From: UCSF-GME
Subject: From the CEO: UCSF Medical Center and the Economic Environment
Date: Monday, December 22, 2008 9:40:22 AM

Dear Colleagues:

Last week I wrote to you about the current economic climate and how we expect it to affect UCSF Medical Center this year and in the coming years. Today I will outline some of the actions we plan to take to ensure that we prevail over the conditions that are pressuring us, and emerge from this extraordinary period stronger than ever.

Let me summarize the situation we face. As I stated last week, I am optimistic that we can achieve our financial goals for this current year. However, because we are operating at capacity, it is no longer possible simply to add more beds in order to increase revenue. That fact combined with significant new expenses, particularly for pension contributions, means it will be difficult to achieve our financial goals in the coming years. We estimate we need to reduce expenses by approximately 3%, or $35 million, and reduce our capital expenditures by $10 million in the coming year.

At the same time, I remain committed to implementing several long-term projects in our strategic plan. At the top of our immediate "to-do" list are the completion of the UCare electronic medical record project, meeting UC and UCSF quality and safety objectives, and continuing to elevate patient satisfaction. In addition to that, we must continue to improve efficiency, meaning seeing more patients with the beds and other resources we have. We must also continue to plan for new ways to deliver medical care that is both more efficient and effective in meeting the needs of our patients. And it is very important to continue positioning ourselves financially to build a new children's, women's and cancer hospital at Mission Bay by 2014.

Each of these projects is a strategic investment in our future, and it will require great effort and innovation to ensure that we can afford them. Over the next several months, we intend to carry out several actions to help us achieve the financial performance that will make them possible. These actions fall in the following categories:

Capital Project Review and Deferrals. We have invested approximately $100 million each of the past several years in renewing UCSF Medical Center, by developing new ambulatory space, purchasing new equipment, adding new beds, developing IT systems and more. We have an extensive list of additional projects that we want to carry out at Parnassus, Mount Zion and elsewhere – projects that have a strong business rationale and would help us achieve our broader goals. However, as we consider an environment where our future financial performance may be weaker than it has been in the past, we will likely need to defer some or

many of these projects.

Strict Review of FTEs and Non-Clinical FTE Hiring Freeze. At UCSF Medical Center, the average cost of one full time equivalent employee, or FTE, is approximately $100,000, including salary and all benefits. Our 5,900 FTEs is a large number relative to peers nationally when measured as FTE per bed (even accounting for the complexity of our patients). There are some legitimate reasons for this – our split inpatient operations at Parnassus and Mount Zion, for example. In recent months we have improved our FTE-to-bed ratio as a result of an initiative we implemented to have COO Tomi Ryba and CFO Ken Jones review every new and replacement FTE request.

While we must continue to work to fill staff shortages in several clinical areas, such as the pharmacy, I am asking that we strengthen our FTE control by immediately implementing a hiring freeze for non-clinical FTE. Again, I am asking COO Ryba and CFO Jones to lead this effort and adjudicate any issues that arise from this freeze.

I am often asked about whether we expect to have layoffs, and my answer remains the same: it is the least desirable action on our list of options to ensure our financial viability, but in this economic climate we cannot rule anything out.

Collaborative Efforts with UCSF Campus and Other UC Medical Centers. The financial challenge we face at UCSF Medical Center is shared by all UC medical centers, the UCSF campus and professional schools. This is a time to look afresh at consolidating functions across traditional boundaries, without compromising our critical needs. I have spoken with the other four UC medical center CEOs as well as UCSF leadership, all of whom are eager to explore opportunities for cost reduction through consolidation of functions.

Reduction of Non-Labor Expenses. At UCSF Medical Center, our supply costs per patient are also high – in the top fifteen percent of academic medical centers. If we could shave 10% off our current supply costs, it would save us $13.2 million, the equivalent of well over 100 FTEs.

There are many ways everyone can help with this effort. There are little things like giving blood, and encouraging our patients to do so, in our beautiful blood center on the I-level of Millberry Union, which would save us from having to purchase blood from outside vendors. There are bigger things, like drastically reducing waste — also good for the environment — and working with our surgical faculty on standardizing implant costs, which could save millions of dollars. Better ordering patterns for certain therapeutic pharmaceutical agents could also produce significant savings each year, and we have teams working on that at this time.

Improving Revenue Collection. In addition to improving efficiency, we must be

vigilant to bill and collect every dollar owed us. Late charge submissions or inadequate documentation is akin to throwing money away. We obviously cannot afford this.

To achieve our financial goals, we will have to pursue vigorously all of these actions and more. Among our talented faculty, residents and staff, undoubtedly there are other ideas for cost management that we have not considered — and I would appreciate hearing those ideas from you. Please feel free to email them directly to me or Paul Axelrod (mark.laret@ucsfmedctr.org or paul.axelrod@ucsfmedctr.org). In a subsequent email, I will categorize your suggestions and respond to them.

In closing, let me once again make clear why UCSF Medical Center is recognized as one of the great medical care centers in this nation. It is because of the enormous talent that exists at every level of our organization. I am fully confident that we can and will work through the serious issues we face without losing sight of our priorities. We will continue to provide outstanding care to our patients. We will achieve our quality, safety, patient satisfaction, and facility goals. And we will emerge from these challenges stronger than before.

I ask for everyone's full engagement, your flexibility and your patience as we go through this extraordinary period.

As always, thank you for your commitment to UCSF Medical Center and our patients.

Sincerely,

Mark R. Laret
CEO