

Dean's Newsletter

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Table of Contents

- Executive Committee Update: Report by PA Pizzo
- Clinical Research Task Force
- Noteworthy Events
 - Student Financial Aid
 - The Vera Moulton Wall Center
 - High-Tech High-Touch
 - Junior Faculty Gathering
 - Asian Liver Center
- Congratulations:
 - Professor Michael Levitt
 - Professor Roeland Nusse
- Appointments and Promotions

Executive Committee: An Overview of the Financial Landscape and Challenge Facing Stanford University School of Medicine.

At the Executive Committee Meeting on Friday May 19th, I reviewed with Department Chairs and other faculty leaders some of the broad financial factors and challenges that currently impact the missions of academic medical centers, including Stanford. I will review a portion of this discussion with you in this Newsletter. *I would strongly recommend that you read this presentation and become familiar with the issues being discussed.*

Although their balance varies, medical schools have four major missions: education, research, clinical care and community service. These discrete missions are unified under the general umbrella of an “Academic Medical Center” (AMC) and their interrelations can vary from school to school. There are 125 medical schools in the USA that are associated with both private and public universities. Some, such as Stanford, are “research intensive”, whereas others have a greater emphasis on clinical training or community service. Except for the Uniformed Services University for the Health Sciences in Bethesda, Maryland, which receives support through the federal government, the public schools are affiliated with state universities and receive various degrees of support from that association (e.g., UCSF is such an example).

Of course Stanford University School of Medicine is part of an extraordinary private university, but even within the University, it also has some unique features. Along with the School of Business, the School of Medicine is a “formula” school at Stanford and as such is responsible for its overall financial performance. Accordingly, it does not receive general operating dollars from the University *per se*, and maintains its own reserves and endowment to help support its mission. There are, however, a number

of important financial, administrative and academic relationships that flow back-and-forth between the University and the School of Medicine. Overall these provide strength and excellence to the entire enterprise.

As do other medical schools, Stanford University School of Medicine and Medical Center supports four major missions: education, research, clinical care and community service. Although each of these four missions have different sources of funding, and different expenses they must bear, there are many interrelations among them. In many ways, the missions are inextricably linked and even interdependent. At Stanford, the emphasis on research, and the excellence of its students, faculty and programs, makes it one of the very best schools in the nation.

To better understand the financial challenges facing AMC's in general and Stanford specifically, I have listed below the general sources available to support key missions.

	Sources (Revenue)	Uses (Expenses)
EDUCATION:	Student Tuition Gifts Endowment Earnings Earnings on Reserves Patent Income Dean's Tax	Faculty/Staff Compensation Financial Aid Facilities Operations and Maintenance Academic Support Services General Administration
RESEARCH:	Direct Research Funding Indirect Cost Recovery Gifts Endowment Earnings Earnings on Reserves Patent Income Dean's Tax	Faculty/Staff Direct Research Compensation Facilities Operations and Maintenance Academic Support Services General Administration Unfunded Faculty Research Time Indirect Cost Recovery (Formula)
PATIENT CARE:	Professional Services Income Gifts Endowment Earnings Earnings on Reserves Patent Income Dean's Tax Clinical Program Development Clinical Service Payments	Faculty Physician Compensation Facilities Operations and Maintenance Clinical Staff Compensation Practice Expense Hospital Allocated Costs

What do some of these terms mean and how do they relate to the School's current financial landscape?

