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FOR
HEALTH AFFAIRS COMMITTEE**

Committee Meeting: 5/15/2014

Board Meeting: 5/15/2014
Austin, Texas

Robert L. Stillwell, Chairman
Ernest Aliseda
Jeffery D. Hildebrand
Brenda Pejovich
Wm. Eugene Powell

	Committee Meeting	Board Meeting	Page
Convene	<i>8:00 a.m.</i> <i>Chairman Stillwell</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration	<i>8:00 a.m.</i> Action	Action	249
2. U. T. Health Science Center - San Antonio: Approval to a) rename the Dental School to the School of Dentistry; b) amend Regents' <i>Rules and Regulations</i>, Rule 40601, Section 1.16(a) to reflect the name change of the Dental School; and c) name the clinical practice of The University of Texas School of Dentistry San Antonio as U. T. Dentistry San Antonio	<i>8:02 a.m.</i> Action <i>President Henrich</i> <i>Dr. Greenberg</i>	Action	250
3. U. T. Medical Branch - Galveston: Approval to enter into a) a master agreement with Angleton Danbury Hospital District to assume operations of the Angleton Danbury Medical Center as part of UTMB Health, b) a lease with Angleton Danbury Hospital District for the health care facilities and land, and c) an indigent care agreement with Angleton Danbury Hospital District for care provided to financially and medically indigent patients	<i>8:10 a.m.</i> Action <i>President Callender</i>	Action	252
4. U. T. System: Panel discussion of ways and means to advance U. T. System neuroscience research	<i>8:30 a.m.</i> Report/Discussion <i>Dr. Hurn</i>	Not on Agenda	264
Adjourn	<i>9:00 a.m.</i>		

1. **U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, referred for Committee consideration**

RECOMMENDATION

The proposed Consent Agenda is located at the back of the book.

2. **U. T. Health Science Center - San Antonio: Approval to a) rename the Dental School to the School of Dentistry; b) amend Regents' *Rules and Regulations*, Rule 40601, Section 1.16(a) to reflect the name change of the Dental School; and c) name the clinical practice of The University of Texas School of Dentistry San Antonio as U. T. Dentistry San Antonio**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor and General Counsel, and President Henrich that approval be granted to

- a. rename the Dental School at U. T. Health Science Center - San Antonio to the School of Dentistry;
- b. that the Regents' *Rules and Regulations*, Rule 40601, Section 1.16(a), concerning institutions comprising The University of Texas System, be amended to reflect the name change as set forth below in congressional style:

Sec. 1 Official Titles. The U. T. System is composed of the institutions and entities set forth below. To ensure uniformity and consistence of usage throughout the U. T. System, the institutions and their respective entities shall be listed in the following order and the following titles (short form of title follows) shall be used:

...

- 1.16 The University of Texas Health Science Center at San Antonio (U. T. Health Science Center - San Antonio)
 - (a) The University of Texas ~~Dental~~ School of Dentistry at San Antonio (U. T. ~~Dental~~ School of Dentistry - San Antonio)
 - (b) The University of Texas Graduate School of Biomedical Sciences at San Antonio (U. T. G.S.B.S. - San Antonio)
 - (c) The University of Texas Health Science Center at San Antonio School of Health Professions (U. T. Health Science Center - San Antonio School of Health Professions)
 - (d) The University of Texas Health Science Center at San Antonio School of Medicine (U. T. Health Science Center - San Antonio School of Medicine)
 - (e) The University of Texas School of Nursing at San Antonio (U. T. Nursing School - San Antonio)

...

- c. name the clinical practice of the U. T. School of Dentistry San Antonio as U. T. Dentistry San Antonio.

BACKGROUND INFORMATION

The request to rename the Dental School to the School of Dentistry is being made to align the name of the Dental School with other schools within U. T. Health Science Center - San Antonio (School of Medicine, School of Nursing, and School of Health Professions). In addition, with the expansion of the clinical practice of the U. T. School of Dentistry San Antonio, a formal name is needed for the practice plan. Thus, U. T. Dentistry San Antonio is proposed as it aligns with the School of Medicine's practice plan called U. T. Medicine San Antonio.

