STANDING COMMITTEES

Finance and Asset Management Committee

Approval of Harborview Management Contract

ACTION

It is the recommendation of the Administration and the Finance and Asset Management Committee that the Board of Regents approve the proposed Hospital Management Agreement for Harborview Medical Center with King County, effective upon the receipt of the final signature of the three signing parties: King County Executive Dow Constantine, Harborview Medical Center Board Chair Clayton Lewis, and UW Board of Regents.

BACKGROUND

All current management and clinical activities for the hospital and clinics under the license of HMC are provided by UW Medicine personnel and University employees, and governance is provided by the HMC Board, which by statute is appointed by the King County Council. HMC is operated as an entity of UW Medicine.

The Hospital Services Agreement is a successor contract to the existing Management and Operations Contract between the HMC Board of Trustees and the University (1995 Operations Contract). Contracts for the University to operate and manage Harborview Medical Center have been in place since 1970.

King County and UW Medicine have been engaged in active negotiations on the new Agreement since March 2015. In November 2015, in anticipation of the conclusion of negotiations by December 31st, 2015 but with materials issues remaining, the Board delegated authority to the President of the University of Washington and Chief Executive Officer of UW Medicine to execute a final agreement under the following conditions:

1. Consultation and final confirmation by the Chair of the Finance and Asset Management Committee, and the Board of Regents representatives to the UW Medicine Board, that all outstanding issues have been sufficiently addressed and appropriate procedures to update UW Medicine Board bylaws are in place;
2. Final adoption of the Hospital Management Agreement by the King County Council on or before December 31, 2015.

If the conditions were not met, the Board required UW Medicine to return to the Board for review before final approval.
STANDING COMMITTEES

Finance and Asset Management Committee

Approval of Harborview Management Contract (continued p. 2)

Negotiations lasted longer than anticipated. The parties reached agreement in late January. The management agreement was presented to the Harborview Board of Trustees on Thursday January 28, 2016. The Harborview board unanimously endorsed the contract.

The agreement is scheduled for review by the UW Medicine board on Thursday February 4th, 2016. A recommendation was not available at the time of printing.

A detailed overview of the terms of the agreement is included in the attachment.

Attachment
Hospital Services Agreement for Management and Operation of Harborview Medical Center by UW Medicine
BACKGROUND

The Hospital Services Agreement is a successor contract to the existing Management and Operations Contract between the HMC Board of Trustees and the University (1995 Operations Contract). Contracts for the University to operate and manage Harborview Medical Center have been in place since 1970. The proposed Agreement would have an effective date of the date it is executed and would run for a period of 10 years, automatically renewing for two additional ten-year terms unless terminated at least a year before a term ends.

The Harborview Board of Trustees approved the contract on January 28, 2016.

SUMMARY OF PROPOSED TERMS

The proposed Hospital Services Agreement includes descriptions of ongoing University activities necessary to the operation of an academic medical center hospital that were not specifically delineated under the 1995 Management and Operations Contract and provides more detail to the terms that exist under the 1995 Management Contract:

- The University, through UW Medicine, continues to staff, manage and operate HMC, and to develop clinical programs and Centers of Excellence that meet Joint Commission and healthcare regulatory requirements, subject to the approval of the HMC Board of Trustees.
- The University retains authority over all personnel and employment matters involving University employees who work at HMC.
- The University continues to be responsible for management of the facilities, and to develop the six-year Capital Improvement Plan (CIP) for review and approval by the HMC Board and King County.
- The University will continue its teaching and research activities at HMC.
- The University remains responsible for professional liability, general and employment liability coverage for operations at HMC.
- The HMC Mission Statement continues to reflect the commitment of all parties to the King County Mission Population and Centers of Excellence based at HMC that will help maintain the financial viability of HMC.

Certain terms represent a more material clarification of roles or responsibilities from the 1995 Management Contract:
• King County, the HMC Board of Trustees and UW Medicine have agreed to formalize the long-standing collaboration between King County and HMC to serve Mission Population patients.

• A joint UW, King County and HMC Board committee will provide advice to the Board on development of the Capital Improvement Plan relating to all HMC facilities rather than only those subject to voter-approved bond financing.

• In order to continue to plan efficient and cost-effective health care services for Mission Population patients served in King County clinics, HMC and King County will work together to develop short and long term plans for meeting these needs.

• The parties agree to assess where current law permits financial or accounting system efficiencies, and to align HMC accounting and financial operations to UW Medicine systems whenever appropriate.

• UW Medicine will formalize the participation of the president and vice-president of the HMC Board of Trustees as full voting members of the UW Medicine Board.

• The University will continue to maintain an approach that supports effective employee relations at HMC and to report to the HMC Board routinely on the status of various employment-related subjects.

There is one significant new term required by the County:

• For each year of the Agreement, the Board will allocate and disburse to the County $5 million from HMC revenues or reserves to support Mission Population programs and services that are currently being provided by the County. UW Medicine and the County immediately will begin to identify program efficiencies and new funding sources that would be substantial and permanent. The allocation and disbursement will be reduced by an amount agreed to by the Parties based upon reductions in costs incurred by the County or new funding sources that would not otherwise be received by the County.

As structured in the proposed contract, the annual allocation and disbursement may require that HMC initially record a liability of up to $150,000,000 ($5 million per year for 30 years) on its balance sheet in the year that the contract is executed (FY16). Further review may indicate that it is possible for the liability to be recorded at a lower dollar level based on a net present value calculation that would discount future cash flows to current dollar levels. UW Medicine finance and accounting staff will continue their review of the accounting treatment in partnership with their external auditors once the contract is executed and final. The liability will be reevaluated continually over the life of the contract and reduced as the payments are made and when the parties agree to permanent reductions in costs as described above.