

THE UNIVERSITY OF TENNESSEE  
BOARD OF TRUSTEES

MINUTES OF THE HEALTH AFFAIRS COMMITTEE

September 5, 2013  
Nashville, Tennessee

The Health Affairs Committee of The University of Tennessee Board of Trustees met at 11:00 a.m. CDT on Thursday, September 5, 2013, at the Ellington Agricultural Center 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.  
George E. Cates  
Joseph A. DiPietro  
J. Brian Ferguson  
D. Crawford Gallimore  
Vicky B. Gregg  
David E. Millhorn  
James L. Murphy, III  
Don C. Stansberry, Jr.

Chancellor Schwab announced the presence of a quorum of the Committee. Trustee Gregg participated by telephone. The Secretary explained that the requirements she described in the recently completed Executive and Compensation meeting apply to Trustee Gregg's participation in the meeting by telephone. 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 May 13, 2013 meeting of the Committee. Trustee Cates moved approval of the minutes as

presented in the meeting materials. The motion was seconded, Dr. Schwab conducted a roll call vote, and the motion carried unanimously.

#### **IV. REPORT FROM THE CHANCELLOR**

Chancellor Schwab summarized his team's goals for the future, including the importance of clinical practice, the relationship with core teaching hospitals, and the academic payments the University receives from the teaching hospitals (Exhibit 1).

#### **V. FY 2013 FINANCIAL REVIEW OF FACULTY PRACTICE PLANS IN MEMPHIS, UT MEDICAL GROUP AND UT LE BONHEUR PEDIATRIC SPECIALISTS**

Dr. David Stern, Executive Dean of the College of Medicine, introduced this item by noting that reimbursements are decreasing and that transitions within UTMG result in a less than positive picture on the face of the UTMG financials. Vice Chancellor for Finance and Operations, Tony Ferrara, then presented the financial review of UTMG and ULPS (Exhibit 2). He highlighted UTMG operational changes during fiscal year 2013, including the closing of the Imaging Center in Germantown, the new dermatopathology lab, and significant physician turnover associated with newly formed aligned faculty practices. Mr. Ferrara continued with the consolidated balance sheet of June 2012 and June 2013 and highlighted the upcoming budget for fiscal year 2014. President DiPietro asked how the budget for 2012 compared to the budget for 2013, and Mr. Ferrara responded that the 2013 operating loss was approximately \$500,000, and he believed it was approximately \$2 million positive in 2012. Chancellor Schwab said this was partially due to the loss of ancillaries, and because the independent multi-specialty group is transitioning to new hospital aligned practices. He reminded the committee that the plan is to spin UTMG down to only the non-aligned physicians. In response to Vice Chair Ferguson's request, Dr. Stern said he expects operations to return to the black within 18 months. Dr. Schwab added that the shortfall in the budget is being covered by UTMG reserves.

Trustee Gregg asked for more information on moving the physician practices to other organizations. Chancellor Schwab responded that 50-60 physicians moved to UT Methodist Physicians (UTMP) on September 1, 2013, and approximately 100 physicians would move to a proposed new practice plan in conjunction with the Regional Medical Center. The remaining physicians would stay with the original entity, which would be reformed as UT Affiliated Physicians. Trustee Gregg asked what changes with these moves would lead to more profitability. Dr. Schwab responded that the physicians will be aligned as a hospital service

line, and UT will receive a fixed guaranteed payment with no liability.

Mr. Ferrara continued with the 2014 proposed budget for UTMG, reiterating that UTMG will experience significant transitions with the formation of UTMP, practice plan with the MED, and cost factors within the central business office, but UTMG reserves will cover the expected losses.

Mr. Ferrara proceeded to present a financial review of UT Le Bonheur Pediatric Specialists (ULPS), which was implemented in 2011. Dr. Stern pointed out that although ULPS has a huge deficit, the physicians are pushing patients through Le Bonheur Hospital, so the hospital is happy to support the physicians. A discussion ensued regarding a comparison of the fixed payment amount and the amount of the ULPS deficit. Trustee Gregg asked what kind of compliance reviews are in place to ensure that affiliations with teaching hospitals are in compliance with federal laws and regulations. Chancellor Schwab responded that all affiliation agreements are reviewed by internal and external counsel, and a UT official serves on the board of every practice group. These officials are neither paid by nor have any direct relationship with the practice. All of the practice plans are audited annually, and the President receives audited financial statements each year. In response to Trustee Gregg's questions about whether the practice plans have a designated compliance officer and a full compliance program in place, and whether the Health Affairs Committee receives a certification of compliance, Executive Vice Chancellor Brown responded that UTMG has a full compliance program and that each hospital has a full compliance program that provides compliance oversight of its affiliated practice plan. Chancellor Schwab offered to report back to the Board after consulting with counsel, and Chair Anderson concurred. Trustee Murphy requested a comprehensive report of all the practice plan pieces to allow the Committee to see the big picture.

## **VI. UTMP PHASE II IMPLEMENTATION UPDATE**

Dr. Stern and Mr. Ferrara presented an update on UTMP Phase II, which was implemented on September 1, 2013 (Exhibit 3). Mr. Ferrara began with a review of the items presented to the committee from February 2012 to August 2013 and then reviewed the terms of the Fourth Amendment to the 2009 Addendum A to the Amended and Restated Master Affiliation Agreement with Methodist Le Bonheur Healthcare. Dr. Stern then gave an update on UTMP implementation progress and addressed physician recruitment efforts.

## **VII. UT MED PRACTICE PLAN UPDATE**

Executive Vice Chancellor Brown reported that the proposed academic payment from the MED is in negotiation at the range of \$3-5 million. UT and MED leadership have visited women's and infant's facilities and have presented findings to President DiPietro and CFO Peccolo. The Health Science Center's desire is to request state funding of \$200-250 million outside the capital budget process to build The University of Tennessee Women's and Infant's Pavilion at the Regional Medical Center. Infant mortality and women's health continue to be huge problems in Memphis, and UTHSC administration feels an obligation in line with the Governor's health initiatives to address these issues for the people of the state. The Pavilion's CEO would be a UT employee reporting to Chancellor Schwab, and operational staff would be employed by MED. The city and county are receptive to the plan. Dr. DiPietro stated his concern regarding this large request for state funding. Dr. Brown responded regarding the positive impact analysis and return on investment. Dr. DiPietro asked to review the analysis soon. Trustee Stansberry asked whether the key for the University is building ownership or simply administrative and operational oversight. Dr. Brown said ownership is key to the success of neonatology. Chancellor Schwab recommended this item be on the agenda for the next meeting of the Committee.

Dr. Brown closed by noting that the Health Science Center is moving forward with the practice plan and affiliation agreement discussions with Erlanger in Chattanooga. He said he anticipates an academic payment from Erlanger at some point.

## **VIII. SETTING TWO REGULAR HEALTH AFFAIRS COMMITTEE MEETING DATES IN 2014**

Trustee Murphy moved that the proposed dates of January 17 and May 13, 2014 be approved for the first two Health Affairs Committee meetings in 2014. The motion was seconded by Trustee Cates, Chancellor Schwab conducted a roll call vote, and the motion carried unanimously.

## **IX. OTHER BUSINESS**

No other business was brought before the Committee for action.

## **X. ADJOURNMENT**

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

Respectfully Submitted,



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



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Charles M. Peccolo  
Treasurer and Chief Financial Officer