Upon approval by the Board of Regents, the Texas Higher Education Coordinating Board will be notified of the formal name change of the Dental School to the School of Dentistry.

3. **U. T. Medical Branch - Galveston: Approval to enter into a) a master agreement with Angleton Danbury Hospital District to assume operations of the Angleton Danbury Medical Center as part of UTMB Health, b) a lease with Angleton Danbury Hospital District for the health care facilities and land, and c) an indigent care agreement with Angleton Danbury Hospital District for care provided to financially and medically indigent patients**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor and General Counsel, and President Callender that authorization be granted to enter into

- a. a master agreement with Angleton Danbury Hospital District that allows U. T. Medical Branch - Galveston to assume operations of the Angleton Danbury Medical Center as a part of UTMB Health;
- b. a lease agreement with Angleton Danbury Hospital District for the health care facilities and land; and
- c. an indigent care agreement with Angleton Danbury Hospital District for care provided to financially and medically indigent patients.

BACKGROUND INFORMATION

Angleton Danbury Hospital District (ADHD) and U. T. Medical Branch - Galveston (UTMB) are proposing to enter into an agreement for UTMB to lease the facilities and land owned by ADHD and assume operations of the hospital and other facilities as part of UTMB Health. In addition, ADHD and UTMB will execute an indigent care agreement whereby ADHD will compensate UTMB for care provided by UTMB to the patients that qualify for ADHD's indigent care program in fulfillment of ADHD's statutory obligation.

Angleton Danbury Hospital District operates a 64-bed hospital, Wellness Center, Imaging Center, Professional Office Building, and Medical Office Building known collectively as Angleton Danbury Medical Center (ADMC). ADMC opened in 1969 and serves the Angleton Danbury service area in southern Brazoria County. The ADMC service area and Brazoria County overall is experiencing rapid population growth that is expected to continue with another 8.3% growth by 2018.

Brazoria County is a critical geography in UTMB's clinical strategic plan, providing the immediate availability to expand specialty and inpatient service capacity on the mainland. The addition of this facility to the UTMB Health system also furthers UTMB's education mission by providing a community hospital environment that can serve as a training site for residents, students, and other trainees. In addition, the proposed transaction will improve the health of the

community through the additional primary and specialty care services UTMB can bring into the Angleton community, coupled with the tertiary services available on the Galveston campus. The movement toward more outpatient care and population health requires a greater level of service for patients in the local community, and requires affiliation with a tertiary care center to provide the full continuum of care.

The proposed agreements contemplate that UTMB will lease the facilities and land, which include a 163,182 square-foot hospital and surgery center built in 1969 and 2006, two clinical buildings totaling 13,402 square feet built in 1981 and 2001, two medical office buildings totaling 53,700 square feet built in 1982 and 1993 and leased to physicians affiliated with the hospital, and approximately 53.2 acres of land, inclusive of 20 acres of vacant land behind the hospital, (collectively the "Premises") from Angleton Danbury Hospital District (ADHD) for an initial term of 10 years, with four 5-year renewal periods. The consideration provided by UTMB under the lease and master agreement includes \$100,000 in lease payments annually as well as a minimum annual capital investment commitment to the Premises or for equipment serving the hospital of \$1 million, determined by calculation of a 3-year rolling average to provide UTMB maximum flexibility to determine strategically appropriate investments (the "Capital Expenditures"). Upon closing, UTMB will purchase net working capital, including accounts receivable, supply inventory, pharmacy inventory, and prepaid maintenance contracts. The total amount of consideration for working capital is \$4.5 million. UTMB may be obligated for rent and required Capital Expenditures of \$33 million over the initial lease term and if all renewal options are exercised.

Under the master agreement, ADHD will provide ongoing financial support to UTMB to (i) provide care to indigent patients in the district, and (ii) to support the operations of the hospital at a minimum level of \$4 million annually (the "Annual Payment"). Additionally, under the master agreement, UTMB shall have the right to purchase the Premises at an amount equal to the then fair market value of the Premises less the then depreciated book value of the Capital Expenditures. The master agreement also provides for an ongoing right of first refusal in the event ADHD receives from a third party an offer for the purchase of the Premises. UTMB is obtaining an appraisal by Integra Realty Resources, Inc. for the current fair market value of the Premises, as well as for the fair market value of the rent for the Premises; this appraisal is expected to be completed by May 12, 2014.