Sources or Revenues

- **Student Tuition** includes the payments to the University for the student's enrollment and matriculation. The University transfers these payments to the School of Medicine.
- **Gifts** are contributions to the School for either a specific purpose ("restricted") or for discretionary use ("unrestricted") to support missions in education, research, clinical care.
- **Endowment Earnings:** a percentage from the interest earned from endowment (generally 5 %) is made available for support of missions. In the School of Medicine both the Departments and the School hold endowments and these are either restricted or unrestricted.
- **Earnings on Reserves:** Income in excess of expenses can be held in reserves and these reserves can earn income from investments. The Medical School's Basic and Clinical Departments as well as the School and the Hospitals (SHC and LPCH) hold reserves that vary in size and utilization.
- **Patent Income:** When a discovery yields royalty payments, the money is distributed to the School, the department and the patent holder. These earnings can generally be used to support key missions.
- **Dean's Tax:** The Professional Income (i.e., that which is billed and collected by physicians) from the School's Clinical Departments is taxed directly and generally referred to as the Dean's Tax. In most medical schools this is 10% of the "professional income". At Stanford the Dean's Tax is currently 6.1% of the professional income of the clinical faculty/departments. The Dean's tax is used as a discretionary source to support basic and clinical science programs, initiatives and missions.
- **Direct Research Funding**, whether from Federal (e.g., NIH) or non-Federal (e.g., foundations, industry) is the payment to support faculty/staff/trainee salaries and/or research supplies
- **Indirect Cost Recovery (IDC)**, whether from Federal or non-Federal sources, the IDC supports infrastructure costs (e.g., building services, administration, etc). The IDC has a calculated and negotiated rate with the federal government (i.e., NIH) as a percentage of the "direct research funding". The IDC varies among non-Federal sources but generally falls below the negotiated federal rate and thus requires additional institutional support.
- **Professional Services Income** refers to payments from payers (e.g., HMOs, insurance companies, state (e.g. Medi-Cal) or federal sources (e.g., Medicare). These payments include support to the hospital or clinic (sometimes referred to as Part A) and professional income (e.g., for the services billed by MDs and other providers (e.g., Nurse Practitioners) and sometimes referred to as Part B. Of note, both the Hospital (net) collections and professional collections are only about a third of the "gross charges" for care. Moreover, as noted elsewhere, these payments almost always fall below the costs for rendering the care.
- **Clinical Program Development** generally includes support from the Hospital (as a transfer to the School's Clinical Departments) to support new program development (e.g., a new or expanded clinical service that may require

additional medical staff) whereby an investment is needed to get the program up and running

- **Clinical Service Payments:** These include payments by the Hospital that are transferred to the Medical School's clinical departments to cover the expenses related to physician supervision of necessary (albeit not reimbursable) services. This might include supervising a clinical laboratory, clinical program or an essential or mission-critical clinical service.

Uses or Expenses

- **Faculty/Staff Compensation** refers to the payment of faculty and staff salaries, including benefits. For the School this includes everyone: basic and clinical faculty, medical school and hospital staff.
- **Financial Aid** is support that offsets the costs for education and can come from either direct grants or loans. As noted below, Stanford has one of the most robust student aid programs in the nation. Clearly this is important for our students and their future, but it does require the use of School endowment funds to support this important need.
- **Facilities Operation and Maintenance** are the costs for operating land and buildings. Of note, the recent increased costs for energy add additional strain to this budget
- **Academic Support Services** are the programs that support the educational programs of medical students and graduate students. These programs include student services and Lane Library.
- **General Administration** is the support for Medical School administration. These can be central or departmentally based administrative services.
- **Practice Expense** includes the costs for staff (e.g., nurses, social workers, etc.) as well as supplies (e.g., medications, operating room supplies, etc.) to operate a comprehensive clinical program in both an inpatient and outpatient setting.
- **Hospital Allocated Costs** (a.k.a. "overhead) includes costs for space, administration, etc.) through a complex step formula.

The challenge facing AMCs, including Stanford University School of Medicine, is that the costs for education and research cannot be met by the tuition or research dollars alone and thus other sources are needed. For example, tuition payments cover only approximately a third of the expenses associated with medical education. Moreover, even though Stanford faculty achieve the highest per capita level of competitive grant support than any other medical school in the nation, there is still a shortfall of 10-20% of research expenses that are not covered from the direct or indirect dollars from research grants. In the past, clinical income was one of the sources used to help support the missions in education and research in academic medical centers. Today, that is increasingly difficult or impossible. Indeed, as you have read repeatedly in the newspapers, the revenue to pay for clinical care, especially in teaching hospitals that care for complicated patients or the uninsured, is not met by current insurance payments. Thus the dilemma and challenge facing academic medical centers today.

