

VII. STANDING COMMITTEE

A. Academic and Student Affairs Committee

In Joint Session With

B. Finance, Audit and Facilities Committee

UW Medicine Board Annual Operations and Governance Report

Please see attached.



UW MEDICINE BOARD

**ANNUAL OPERATIONS AND GOVERNANCE REPORT TO THE UW
BOARD OF REGENTS**

The Seattle Cancer Care Alliance and Oncology at UW Medicine

JUNE 12, 2008

INTRODUCTION

The UW Medicine Board bylaws provide that each spring the Board shall meet with the Board of Regents to advise the Board of Regents and the President on the operation and governance of those aspects of UW Medicine relating to:

- the development and strategic allocation of resources;
- strategic aspects of academic programs, including the development of off-campus research facilities;
- the planning and delivery of medical services, including oversight of those services provided through the UWP;
- implementation and effectiveness of compliance programs;
- the management of current and future extramural affiliation and operating agreements, including those executed by the University with Harborview, the SCCA, and UWPN; and
- the status of, and plans for patient care at the UWMC.

This year's report will focus on the Seattle Cancer Care Alliance (SCCA), an integral component of the oncology research, teaching, and patient care programs of UW Medicine. The report is divided into three sections:

- I. The creation of the SCCA – Covering the key objectives, organizational and financial structure, and implementation steps.
- II. The results to date – Covering the program and financial growth of the SCCA
- III. The future – Covering the projected growth of the SCCA

Oncology services are provided at both UW Medical Center and Harborview. The UW Medical Center is, however, the focal point in UW Medicine for oncology services. Oncology is the largest service line at the UW Medical Center, representing 20% of the total revenue and 55% of net income at the Medical Center. As the “front door” for the UW Medicine oncology program, the SCCA is a key factor in the continued success of UW Medicine.

I. CREATION OF THE SCCA

The SCCA was incorporated in 1998 as a collaborative effort between UW Medicine, the Fred Hutchinson Cancer Research Center (FHCRC), and Children's Hospital and Regional Medical Center (CHRM). This followed several years of intensive planning among the three organizations aimed at building on the legacy of existing academic affiliation agreements and support the respective missions of the three member institutions in clinical research, training and patient care.

KEY OBJECTIVES

There were three key programmatic objectives that guided the planning for the SCCA. First, the SCCA would build, own, and operate an ambulatory clinic located on the FHCRC campus at South Lake Union. Second, the FHCRC's inpatient bone marrow transplantation program would be relocated to UWMC for adults and CHRM for children. Third, UWMC, CHRM, and the SCCA would represent an integrated system of comprehensive cancer care. CHRM would provide both inpatient and outpatient pediatric cancer care. UWMC would provide adult inpatient care for all cancer patients and outpatient care focused primarily on solid tumors. The SCCA would have a primary focus on medical oncology.

There were also three key financial objectives that guided the planning. First, the capitalization of the SCCA would be shared equally between UW Medicine, CHRM, and FHCRC. The capitalization would reflect both the fair market value of programs transferred into the SCCA as well as cash contributed. Second, the SCCA would incur the start-up and construction costs related to the SLU clinic and then receive the income and cash flow from the operations. Third, there would be a combination of up-front and annual cash flows among UW Medicine, FHCRC, CHRM, and the SCCA that would reflect the fair market value of the programs and services provided by each.

The planning was completed in the spring of 1998. The UW Board of Regents acted on May 15, 1998 to approve the University's membership in the non-profit corporation and authorize the Vice President for Medical Affairs to enter into the agreements necessary to implement and sustain the SCCA. The Members' Agreement between UW, CHRM, and FHCRC was signed on June 16, 1998 and the SCCA board adopted the corporate bylaws on the same date.

One significant change since the original planning occurred in 2000 and 2001, when the SCCA became licensed as a hospital. This required the transfer of the license to operate 20 hospital beds from the FHCRC to the SCCA. This was accomplished with the approval of the federal and state governments. The 20 beds function seamlessly as part of the UWMC inpatient unit, but are governed by the SCCA. This move provided two

important benefits to the SCCA and the members. First, it maintained the “PPS exempt” status of the 20 beds, permitting reimbursement from federal programs on a cost basis as opposed to a fixed DRG basis. This is particularly important for bone marrow transplantation cases due to the high and variable nature of the cost of care for these patients. Second, it permitted the SCCA to bill for outpatient services provided at SLU as a hospital-based clinic.

FINANCIAL STRUCTURE

The following table summarizes the sources and uses of the initial capitalization of the SCCA.

(\$ in thousands)

	UW	FHCRC	CHPMC	Total
Sources:				
▪ Donated capital (land use and equipment)		\$ 5,404		\$ 5,405
▪ Outpatient programs	\$11,969	24,093		24,093
▪ Cash	<u>19,120</u>	<u>13,561</u>	<u>\$31,089</u>	<u>63,771</u>
▪ Total sources	<u>\$31,089</u>	<u>\$31,089</u>	<u>\$31,089</u>	<u>\$93,268</u>
Uses:				
▪ Construction				\$49,150
▪ Equipment				10,629
▪ Transition costs				1,000
▪ Working capital				<u>2,992</u>
▪ Total uses				<u>\$63,771</u>

In addition to the capitalization of the SCCA, UW Medical Center incurred \$28 million in costs associated with transitioning the FHCRC inpatient program, including building renovations, new equipment, and working capital.