The proposed master agreement contemplates that ADMC will become a UTMB Health system facility and employees of ADMC will become employees of UTMB. Medical staff with active privileges at ADMC will apply for privileges at UTMB, declaring the Angleton campus to be their primary practice site. The hospital will be subject to the UTMB and U. T. System governance structure and will operate under UTMB's Medicare provider number.

Please see the PowerPoint presentation on the following pages.

Summary Opportunity Assessment

Angleton Danbury Medical Center (ADMC)

David L. Callender, M.D., President
The University of Texas Medical Branch at Galveston



U. T. System Board of Regents' Meeting
Health Affairs Committee
May 2014

Executive Summary: Transaction Rationale

- Alignment furthers The University of Texas Medical Branch at Galveston's (UTMB) education and research missions
 - Residency training in primary care, obstetrics and gynecology (OB/GYN), and internal medicine in a community hospital environment
 - Clinical training site for medical, nursing, and health profession students as enrollment increases
 - Access to clinical research trials for patients in community
- Expansion in size of population served by UTMB helps spread the risk of managing their health
 - Brazoria County is home to major industry such as Dow Chemical, Infinity Group, and Phillips 66, which are making expansion investments
- Aggressive market development in southeast Houston area requires UTMB to be proactive to maintain market position

Executive Summary: Transaction Rationale (cont.)

- Greater focus on outpatient care requires a greater level of service in the local community
- ADMC is eager to align
- Affiliation envisions access to tertiary care facilities such as UTMB's John Sealy and Jennie Sealy Hospitals
- ADMC's facilities provide additional patient care capacity critical to the success of UTMB's mainland strategy
 - Offers full continuum of care in the patient's community
 - Provides immediate ability to expand specialty service capacity prior to completion of the Victory Lakes Specialty Care Center expansion

ADMC: Overview

- Mission: Improve health status of the community through education, prevention, and quality care
- 64 licensed beds
 - 39 Medical/Surgery
 - 14 ICU/CCU
 - 11 Labor/Delivery/Recovery/Postpartum
- > 230 FTEs; medical staff = nearly 100 physicians



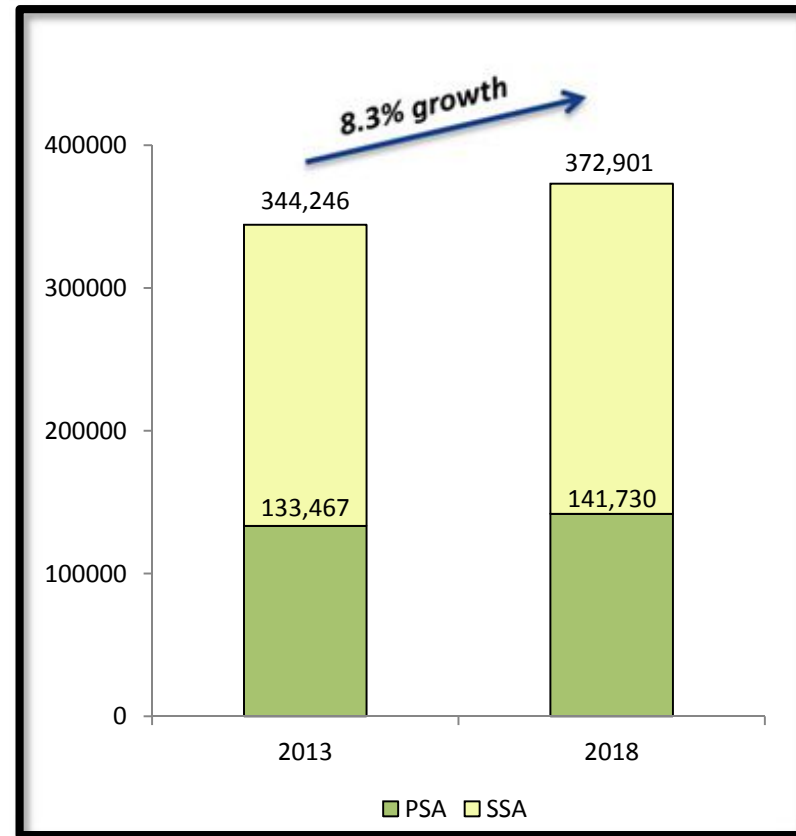
Source: American Hospital Directory

ADMC: Overview (cont.)