The relationships within AMCs vary at different universities and medical schools in the USA. In most American Medical Centers, the education and research programs reside in the medical school. Some medical schools “own” their teaching hospital whereas others have affiliations with hospitals that are independently owned and operated. Some teaching hospitals also have large research operations, including basic and clinical science programs. Certain teaching hospitals are governed by Boards of Directors (i.e., Trustees) that are independent and separate from the medical school or university, whereas others have overlap or even joint governance. Each model has advantages and disadvantages, and the relationships between teaching hospitals and medical schools have evolved and changed during the last decades, influenced largely by the overall mission of the university and school as well as regional and local factors, cultures and, of course, financial support. Quite naturally, the relationships are either enhanced or strained when the funding sources for the interrelated missions are robust or limited.

The organizational interrelationships at Stanford are unique and enormously important for the future success of the School and the optimization of the health of our communities, locally and globally. At Stanford, both the Sanford Hospital and Clinics (SHC) as well as the Lucile Packard Children’s Hospital (LPCH) are non-profit public benefit corporations affiliated with Stanford University. SCH and LPCH are led by separate CEOs but share selected administrative functions. Each Hospital is also governed separately by a Board of Directors, although there is overlap in composition.

The primary purpose of SHC and LPCH is to “support, benefit and further the educational, scientific and charitable purposes of the Stanford University School of Medicine”. Accordingly, SHC and LPCH are intimately and integrally related to the missions of the School of Medicine: the education and training of future physicians, and the acquisition of new knowledge through basic and clinical research that ultimately benefits the health of adults and children through high-quality and cost-effective health care services. These important affiliations, shared missions, and joint governance help assure that the discoveries which emerge from our research programs, now and in the future, will be available to patients cared for at SCH and LPCH. That will help assure that our community within Stanford, and its surrounding regions, benefit from excellent care and new discoveries.

However, these important relationships are clearly challenged in the current fiscal environment. Since education and research require supplemental support to sustain their excellence, new approaches must be found to help pay for these essential missions. This is also true for clinical programs that are not adequately and appropriately compensated in the current healthcare marketplace. However, because of the overlapping and intertwined flow of funds between the Hospitals and the School as well as with the University, shortfalls in one area create challenges in another. For example, as the current SHC operating budget has been in deficit, largely because of inadequate payments from HMOs and the government for clinical services, a reduction in payments from the Hospital to the clinical faculty for professional services has occurred. When that happens, it creates a challenge for the clinical departments and for the School to help

make up these deficits. While such changes in funding create tensions and even divisiveness, they compel us to focus on our primary missions and to find ways to work creatively to assure they are sustained.

This will require making choices. Choices in the nature and scope of our educational programs, in the focus and size of our investments in research, and in the scope and depth of the clinical programs that are provided. I outlined some of the areas of strategic focus and investment I think are important for the School of Medicine in my initial Newsletter (April 2, 2001) that is available on the Medical Center Homepage.

Choices are also necessary in our clinical programs, focusing on those we can do uniquely and well, and in a manner that complements those services offered by other providers in our community. At this juncture, the primary areas of focus for both the adult and pediatric clinical programs will be in Cardiovascular Diseases, Cancer, Brain and Behavior and Surgical Specialties. Wherever possible, these clinical centers of excellence will be enhanced by basic and clinical research agendas. Naturally this means that some other important areas of medicine will be de-emphasized at Sanford, largely because they can be offered by other providers or because they are not as prime for new development and innovation. This also means that we will need to work closely with our colleagues at the VA Hospital, Santa Clara Valley Medical Center and with other community partners to develop an integrated and more embracing academic medical center.

