June 20, 1984

MEMORANDUM

TO: The Honorable Thomas H. Kean
    Governor, State of New Jersey

FROM: Stanley S. Bergen, Jr., M.D.
    President, UMDNJ

RE: The Development of UMDNJ-University Hospital

Our goal for University Hospital of the University of Medicine and Dentistry of New Jersey is a simple one: to develop the facility as New Jersey's center for sophisticated specialty care equivalent in quality and reputation to the great University medical centers across the nation. We believe that this goal can be achieved by the end of the decade. However, the State government must be willing to share our vision and allow University Hospital the flexibility it requires to develop.

The State has already made a significant commitment to University Hospital, by building its new physical plant and through direct appropriation. The facility has made significant strides toward becoming New Jersey's premiere health care facility since its opening in 1979, and even further progress has been achieved since the University contracted with Hospital Corporation of America in 1982 to manage the hospital.

It is becoming increasingly clear, however, that some people in State government have lost sight of the hospital's intended role in New Jersey's health care system. Further progress for the hospital and its programs will clearly be impeded unless we can communicate a renewed understanding and commitment to the hospital's success to many levels and agencies of State government.

In summary, the premises we put forward are as follows:

1. New Jersey citizens require and deserve sophisticated referral services provided within a rational system organized around regional centers.

2. Traditionally, regional specialty care centers develop at university teaching hospitals, in which highly specialized professional manpower and equipment is required to support education and clinical research.
3. Even among UMDNJ's core teaching hospital facilities, UMDNJ-University Hospital has a special mission, because it is fully owned and operated by the State. At the same time, it has special problems because it is a unit of State government.

Our recommendations for special actions by the State government which are required to allow the development of UMDNJ-University Hospital as the State's premiere health care facility include:

1. Continuation of UMDNJ-University Hospital's direct state appropriation.
2. Removal of State budgetary restrictions on UMDNJ-University Hospital's expenditures and revenues.
3. Exemption of the hospital from State regulations which limit the development of realistic competitive salary structures.
4. Expanded flexibility in purchasing through an increased advertised bid limit.
5. Special consideration in the health planning process for UMDNJ-University Hospital and the three core teaching hospitals.

This paper deals in depth with University Hospital's proposed evolution — its accomplishments to date and its goals, as well as the reasoning behind these conclusions and recommendations.

I thank you for your consideration of this proposal, and for your continuing interest in UMDNJ.
Development of UMDNJ-University Hospital

Why a Statewide Referral Center?

Just as "high tech" research and development is most effectively conducted in concentrated centers, "high tech" medicine is most efficiently provided in academic health centers. The reasons are similar: the regional or statewide center develops a "critical mass" of highly trained personnel, physician specialists and sub-specialists, as well as skilled technicians and support personnel, state-of-the-art equipment, and a physical plant designed to accommodate multi-disciplinary care as well as the newest technology. In addition, the more experience a facility and its professional staff have with a new delicate procedure, the more refined and safer those procedures become.

Traditionally, such centers for specialty care develop at university teaching hospitals, where the same sophisticated manpower and equipment are also required to support the educational programs and clinical research, so that the threefold utilization of the same resources therefore becomes economically sound. Since inner-city university medical centers are almost always subsidized by public funding, they are also in a better position than community hospitals to implement and maintain expensive specialty programs. In addition, the need for many such services, while acute to the individual who seeks them, is often limited in the total population, so that regional referral centers at University Hospital could serve the entire State adequately.

Why a New Jersey Center?

Since New Jersey was late in developing medical education programs, its health care system grew up without many of the advanced medical programs in specialty care that develop around a distinguished medical faculty. As a result, a portion of the State's citizenry has traditionally sought such services at the fine referral centers in New York and Philadelphia.

First of all, the services of out-of-state medical centers have only been available to those who can afford to seek them. Secondly, these services in New York and Philadelphia are currently heavily over-subscribed with many now being forced to institute waiting lists for specialty care. If situations begin to develop in which choices have to be made as to who receives care in specialized services supported by another State, New Jerseyans may find themselves at a disadvantage.

A facility "closer to home" is also medically desirable for many acutely-ill patients and their families who cannot afford the hardship and expense of travel or the trauma of separation from home and friends. Finally, it makes good economic sense to treat New Jersey patients in New Jersey, rather than spending these health care dollars in another State.

