, and the following members of the Health Affairs Committee were present:

Charles C. Anderson, Jr.
Joseph A. DiPietro
D. Crawford Gallimore
Monice M. Hagler
David E. Millhorn
James L. Murphy, III
Don C. Stansberry, Jr.

Chancellor Schwab announced the presence of a quorum of the Committee. Other Trustees and members of the administrative staff were also present.

III. MINUTES OF LAST MEETING

Chair Anderson asked for any corrections to the minutes of the November 8, 2012 meeting of the Committee. Trustee Stansberry moved approval of the minutes as presented in the meeting materials. Trustee Murphy seconded the motion, and it carried unanimously.

IV. FINANCIAL REVIEW OF UT MEDICAL GROUP (UTMG) AND UT LE BONHEUR PEDIATRIC SPECIALISTS (ULPS)

Tony Ferrara, Vice Chancellor for Finance and Operations at UTHSC, presented the financial reviews of UTMG and ULPS for the period ending December 30, 2012 (Exhibit 1).

Concerning UTMG, Mr. Ferrara discussed operational variances, including physicians' start-up costs, and loss of current physicians. He also discussed the transition of the Vascular Access Center and its role in leading to a net profit. UTMG's totals for the period were under budget, although increases were experienced due to the rising costs of health insurance plans, external legal counsel and closing of the Imaging Center.

Mr. Ferrara then presented UTMG's consolidated balance sheet for December 2013 and June 2012, for a 6-month financial comparison. A Trustee asked about the long-term debt. Mr. Ferrara responded that debt is primarily for the building in Germantown, Tennessee.

Mr. Ferrara continued with the current financial status of ULPS. ULPS experienced good physician revenue and below budget in contracted revenue. On the expense side, savings were achieved in the delay of new physician hiring, facility cost and other miscellaneous savings. He presented the ULPS consolidated balance sheet for December 2012 and July 2012, showing financial stability.

Chancellor Schwab commented on the progress of both practice plans, noting they are on target with strategic planning for continued success.

V. UPDATE ON UT METHODIST PHYSICIANS, PHASE 2

Mr. Ferrara presented an update on negotiations for Phase 2 of UT-Methodist Physicians (UTMP) (Exhibit 2).

He reported that the agreement of the parties will be incorporated into an amendment to the existing affiliation agreement and will require cooperation between UT and Methodist in recruitment of healthcare professionals, as well as, physician transition from existing practice plans. UTMP will consist of several areas of specialty, such as cardiology, endocrinology, internal medicine, nephrology, urology and transplant surgery.

Mr. Ferrara said the practice plan will allow the UT-COM Executive Dean and Methodist CEO to appoint University faculty as physician service line leaders who will be employed by UTMP and UTCOM. In response to a Trustee question, Dr. Schwab highlighted the benefits of these physician leader positions, including the success and collaboration of the hospital and academic component within various areas.

Mr. Ferrara continued the presentation with information on the base programmatic investment payment Methodist will make to UT College of Medicine and the possibility of an additional payment measured on financial performance. He also noted that the Methodist Board of Directors has been realigned to include three UT representatives, the Chancellor, College of Medicine Executive Dean, a member of the Board of Trustees, and the possibility of physicians as members of the Board of Directors. The General Counsel asked what the bylaws of Methodist provide as to how appointment of a UT Trustee is to be made, and Mr. Ferrara said he would provide the General Counsel with a copy of the Methodist bylaws.

Mr. Ferrara noted that a UT physician mutually agreed on by UT and Methodist will serve as the Methodist Executive Vice President for Medical Affairs. Executive Dean Dr. Stern is currently serving in that position. Trustee Stansberry asked whether any UT member of the Methodist Board of Directors is being compensated by Methodist. Chancellor Schwab responded that Methodist will not be compensating the UT members of the Board of Directors.