UW/SCCA RELATIONSHIP

Governance

The SCCA is governed by a 15 person board that includes five members from each of the member organizations. The Board includes administrative officers of the member organizations and public members who serve or have served on the member’s board. The five positions include an ex officio representative of each member. The Executive Director of UWMC is the UW ex officio member. The bylaws are structured to require a 75% majority to make any changes in the structure, powers, and duties of the board and its committees.

Inpatient services

The inpatient services provided at UWMC are governed by the Adult Inpatient Services Agreement (AISA). The AISA covers all inpatient services provided to patients cared for by medical oncologists and hematologists, including all bone marrow transplantation services, stem cell transplantation services and other services provided by the FHCRC prior to the transfer of the inpatient program to UWMC. The AISA specifies the structure for medical oversight and direction, nurse management, unit staffing, support services, the development and approval of annual budgets, and a number of other elements associated with the conduct of clinical care and research in the inpatient setting. The overall goal of the AISA is to ensure the integration of the 84-bed oncology service located at UWMC.

A second key element of the AISA is the specification of compensation for services among the three parties to the agreement – UWMC, SCCA and the FHCRC. These payments include:

- Payments from the SCCA to UWMC for program development, use of beds, and the cost of capital;
- Payments from UWMC to the SCCA for use of beds;
- Payments from UWMC to the FHCRC for research and development, the transfer of the inpatient hospital program, and data collection and analysis for research purposes.
- Payments from the SCCA to the FHCRC research and development, the transfer of the inpatient hospital program, and data collection and analysis for research purposes.

All of these payments are based on fair market value.

Accounting

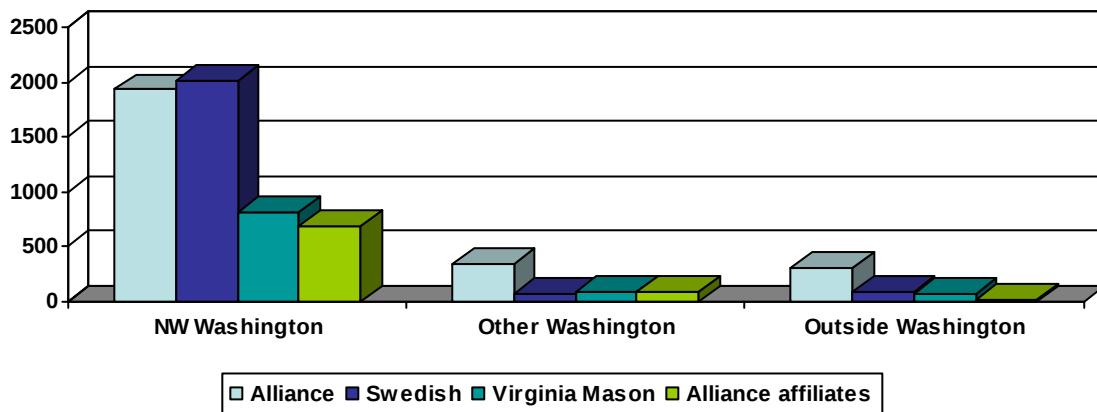
The SCCA retains the income and cash flow from the operation of the SLU clinic and the 20 bed inpatient unit. UWMC accounts for the SCCA performance on an equity basis, reflecting the one-third share of the total SCCA income as UWMC non-operating income. In FY 2007, this represented \$5.6 million. The cumulative interest in the SCCA reflected on the UWMC balance sheet as of June 30, 2007 was \$43.9 million.

II. RESULTS TO DATE

The SCCA has been successful by any measure and exceeded substantially our expectations at the time it was created.

The combined inpatient programs of UWMC, CHRMC, and the SCCA represent 28% of the adult inpatient volume and 75% of the pediatric inpatient volume in the local region, excluding bone marrow transplantation (BMT) cases. The following graph summarizes the inpatient discharges by geographic area.

Discharges for non-BMT oncology cases



The market shares have remained consistent over the last several years.