But beyond these considerations, it should be noted that New Jersey now also has something to offer the region. UMDNJ-New Jersey Medical School has succeeded in recruiting many outstanding medical experts to its faculty, and through UMDNJ-University Hospital, these specialists are now beginning to offer services that are unique in the East or even in the nation.
For instance, the hospital's cancer center, which is due to be fully operational by fall, will be one of only a handful of centers in the nation delivering intra-operative radiation therapy, and the only one in the United States specifically designed to accommodate the procedure. There is sufficient demand for cancer care among New Jersey's population to support a center similar to Memorial-Sloan Kettering Cancer Center in our own state.

Another advanced cancer procedure, the sophisticated cancer diagnosis technique developed by Dr. David Goldenberg, is currently available nowhere else in the United States, nor is the technique for regenerating damaged ligaments and tendons developed by Drs. Andrew Weiss and Harold Alexander. The next nearest neurosurgery center capable of implanting a phrenic nerve pacemaker, which allows a totally paralyzed patient to breathe independently, is in New Haven, Conn.

Services such as these are already attracting referrals from New York and Philadelphia, as well as other parts of the country, and New Jersey is beginning to make a contribution to medical knowledge worldwide.

University Hospital: Unique Advantages, Unique Problems

UMDNJ-University Hospital has a number of features which make it unique in the State of New Jersey. Many of these features give the hospital distinct advantages, and make it uniquely suited to develop its role as New Jersey's "high tech" health care center; a few create special problems for the hospital which could impede its development. Aspects of University Hospital which are unique in New Jersey include:

1. It is the only acute care hospital fully-owned and operated by the State.

As such, the facility has enjoyed strong support from many State leaders, and has historically received a direct State subsidy. On the other hand, University Hospital is the only medical center whose budget appears in the State Budget, where its revenues become "fair game" in the political and bureaucratic arenas, and whose expenditures are arbitrarily capped two years in advance. Similarly, it is the only hospital governed by the State salary cap, which puts University Hospital in a non-competitive position as compared to other New Jersey hospitals for top-flight administrators and other specialized personnel. Also, although UMDNJ's enabling legislation allows it to purchase for itself, it is governed by State law which establishes the advertising bid limit. This frequently inhibits the hospital in acting quickly to acquire supplies and equipment.

2. It is Newark's largest health care provider, and has the most extensive program of service to the medically needy in New Jersey.

As successor to Martland Medical Center, University Hospital has assumed the role of "family physician" to Newark's poor. Its comprehensive program in primary health care services has maintained and improved UMDNJ's significant contribution to the health of New Jersey's largest medically underserved indigent population. This is an appropriate role for University Hospital, and one which all public teaching hospitals embrace. We wish to continue to fulfill this commitment to the people in our Newark community. At the same time, however, the hospital has the highest rate of
uncompensated care in the State, and one which is only partially compensated for by the DRG system. Therefore, University Hospital must depend on State appropriation to support this role.

3. **It has the largest teaching role of any hospital in New Jersey.**

Even as compared to the core affiliates which serve as teaching facilities to UMDNJ's other medical schools, University Hospital accommodates the most extensive body of health professions students in New Jersey, with more than 1,500 medical undergraduates, postgraduate physicians in residency training, nursing students, dental postgraduate students, and students in a variety of allied health professions.

Teaching programs are recognized as a positive factor for a hospital, enhancing the quality of the services, as well as expanding the pool of professionals who will be interested in working at the hospital or in the area when their education is completed. However, educational programs also increase the cost of medical care, and this added cost is currently under scrutiny as to whether it should continue to be allowed under new reimbursement mechanisms. Therefore, its strong educational component also dictates a continued dependence on State subsidy for University Hospital.

4. **It is served by the most comprehensive assemblage of health care professionals in New Jersey.**

Located at the hub of one of the nation's largest academic health centers, University Hospital has the resources of New Jersey's largest body of specialized professional and technical health sciences manpower. Clearly, the ready proximity of many highly skilled specialists serves to enhance the quality and scope of care at the hospital.

At the same time, however, medical "stars" recruited to the NJMS faculty need to be accommodated readily to insure continuity for their program, with state-of-the-art equipment, with highly trained support staff, often with renovations to accommodate a new specialty program. As a State facility, University Hospital is often unable to react quickly. In the Martland days, when the physical plant was inadequate, many specialists chose to locate their service programs at private hospitals where their requirements could be met more readily. The University Hospital now requires the flexibility to accommodate these physicians -- to retain those now being recruited as well as to attract back those who have gone elsewhere.