Mr. Ferrara continued to present information on co-branding policies with Methodist and UT, as well as, guidelines on clinical research coordination. The amendment shall be effective July 1, 2013 and remain effective unless terminated in accordance with the terms of the amendment.

VI. UPDATE ON UT-MED PRATICE PLAN

Dr. Schwab began with opening remarks introducing Dr. Stern and Dr. Brown and their efforts in the planning and execution of the practice plan with the MED. Dr. Stern began the presentation (Exhibit 3) on the process of creating a practice plan with the MED and the recent signing of a non-binding memorandum of understating.

He further discussed the goals of the joint venture and the core objectives that will enable UT and the MED to function in an integrated and aligned manner, thus responding to the market focus and national trends by combining resources of both facilities. He also discussed the organizational structure and its

formation of the UT-MED Associates (UTMA). UTMA will be jointly governed by UT and the MED, with the board consisting of equal number of representatives from UT and the MED.

Dr. Stern continued to discuss the financial and budget agreement between UT and the practice infrastructure, including the management service organization (MSO). Trustee Hagler asked for clarification concerning the ownership of the MSO. Dr. Stern replied that the MSO will be jointly owned by all the hospital partners. The presentation continued with information regarding the academic affiliation agreement and graduate medical education at the MED.

Dr. Stern addressed the steps in which the MED is seeking an amendment to allow the UTHSC Chancellor to appoint two voting members to the MED board, which required approval from the current MED board and Shelby County Mayor.

Dr. Brown directed the presentation on the proposal for the Women's and Infant's Tower, explaining that UTHSC would be seeking funding in 2014 outside the capital budget process. The Tower will be built on UT property sitting adjacent to the MED. The affiliation agreement between UT and the MED will promote joint oversight and governance of programs within the Tower, such as neonatology, obstetrics and gynecology, in addition to a joint relationship with Le Bonheur Children's Hospital. The development of a charter, bylaws and physician employment agreement will be developed by UT and the MED.

Dr. Brown emphasized the significance the tower will have on the infant mortality rates in West Tennessee and the continued progress from both organizations in developing a program statement.

Trustee Cates asked whether the proposal would lead to downsizing of burn and trauma units of the MED into a smaller, modern hospital facility. Dr. Brown replied that the burn unit at the MED will experience substantial growth with the guidance of Dr. Stern and the team he is recruiting. He also explained the role the Women and Infant Tower will serve with no foreseen competition with other hospital partners.

Trustee Stansberry raised concern about the risk of the MED investing in other service lines leading to conflict with other hospital partners. Dr. Schwab said he is confident UTHSC can manage the conflicts, given that UTHSC has the physicians and will have voting rights on the MED board. Dr. Stern also added the importance of UT continually communicating with all hospital partner CEOs.

Trustee Hagler asked whether the UT-MED practice plan would have to go before the Shelby County Commission for approval. Dr. Schwab responded that the only required approval beyond the MED board is the Mayor's approval of adding UT members to the MED board.

VII. REVISION OF COMMITTEE CHARTER CONCERNING COMPOSITION OF THE COMMITTEE

Secretary Catherine Mizell reported that the Trusteeship Committee has approved a proposed Bylaw amendment allowing the Vice Chair to appoint an at-large voting Trustee with professional or business expertise beneficial to the committee as a member of the Health Affairs Committee. The proposed revision of the Health Affairs Committee Charter simply conforms the Charter to the Bylaw amendment.

Trustee Stansberry moved that the proposed revision of the Health Affairs Charter be recommended to the Board of Trustees for approval (Exhibit 4). Trustee Hagler seconded the motion, and it carried unanimously.

VIII. OTHER BUSINESS

The Chair called for any other business to come before the Committee. There was none.

IX. ADJOURNMENT

There being no further business to come before the Health Affairs Committee, the meeting was adjourned.

Respectfully Submitted,



Steve J. Schwab, MD
Chancellor, UT Health Science Center



Charles M. Peccolo
Treasurer and Chief Financial Officer