From: UCSF-GME
Subject: From the CEO: Cost Management at UCSF Medical Center
Date: Monday, March 23, 2009 1:00:44 PM

Dear Colleagues:

This is the third in a series of messages about the current economic climate and how it is affecting UCSF Medical Center. In my previous messages—which you can read online at budget.ucsf.edu—I wrote about the major factors impacting our financial performance, and outlined actions to be taken to ensure that UCSF Medical Center continues to make progress, even in this difficult period. Today, I write to summarize the actions we have taken, and others that we are considering.

As a reminder, UCSF Medical Center is a $1.3 billion per year, self-supporting hospital; it costs about $3.5 million per day to operate the Medical Center; and over 99% of our revenue comes from patients and their insurance, including Medicare and Medi-Cal. Each year, our goal is to bring in about 6% more than we spend. This $70 million to $80 million is what we use to buy new equipment, remodel our existing facilities, implement IT systems and will ultimately help build our new Mission Bay hospital facilities. In short, this margin enables us to fulfill our mission: caring, healing, teaching, discovering; and our vision: to be the best provider of healthcare, the best place to work and the best environment for teaching and research.

Our challenge next year and in subsequent years is that several new expenses and some likely revenue reductions will make it more difficult to reach our financial goals. We face rising supply costs and negotiated pay increases for most of our employees. Employees and UCSF Medical Center as an employer alike will soon restart contributions to the UC pension program. For the Medical Center as an employer, the cost of this contribution will rise over several years, from approximately $24 million per year to close to $88 million – more than our entire budgeted profit for this year.

On the revenue side, rising unemployment will reduce the number of commercially insured patients, and we have every reason to expect that reimbursement from the Medi-Cal and Medicare programs will not keep pace with the cost of inflation. Because we are operating at capacity, we have few opportunities to increase revenue by adding beds, though we are

pursuing as many revenue-enhancing initiatives as we can.

Rising expenses coupled with flat or falling revenue mean that we must take affirmative steps now to maintain and sustain our financial health. In the next few years, our primary focus will be to reduce our costs. We have many opportunities to do this, beginning with our non-labor expenses. These include joint purchasing initiatives with other UC medical centers, workplace safety improvements, medical supply standardization, better management of temporary labor and elimination of wastage of supplies, to name just a few. We have already identified close to $10 million in potential savings, and with your suggestions submitted through the Bright Idea program (bright.idea@ucsfmedctr.org), I believe we can identify much more.

We also have an opportunity to reduce our labor expenses. Compared with our peer institutions across the country—even controlling for the complexity of patients we care for—we are a highly staffed organization. Our goal must be to identify and implement the best staffing practices that enable us to serve our patients in a safe, high quality and efficient manner, and to reduce waste wherever we possibly can.

Last fall, I began the effort to control our labor costs by implementing a hiring freeze for non-clinical positions. This month, we implemented an additional policy requiring those positions not subject to the hiring freeze to recruit exclusively from internal Medical Center candidates for at least three weeks before going outside. This not only provides advancement opportunities for existing staff, but we gain the opportunity to re-evaluate the need to backfill the vacated positions. These two initiatives have already led to a reduction in overall recruitments, and with a full third of those that have taken place being filled by internal candidates.

In the last week, we also announced the option for employees to participate in the Staff and Academic Reduction in Time Program (START). This program allows eligible employees, with the approval of their departments, to voluntarily reduce their time by between 5% and 50% of their appointment, while retaining normal vacation/sick/PTO and UCRP accrual levels. We are also evaluating, with the UC Office of the President, a Voluntary Separation Program. If implemented, this program would permit eligible employees, with approval, to voluntarily resign in exchange for severance pay.

Of course, our least preferred approach to reducing our costs is through involuntary labor actions, or layoffs. We are making every effort to first find cost savings through all of the initiatives outlined above, but I do not expect that these will be adequate by themselves. By the end of April, we expect to more precisely understand what all of the other initiatives are likely to yield in the coming year, and the extent to which we will need to take additional actions, including layoffs. When we know that information, I will share it with you.

As we face difficult decisions, I think it is important to remind ourselves that we take them on to ensure the success of UCSF Medical Center both in the near term and in the long term. Taking measured actions now reduces the likelihood that we will need to take more disruptive actions in the future. In fact, I have every confidence that if we take the right actions now, we can and will emerge from the current economic environment stronger and more efficient than ever, to the benefit of our patients, faculty, staff and trainees.

If you have comments, please email me directly.

Thank you for your continuing commitment to UCSF Medical Center and our patients.

Sincerely,

Mark R. Laret
CEO