5. **It was one of the first public teaching hospital to contract with a private corporation for management services.**

When it contracted with Hospital Corporation of America, both University Hospital and HCA had to break new ground. The University clearly developed its contract with HCA not with the primary goal of revenue enhancement, but as a means of improving administrative and clinical support systems to assist the hospital in reaching its full potential as a Statewide referral center.
The University made it clear that given appropriate levels of State support, it will continue its commitment to the medical needy and to education. Therefore, it could not be treated in the same way as a "for profit" facility. Increases in the hospital's revenues have come primarily from improved collection systems, and are not expected to continue to rise. This differentiation has escaped understanding at some levels of the State government, however, where the hospital has begun to be viewed as a vehicle for generating revenues whose resources can be utilized for other State purposes.

6. It houses New Jersey's largest clinical research program.

With its fine academic medical staff, University Hospital accommodates the State's most extensive clinical research program, in which techniques are refined, new technologies utilized and new applications discovered, and new treatment modalities are put into practice.

Without clinical research, biotechnology laboratory work is futile, for it is in clinical application that medical advances actually begin to benefit the patient. Clinical research also brings grant support and patents to the institution, and engenders close ties with industry. A good clinical research program, however, is based on the availability of the newest technology and the most highly skilled personnel.

7. It already serves as a referral center in many specialties and several new unique services are in development.

UMDNJ-University Hospital has already begun to offer New Jersey a range of sophisticated services unique in the State and/or in the region. As the Regional Trauma Center, it has specially trained physicians in attendance around-the-clock and a full complement of specialists on call. It also offers advanced treatment programs in neurosurgery and neurosciences, orthopedics and sports medicine, and a comprehensive sickle cell anemia diagnosis and treatment unit.

In 1981 the hospital was designated as the Statewide Perinatal Research and Treatment Center offering the most advanced care for high-risk mothers and newborns. In addition to the technology which is now available in many hospitals to save premature and high-risk babies, University Hospital offers a full range of prenatal services, including New Jersey's first chorionic villi sampling program, an improved diagnostic technique, and is developing an "in vitro" fertilization program. It also provides a unique multidisciplinary follow-up program for "graduates" of its neonatal unit to help premature babies "catch up" to their peers, and to assure them the best possible quality of life.

The hospital has also initiated excellent programs in cancer treatment to support the multi-disciplinary services of its Cancer Research and Treatment Center. In addition to the radiation therapy service which will be fully operational in September, the hospital has strong medical and surgical oncology programs and is designated as one of only four centers in the nation accredited to offer residency training in the surgical treatment of cancer.
The hospital recently named a chief of otolaryngology, who will soon be initiating one of the nation's first cochlear implant programs, a technique which restores some hearing to the profoundly deaf, and a newly-appointed chairman of pathology plans to install an improved diagnostic service. A cardiac surgery program is also being set up.

The availability of such services means better health care for New Jerseyans. To maintain these services on the same level with similar centers across the nation, however, requires a continuous process of upgrading equipment as new and improved technology becomes available.

For example, a CT scanner purchased four years ago is no longer adequate to the needs of a top-flight neurosciences and neurosurgery program. New generation CT scanners are currently available that vastly improve on older models. This technology continues to change and may be supplanted or complemented by even more advanced capabilities of a Magnetic Resonance Imaging Unit (MRI).

And while specialty referral services produce added revenue for a hospital, they also require increased expenditures. A hospital, particularly one which is attempting to develop and maintain sophisticated services, must make investments in the future health of State citizens by utilizing all of its resources for new services and equipment.

University Hospital Today: At the Crossroads

University Hospital is now at a critical juncture in its development. What happens in the next three years will decide the future of the facility — whether it can achieve parity with the nationally prominent university teaching hospitals, or whether its development will be attenuated at current levels and its promise allowed to fall short of expectations.

Since its opening in 1979, University Hospital has been preparing for the period of development during which the major specialty care programs planned for it could be completed, equipped, staffed and made operational. During its first two years, however, the hospital experienced serious deficits which caused layoffs and hiring freezes, curtailment of existing programs and postponement of planned new services.

The second two-year period, as the hospital's financial status and operational systems improved, were spent primarily in repairing the damage done during the deficit years — in bringing nursing and support staff up to acceptable levels and restoring programs. It is only now, in its fifth year of operation, that University Hospital is prepared, both financially and administratively, to go forward with its plans to expand its major referral services.

