

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE HEALTH AFFAIRS COMMITTEE

December 7, 2015
Nashville, Tennessee

The Health Affairs Committee of The University of Tennessee Board of Trustees met at 1:00 p.m. CST on Monday, December 7, 2015, in the offices of Bradley Arant Boult Cummings, 1600 Division Street, in Nashville, Tennessee.

I. CALL TO ORDER

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

II. ROLL CALL

The Secretary called the roll, and the following members of the Health Affairs Committee were present at the meeting location or by telephone:

Charles C. Anderson, Jr., Chair
George E. Cates (by telephone)
Joseph A. DiPietro (non-voting)
Spruell Driver, Jr.
D. Crawford Gallimore
Vicky B. Gregg (by telephone)
David Millhorn (non-voting)
James L. Murphy, III

The Secretary announced the presence of a quorum at the meeting location. Vice Chair Raja Jubran was unable to attend. Chancellor Schwab participated in the meeting by telephone. Other Trustees and members of the administrative staff were present.

The Secretary noted the requirements for meetings conducted with members participating by telephone, including the requirement that all votes be conducted

by a roll call. Trustee Cates, Trustee Gregg, and Chancellor Schwab acknowledged that no one else was present at their respective locations.

III. MINUTES OF THE LAST MEETING

Chair Anderson asked for any corrections to the minutes of the September 9, 2015 meeting of the Committee. Trustee Cates moved approval of the minutes as presented in the meeting materials. Trustee Gallimore seconded the motion, and a roll call vote was taken. The motion carried unanimously.

IV. CHANCELLOR'S REPORT: OVERVIEW OF PRACTICE GROUPS AND PLANS FOR FUTURE EXPANSION

Because of his unexpected need to participate in the meeting by telephone, Chancellor Schwab explained that Dr. Kennard Brown, Executive Vice Chancellor and Chief Operations Officer for UTHSC, would lead the Committee through the PowerPoint presentation in the meeting materials (Exhibit 1).

Dr. Brown provided an overview of the clinical practice groups and plans for future expansion. He described UTHSC's presence in Memphis, Knoxville, Chattanooga and Nashville and current expansion plans for each city. He reviewed UTHSC's financial strategy, explaining that due to the level of state appropriations, the focus has been on clinical revenue, sponsored programs (research, contracts, commercialization), and philanthropy.

Dr. Brown described commercialization efforts around two facilities, the Regional Biocontainment Laboratory and the Plough Center for Sterile Drug Delivery Systems. The Regional Biocontainment Laboratory has been operative for 7-8 years and is a \$25 million NIH funded project with a robust select agent portfolio (West Nile, SARS, N1HI, and a number of strains of different viruses), with the focus being on toxins. Dr. Brown said the facility is pursuing many of government projects as well as the commercial pharmaceutical market to drive commercial business. The Plough Center is a \$16 million dollar pharmaceutical manufacturing facility that began with a \$5 million gift from the Plough Foundation. Dr. Brown said there are similar pharmaceutical facilities at the University of Kentucky and University of Iowa that have been operative for a significant amount of time with more business than they can accommodate. Dr. Brown said he anticipates having the facility commissioned by the FDA within the next few months and production to begin by the first quarter of next year.

Turning to clinical activity, Dr. Brown reported a relatively significant increase in physician productivity across the practice plans and proceeded to describe operational highlights for each of the current physician practice plans (UT-Regional One Physicians, UT-Methodist Physicians, UT-West Cancer Center, UT-LeBonheur Pediatric Specialists, and UT Medical Group). He noted that UTMG will be rebranded as University Clinical Health and will provide an opportunity to create independent innovative enterprises such as dialysis units, infusion centers, surgery centers, laboratory and pathology services, as well as hospital spanning services (pathology, ER, vascular). He next described future opportunities with legacy faculty practice groups (Semmes-Murphey Clinic and Campbell Clinic), UT-Erlanger Physicians (expected to be operative in 2016), and UT-St. Thomas Physicians (under preliminary discussions). Concerning the UT Medical Center in Knoxville, Dr. Brown explained that it operates under a 1999 Master Affiliation and Lease Agreement and that an updated agreement will be needed in the future.

Dr. Brown reviewed prior year mission support payments and projected payments totally \$35 million for 2016. He explained that mission support payments come to UTHSC with caveats and conditions for their use for the benefit of UTHSC, and as practice plans expand, mission support payments are expected to continue to grow. Trustee Driver commented on the projected \$17 million exponential growth from 2015 and asked whether that would be expected to return to more linear growth. Chancellor Schwab responded that the projected growth was attributable to UTMG's aggressive expansion strategy, and he expects to see some continued exponential growth in mission support payments with continued expansion of UTMG and new practice plans.

V. UPDATE ON GOOD MANUFACTURING PRACTICE (GMP) FACILITY FOR DRUG DEVELOPMENT AND PRODUCTION

Dr. Brown explained that the Plough Center Good Manufacturing Process Facility is an aseptic facility designed for the practicum of clinical trial materials through phase two volumes, as well as periodic training. This project will be designed to meet the Food and Drug Administration (FDA) and European Union (EMA) current good manufacturing practices for the manufacturing of aseptic, lyophilized parenterals. He expects the facility to be fully commissioned by the FDA in mid-2016. Dr. Brown discussed the huge market for phase one and phase two clinical trial drugs and current interest in the facility.

Chancellor Schwab added that UTHSC has moved aggressively to diversify revenue options, and these commercialization efforts will provide strong revenue sources for UTHSC complementing the sponsored program and clinical enterprise revenue. He complimented Dr. Brown on his excellent leadership of these commercialization efforts. In response to a question from Chair Anderson, Dr. Brown discussed the start-up costs and projected first year revenues. He also mentioned ancillary revenue sources such as providing specific classes on aseptic manufacturing and compounding for pharmaceutical company employees.

VI. FINANCIAL REPORT ON UT MEDICAL GROUP (UTMG)

Chancellor Schwab reported that UTMG weathered many challenges in the past, including reduction of employed physicians, outdated benefits and compensation models, converting to Nextgen EMR, and other challenges. He said UTMG is now evolving into a consistent revenue source. He asked Vice Chancellor Tony Ferrara to present the report on UTMG's financial performance (Exhibit 2). Vice Chancellor Ferrara discussed UTMG's highlighted challenges, strategic initiatives, performance on financial goals through the first half of 2015, and financial outlook for the second half of 2015. He reported that UTMG is expected to end calendar year 2015 with a net income of \$1,748,678, compared to a net loss of \$6,658,407 for calendar year 2014.

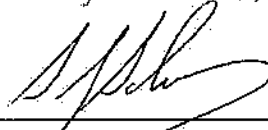
VII. OTHER BUSINESS

There was no other business to come before the Committee.

VIII. ADJOURNMENT

There being no other business to come before the Committee, the meeting was adjourned.

Respectfully Submitted,



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