The ADMC service area has experienced rapid growth...and the trend is expected to continue



■ Primary Service Area ("PSA")
 ■ Secondary Service Area ("SSA")



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Source: Claritas

Victory Lakes Comparison

	Victory Lakes	ADMC
Distance from Galveston (miles)	27	52
# of Beds	39	62 (average daily census of 18)
Projected Revenue (2016)	\$35.6M	\$31.1M
Projected earnings before interest depreciation and amortization (EBIDA) (2016)	\$9.4M	\$3.0M
Projected Admissions (2016)	2,140	2,598
Outpatient (OP) Visits (2016)	47,059	55,732
Investment Cost	\$75.5M	\$4.5M: One Time Purchase of Working Capital \$100K: Annual Lease \$1M: Annual Capital Expenditure

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ADMC Baseline Projections (Post Transaction)

Ratio / Statistic (\$ in Millions)	FY Ended August 31,									
	Historical				Projection Years					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Net Patient Service Revenue	\$ 24.0	\$ 23.0	\$ 23.9	\$ 20.8	\$ 26.9	\$ 29.0	\$ 31.1	\$ 33.4	\$ 35.8	
Tax Revenue	\$ 3.8	\$ 4.3	\$ 4.6	\$ 5.6	\$ 3.5	\$ 4.0	\$ 4.1	\$ 4.1	\$ 4.1	
Total Operating Revenue	\$ 29.1	\$ 28.5	\$ 29.6	\$ 27.1	\$ 31.6	\$ 34.1	\$ 36.3	\$ 38.6	\$ 41.1	
Operating Income	\$ (1.9)	\$ (1.1)	\$ (0.6)	\$ (3.5)	\$ (1.2)	\$ (0.5)	\$ 0.0	\$ 0.6	\$ 0.9	
Operating EBIDA	\$ 1.1	\$ 2.0	\$ 2.4	\$ (0.3)	\$ 1.6	\$ 2.3	\$ 3.0	\$ 3.7	\$ 4.1	
Net Income	\$ (0.7)	\$ 0.4	\$ 0.2	\$ (1.1)	\$ (0.1)	\$ 0.6	\$ 1.1	\$ 1.7	\$ 2.0	
Unrestricted Cash	\$ 4.3	\$ 5.4	\$ 5.3	\$ 6.8	\$ 2.5	\$ 2.2	\$ 2.1	\$ 3.1	\$ 5.2	
Long-Term Debt	\$ 16.1	\$ 14.9	\$ 13.1	\$ 11.5	\$ -	\$ -	\$ -	\$ -	\$ -	
Capital Expenditures	\$ 1.4	\$ 1.1	\$ 1.2	\$ 0.9	\$ 3.8	\$ 3.7	\$ 3.6	\$ 3.4	\$ 2.4	
<i>Profitability</i>										
Operating Margin	-6.7%	-3.7%	-2.0%	-12.9%	-3.8%	-1.4%	0.0%	1.4%	2.1%	
Operating EBIDA Margin	3.7%	7.1%	8.2%	-1.1%	5.2%	6.8%	8.2%	9.5%	10.0%	
<i>Debt Position</i>										
Debt Service Coverage (x)	0.8	1.6	1.4	1.0	1.5	0.0	0.0	0.0	0.0	
Long-Term Debt to Capitalization	37.6%	35.4%	32.5%	30.5%	0.0%	0.0%	0.0%	0.0%	0.0%	
<i>Liquidity</i>										
Cash to Long-Term Debt	24.7%	32.7%	36.1%	51.5%	403.9%	0.0%	0.0%	0.0%	0.0%	
Days Cash on Hand (days)	70.9	71.8	69.7	88.4	29.9	25.4	23.3	32.3	51.7	
<i>Other</i>										
Average Age of Plant	15.4	15.1	16.0	14.0	15.1	15.2	15.4	15.6	16.0	
Capital Spending Ratio	62.9%	45.4%	51.9%	33.8%	143.0%	131.4%	120.4%	109.6%	75.1%	
Compensation Ratio	51.5%	52.2%	53.2%	56.4%	51.9%	50.6%	49.0%	47.4%	46.5%	