During this period of transition, however, one thing is absolutely clear. We must sustain the integrity and relationships between our Hospitals & Clinics, our School of Medicine and our University. This will require sacrifice and commitment by all. It will require rigorous management of hospital and school operations and resources. It will require accommodation to reductions in services that have been previously valued. It will require even more careful investments in program development, recruitment and capital expansion. It will require us to think rigorously about every decision that requires school or hospital resources and to do so with a Medical Center perspective, as well as that of a student, investigator, clinician or staff member.

The transitions in health care in general, and Stanford specifically, will also require time, patience and a community that is both deliberate, unified and committed. Although the financial challenges at SHC are significant and have an impact across the School and University, it is important that we stand with and behind our Hospitals. The problems they have encountered, especially at SHC, following the merger and de-merger, and in this difficult health care market, can and will be overcome. I am pleased that both our clinical and basic science faculty leaders have pledged their support to work on behalf of the Medical Center through this difficult period. I am pleased that our University leadership and Board of Trustees remain supportive. We have no choice but to work together to assure that future generations will benefit from the success of Stanford University School of Medicine and Medical Center.

Clinical Investigation Task Force

On Tuesday May 15th, Dr. Charles Prober, Professor of Pediatrics, chaired the first in a series of meetings for a Task Force I appointed to evaluate the resources and infrastructure needed to make clinical investigation as strong and successful at Stanford as possible. Patient-oriented clinical research (which includes translational investigation and clinical trials as well as behavioral, epidemiological and health sciences research) requires institutional resources and commitment to optimize its success. Given the extraordinary opportunities now emerging in the immediate post-genomic era as well as those emanating from medical devices, information technology, and other clinical research venues, it is important for Stanford to seize these opportunities and become a pacesetter in clinical research.

Accordingly, Dr. Prober assembled nearly 50 individuals who expressed an interest in optimizing clinical research at Stanford and offered their insights and suggestions. The participating individuals came from the basic and clinical science faculty as well as from nursing and research administration. It is important to take note of the number of individuals who expressed an interest in clinical research and the various disciplines they came from.

In this first meeting, Dr. Prober requested that attendees comment on current impediments to conducting clinical research at Stanford along with suggestions for how to improve the opportunities. There were a number of important suggestions as well as considerable overlap in some of the areas of concern. Thankfully, many of the impediments (e.g., contracting delays, IRB reviews) that were raised are potentially solvable although resource utilization will need to be considered carefully.

Dr. Prober plans to meet biweekly and to have a report available within the next 2-3 months. If you have any suggestions to offer regarding clinical research at Stanford, please contact Dr. Charles Prober at CProber@stanford.edu.

Noteworthy Events

During the past weeks there were several celebrations commemorating success in important missions and accomplishments. Following are some highlights:

Student Financial Aid Dinner. Thanks to wonderful contributions from patrons for education, Stanford School of Medicine boasts one of the most generous grant-to-loan ratios of any medical school in the nation. This is of tremendous value to Stanford students, enabling them to graduate among some of the lowest debt burdens in the USA. On Tuesday evening, May 15th, faculty and students gathered for a festive dinner celebration at the Faculty Club to honor the wonderful donors who helped make the Student Financial Aid Program at Stanford so successful. It was a true privilege to witness how proud and committed donors and benefactors were about the students they helped support. It was equally wonderful to see how appreciative our students were about the financial support they had received and to learn more about the remarkable

educational experiences they are having at Stanford. I was particularly pleased by the presentation of Cha Randle Jordon, George Matcuk, and Mary Pinder, who spoke eloquently on what the Financial Aid Program has meant to them and their families.