Unfortunately, the hospital has reached this juncture as a unit of State government in a period in which State government has committed itself to a policy of "zero growth". An acute care hospital, however, is not a typical unit of State government, and cannot function effectively under guidelines intended for other types of governmental agencies. University Hospital, which is striving to expand and develop its service to New Jersey, clearly requires special consideration, if it is to achieve its goals.
We are aware that there are some sectors of the State government which view that hospital's improved revenues in the last fiscal year as a sign that it should be decreasing its dependence on State support and beginning to repay the huge investment that New Jersey has made in it. We fully agree that as the hospital becomes more self-sufficient, its need for State appropriation will diminish. We do not agree that the hospital has yet reached this point.

The hospital's current needs are acute. During its first four years, while it was losing and then regaining ground, other facilities were moving forward, installing computerized systems for information and acquiring new technology for diagnosis and treatment. The hospital currently requires some $19-$20 million in high technology equipment just to maintain and expand its current programs at a level appropriate to a university teaching facility. The proposed initiation of new programs requires even further expenditures, both in equipment and in support personnel.

At the same time, the future of reimbursement formulas remains unclear, and decisions which will be coming forward in the near future could put University Hospital, with its high rate of uncompensated care and its extensive educational program, back into a deficit situation.

**How the State Can Help**

Clearly, UMDNJ-University Hospital requires an extraordinary commitment from all sectors of State government if it is to succeed in meeting the goals carved out for it. We feel that the hospital requires expanded flexibility to allow its development as a true university hospital.

Therefore, we ask the following considerations from the State:

1. Continue direct State appropriations to University Hospital at FY '85 levels, for at least five years. Ultimately, a funding formula could be developed to determine the level of State appropriation necessary to support the education and uncompensated care factors.

State appropriation is required to support the hospital's uncompensated care, as well as its educational programs. For both of these factors, needs may be increasing rather than diminishing within the DRG system. University Hospital is the only hospital in the State whose rates do not fully cover its uncompensated care, since the hospital provides a total of $40 million in uncompensated care and only $10 million is covered within the DRG rates. Our recent rate appeal at the State level, in which we sought to build into University Hospital's rates a more realistic percentage of indigency care, was denied on the basis that State appropriation is supposed to cover the gap. At the Federal level, current proposals could eliminate part or all reimbursement for educational costs in rates permitted to teaching hospitals.

Therefore, it is important that a set level of State funding continue for UMDNJ-University Hospital. However, if current budgeting trends continue, the hospital's direct appropriation will soon be eliminated.
2. Removal of State budgetary restrictions on UMDNJ—University Hospital's revenues and expenditures.

Currently, the hospital expenditure levels are capped within the State budget, and if its revenue exceeds projections, the extra amount then becomes escrow. The hospital then has to compete, after the close of the fiscal year, with other areas of State government to retain and spend its own funds. Even though the hospital can demonstrate need for the escrow, some portion has been channelled to other programs.

The hospital needs the flexibility to spend all of its revenue during its developmental period, in order to meet its own needs. Therefore, the hospital's development would be best served by a policy which uncapped its expenditures in relation to its revenue. This would allow the hospital to function the way other hospitals in the State do — to spend the money it generates as it needs to in support of its programs.

3. Exempt UMDNJ from State salary caps and permit the University Board of Trustees to set appropriate compensation scales.

While this issue affects the entire University, it will become particularly critical for University Hospital in the next few years. Competitive salaries for senior hospital administrators and other highly specialized personnel are now well outside of State cap limitations. While HCA is contracted to manage the hospital, the top management personnel are employed by the corporation, but when administration returns to the University at the end of the contract, we could be forced back to offering salaries significantly below those offered by other New Jersey hospitals.

4. Allow UMDNJ greater flexibility to purchase under an increased advertised bid limit.

Although UMDNJ's enabling legislation gives the University the authority to purchase for itself, it is required to adhere to State law, which sets the advertised bid limit. The delays and difficulties caused by the unrealistically low limit of $2,500 often put the hospital in an unfavorable position with respect to private facilities, and sometimes endangers the quality of patient care. A bill which is currently in the Legislature would raise the University's minimum for advertised bids to $12,500, a level which would improve the hospital's situation greatly.

5. Promote an understanding of University Hospital's special nature among health planning officials.

Traditionally, University Hospital has been made to compete on equal footing with private institutions in the certificate of need process for permission to undertake specialized programs or to acquire high technology equipment. In other States, university teaching hospitals are given precedence in the certificate of need process, in recognition of the special needs of their education and clinical research programs.

UMDNJ—University Hospital is New Jersey's hospital. By 1990, it could be ranked among the finest facilities in the United States. Its success depends upon the State's willingness to nurture it and to allow it to build upon its achievements. With such a commitment, it will become a source of pride and a valuable resource for all New Jerseyans.