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UTMB+ADMC Combined Financial Projections

Based on current projections, ADMC is accretive to UTMB's Projections

Ratio / Statistic (\$ in Millions)	FY Ended August 31,										Variance To Standalone	
	Historical				Projection Years						FY 2018	FY 2018
	2010	2011	2012	2013	2014	2015	2016	2017	2018	\$	%	
Net Patient Service Revenue	\$ 848.8	\$ 935.9	\$ 917.9	\$ 983.4	\$ 1,049.9	\$ 1,115.0	\$ 1,203.7	\$ 1,286.0	\$ 1,369.6	\$ 35.8	3%	
Tax Revenue	\$ 3.8	\$ 4.3	\$ 4.6	\$ 5.6	\$ 3.5	\$ 4.0	\$ 4.1	\$ 4.1	\$ 4.1	\$ 4.1	NA	
Total Operating Revenue	\$ 1,557.3	\$ 1,589.9	\$ 1,542.6	\$ 1,642.5	\$ 1,675.7	\$ 1,728.9	\$ 1,823.6	\$ 1,896.0	\$ 1,983.6	\$ 41.1	2%	
Operating Income	\$ (6.1)	\$ (11.9)	\$ (39.5)	\$ (27.1)	\$ (38.0)	\$ (42.6)	\$ (58.5)	\$ (52.8)	\$ (29.1)	\$ 0.9	3%	
Operating EBIDA	\$ 71.5	\$ 74.4	\$ 55.6	\$ 78.7	\$ 79.6	\$ 86.4	\$ 114.7	\$ 140.3	\$ 163.6	\$ 4.1	3%	
Net Income	\$ 36.9	\$ 49.9	\$ 2.0	\$ 14.9	\$ 1.1	\$ (5.0)	\$ (20.5)	\$ (14.5)	\$ 9.5	\$ 2.0	26%	
Unrestricted Cash	\$ 312.0	\$ 391.3	\$ 360.4	\$ 395.3	\$ 288.8	\$ 234.9	\$ 204.8	\$ 293.0	\$ 431.0	\$ (0.8)	0%	
Long-Term Debt	\$ 209.6	\$ 228.3	\$ 352.6	\$ 358.0	\$ 447.6	\$ 519.3	\$ 492.0	\$ 468.2	\$ 447.5	\$ -	0%	
Capital Expenditures	\$ 135.3	\$ 185.0	\$ 219.7	\$ 265.2	\$ 429.1	\$ 412.0	\$ 198.1	\$ 150.7	\$ 103.0	\$ 2.4	2%	
Profitability												
Operating Margin	-0.4%	-0.7%	-2.6%	-1.6%	-2.3%	-2.5%	-3.2%	-2.8%	-1.5%	-	0.1%	
Operating EBIDA Margin	4.6%	4.7%	3.6%	4.8%	4.7%	5.0%	6.3%	7.4%	8.2%	-	0.0%	
Debt Position												
Debt Service Coverage (x)	3.9	4.6	3.1	3.0	2.3	2.4	2.3	2.5	3.0	-	0.1	
Long-Term Debt to Capitalization	18.6%	17.6%	23.5%	22.9%	25.0%	25.5%	23.9%	21.8%	20.0%	-	-0.3%	
Liquidity												
Cash to Long-Term Debt	135.4%	155.7%	93.6%	98.5%	58.8%	41.6%	38.0%	57.2%	88.3%	-	-0.2%	
Days Cash on Hand (days)	76.6	93.7	88.0	91.8	65.7	51.9	43.2	60.1	85.4	-	-1.9	
Other												
Average Age of Plant	12.4	11.9	11.4	10.8	10.6	10.7	9.5	9.5	10.5	-	0.1	
Capital Spending Ratio	200.6%	238.9%	253.8%	271.4%	392.1%	342.6%	130.8%	89.1%	60.7%	-	0.3%	
Compensation Ratio	63.6%	63.9%	65.0%	64.2%	63.6%	63.5%	62.6%	62.3%	61.7%	-	-0.3%	

NOTE: Combined entity unrestricted cash is net of \$6M working capital purchase.