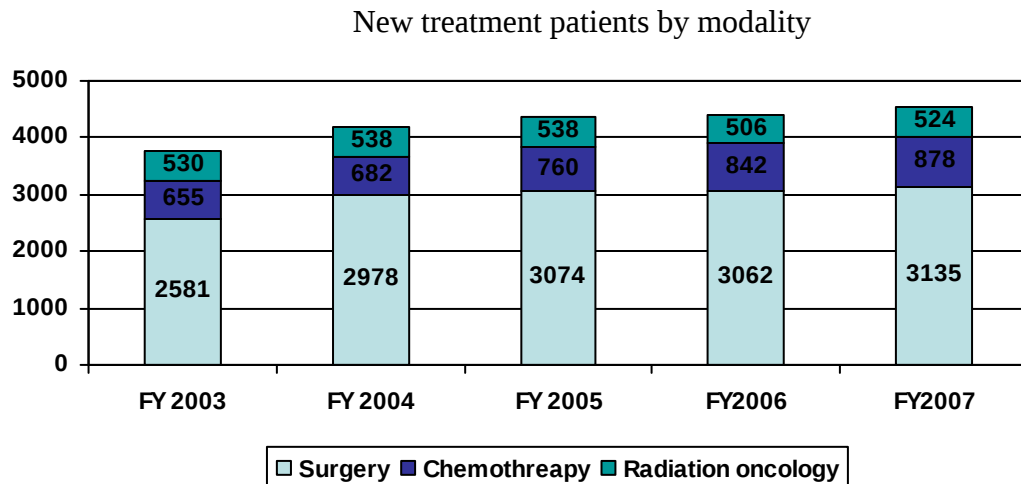
The following paragraphs provide a brief summary of the program growth and financial performance.

PROGRAM GROWTH

The following table summarizes the growth in the SCCA patient volumes over the past five years. The relative flat growth between FY 2006 and FY 2007 reflect the loss of several key faculty who have since been replaced.

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Clinic Visits	35,130	38,149	38,774	44,084	43,230
Admissions	365	372	444	455	428

Growth of new treated patient volume by modality at the combined SCCA/UWMC/CHRM program is shown on the following graph.



FINANCIAL RESULTS

At the time the SCCA was formed, we anticipated that the SCCA would lose money for the first three years of operation (FY 2002 – 2004). As noted in the following table, the financial performance has exceeded expectations by a wide margin and the SCCA is in a very strong financial position.

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Net income	\$3,422	\$9,813	\$16,257	\$21,405	\$16,747
Operating margin	2.4%	6.6%	9.4%	9.7%	6.1%
Days cash on hand	122	136	178	188	191
Debt service coverage	5.05	7.91	6.28	7.74	6.48

The UWMC-based component of the oncology service line has a contribution margin of nearly \$50 million in FY 2007, the largest by far among all major services. The contribution margin has grown by approximately one-third since FY 2003.

III. THE FUTURE

PROGRAM GROWTH

The anticipated growth in the number of cancer cases in adults is expected to grow by 16% over the next five years. The growth rates by disease site range from 13% to 19%, with the exception of cervical cancer, which is projected to grow by 8%. The growth is

driven by population growth and ageing. The following table summarizes the projected growth by age cohort.

Age group	2006 cases	2011 cases
Under 18	107	107
18 – 44	1,269	1,240
45 – 64	5,411	6,244
Over 65	6,770	8,138

The SCCA/UWMC/CHRM has had a dominant position in hematologic tumors (e.g., leukemia and lymphoma), owing to the world-class reputation of the clinical bone marrow transplantation program, and in specific solid tumor areas noted in the previous section. In 2003, the SCCA adopted a five year strategic plan focused on strengthening solid tumor programs in breast, prostate, lung, gynecologic, and gastrointestinal cancers. The goal was to add 1,000 new treated patients. The strategies focused on adding medical and surgical oncology faculty in these disciplines and strengthening the clinical, basic, and translation research. Four years into the plan, 75% of the goal has been attained.

CLINIC AND INPATIENT EXPANSION

The SCCA is planning a major addition to the SLU clinic in FY 2012. UWMC has received the Regents' approval to develop Phase I of the expansion building that will house the neo-natal ICU and a patient care floor dedicated to inpatient cancer care. This will expand the inpatient bed capacity for cancer care by approximately one-third – from 86 beds to approximately 108 beds.

PROTON BEAM THERAPY

The SCCA is analyzing the feasibility of developing a proton beam therapy unit. Proton beam therapy is a highly advanced form of radiation therapy that promises to improve physicians' ability to precisely control the delivery of radiation to a tumor, minimizing damage to healthy tissue, resulting in superior clinical outcomes and reduced side effects. Proton beam therapy promises to be more effective than other types of radiation therapy at treating many advanced forms of cancer due to a proton beam's ability to deposit energy more precisely in a targeted tumor, whereas conventional radiation therapy using photons or electrons deposits radiation along the entire path of the beam through the body. The treatment is considered especially effective for children and young adults, because it does less damage to the healthy cells surrounding the tumor. Proton centers have been treating specific diseases such as prostate, breast and lung cancers. Proton therapy has also been effective at targeting tumors adjacent to major organs. Proton therapy is used in conjunction with conventional radiation therapy, medical and surgical oncology.

There are a five proton therapy sites in operation around the country, with several more in development. It is likely that proton beam therapy will be a key element of a top tier

oncology program. There is considerable advantage in being the first center in the Pacific Northwest. It is a very expensive technology that requires significant infrastructure to house the treatment facility. The feasibility work is scheduled to conclude in late 2008 or early 2009.

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