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Proposed Key Transaction Terms

Term

- Initial lease term will be 10 years
- UTMB will have the option to renew for up to four consecutive five-year terms. The lease will then require renegotiation to be continued

Financial Considerations

- Lease payment anticipated to be minimal (\$100,000 per annum)
- UTMB will purchase \$4.5 million working capital at outset of the lease. If the lease terminates, the District or a successor operator of the hospital must purchase working capital back from UTMB

District Maintenance of Support

- District support will be no less than the amounts provided from the District historically, including the District’s continuing indigent care obligations and prior operating expense subsidies
- Operating expense subsidies are defined as tax revenues less principal and interest for debt service and expenses related to District operations

Option to Purchase

- At any time during the lease or at expiration, UTMB may exercise its option to purchase ADMC
- If the option is exercised, UTMB will pay an amount equal to the fair market value of the hospital and related property less the amount of capital expenditures UTMB has made and paid for during the term of the lease

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Proposed Key Transaction Terms (cont.)

Capital Expenditures

- UTMB will invest at least \$1 million per annum in capital expenditures
- All fixed assets purchased by UTMB specifically for use in connection with ADMC facilities or properties, will remain UTMB's property; however, upon termination of the lease and if UTMB does not exercise its purchase option, the District may keep the equipment if it operates the facilities independently or a third party successor operator of the hospital will purchase from UTMB those fixed assets for an amount equal to their net book value

Governance

- The Hospital and its operations will be subject to UTMB's governance structure, which includes the authority of The University of Texas System Board of Regents

Employees

- UTMB will offer employment to most/ all employees at substantially similar levels of compensation and benefits

Non-Compete

- During the term of the lease and, if applicable, until 5 years after the option to purchase is exercised, the District will agree not to compete with UTMB

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4. **U. T. System: Panel discussion of ways and means to advance U. T. System neuroscience research**

INTRODUCTION

Dr. Patricia Hurn, Vice Chancellor for Research and Innovation, will introduce the panel of distinguished neuroscientists for a discussion of ways and means to advance U. T. System neuroscience research.

REPORT

Panelists will provide context from their studies of brain in health and illness and share observations on how best to advance U. T. System for a competitive advantage in the future. The panel will be comprised of:

- **John Byrne, Ph.D.**, Professor, Chair, Associate Dean for Research, M. June and J. Virgil Waggoner Chair, and Chairman, Department of Neurobiology and Anatomy, U. T. Health Science Center - Houston;
- **Mark Goldberg, M.D.**, Linda and Mitch Hart Distinguished Chair in Neurology, Professor and Chair of Neurology and Neurotherapeutics, U. T. Southwestern Medical Center;
- **Thomas Jacobs, Ph.D.**, Associate Vice Chancellor for Federal Relations, U. T. System;
- **Arshad Khan, Ph.D.**, Assistant Professor, Biological Sciences, and Director, Systems Neuroscience Laboratory, U. T. El Paso; and
- **Robert Messing, M.D.**, Vice Provost for Biomedical Sciences, U. T. Austin.

BACKGROUND INFORMATION

President Obama has identified neuroscience research as a national priority and has called for the BRAIN Initiative (<http://www.nih.gov/science/brain/index.htm>), which will focus on neuroscience research through interdisciplinary efforts. This initiative, and related opportunities, will likely drive future discovery into how the brain functions during health and in illness. Numerous federal funding entities are in the process of developing specific requests for applications for the neuroscience community, particularly the National Institutes of Health, the National Science Foundation, and the United States Department of Defense.

Panelists will present elements of their own research and highlight how the U. T. System might synergize neuroscience collaborations among the 15 U. T. System institutions, drive innovation, and enhance competition for discovery funding.