Wall Center Dedication. Thanks to an extraordinary anonymous gift of \$31.8 million, The Vera Moulton Wall Center was officially inaugurated at a celebration on Thursday May 17th. The Wall Center will unite the Lucile Packard Children's Hospital and the Stanford Hospital to help transform our knowledge and treatment of pediatric vascular disease in both adults and children. The Wall Center will support professorships as well as fellowships in both pulmonary medicine and bioengineering, and will promote interdisciplinary research and patient care in both children and adults. Special thanks go to the Center's Director, Dr. Jeff Feinstein, Assistant Professor of Pediatrics, Division of Cardiology and Dr. Romona Doyle, Co-Director of the Wall Center and Assistant Professor of Medicine, Division of Pulmonary Medicine and Critical Care. All of our heartfelt appreciation must go to the wonderful anonymous donor who helped make the Vera Moulton Wall Center a reality.

High-Tech High-Touch. On Thursday evening, May 24th, the Lucile Packard Foundation held its second High-Tech High-Touch Event. The theme was to demonstrate the important convergence of high tech research discoveries that impact the health of children in tandem with the importance of "high touch" supportive care that benefits children facing the challenge of serious disease. The event brought together parents, donors and pediatric faculty and featured show-and-tell demonstrations as well as wonderful presentations. I want to particularly thank Drs. Oscar Salvatierra, Professor of Surgery and Pediatrics and Dr. Allan Reiss, Professor of Psychiatry and Behavioral Sciences for wonderful presentations to an audience of families and donors. I also want thank Dr. Harvey Cohen, who epitomizes "high-tech high-touch" and served as the model host for the 'Packard Brand of Care'

Junior Faculty Gathering. Thanks to the Provost's Office, a gathering of junior faculty from the School of Medicine and Biological Sciences took place on Tuesday evening, May 22nd at the Faculty Club. This offered an opportunity for junior faculty to get to meet each other in an informal setting. Dr. David Stevenson, Senior Associate Dean for Academic Affairs and I represented the School of Medicine and were both pleased and privileged to meet new colleagues and learn about the exciting research they are conducting at Stanford.

The Asian Liver Center's Jade Ribbon Campaign. Nearly 15% of Asian Americans are infected with Hepatitis B and that of these, one-in-four will eventually die of liver cancer. Moreover, while Asian Americans represent only 4% of the current USA population, nearly 50% of the 1-1.5 million chronic hepatitis B carriers in the USA are Asian. To help address this important health disparity problem, Dr. Samuel So, Director of the Liver Cancer Program and of the Asian Liver Center at Stanford, has engaged with the Asian and Pacific

Islander (API) American communities in the San Francisco area to develop a public awareness campaign regarding this problem. The Jade Ribbon campaign, which was launched officially on Monday, May 21st will consist of the dissemination of public health information to the Asian community regarding knowledge about hepatitis B, its impact on health, especially in the Asian community, and its prevention. This is an excellent example of a program that addresses an important community health need. I want to congratulate and commend Dr. So and his colleagues for this important initiative.

Congratulations

Dr. Michael Levitt, Professor and Chair, Department of Structural Biology, was elected a Fellow in the Royal Society. The Royal Society was founded in 1660 to promote the natural and applied sciences and by election honors individuals who have made exceptional contributions. Professor Levitt's work on protein folding and computational analysis of structure is renowned and important. Please join me in congratulating Dr. Levitt.

Dr. Roeland Nusse, Professor and Chair of the Department of Developmental Biology has been elected to the American Academy of Arts and Sciences for his seminal work on the role of Wnt signaling in both development and cancer. Well deserved congratulations to Dr. Nusse.

Appointments and Promotions

- Promotion of **David J. Terris** to Associate Professor of Surgery, with tenure, effective May 1, 2001
- Promotion of **Mark A. Kay** to Professor of Pediatrics and of Genetics, with tenure, effective May 1, 2001
- Promotion of **Yueh-Hsiu Chien** to Professor of Microbiology and Immunology, with tenure, effective May 1, 2001
- Promotion of **Christopher K. Payne** to Associate Professor of Urology at SUMC for the term 5/1/00-4/30/06
- Reappointment of **Kenneth L. Cox** to Professor of Pediatrics at LPCH, effective 5/1/01
- Promotion of **Neyssa M. Marina** to Professor of Pediatrics at LPCH, effective 5/1/01
- Promotion of **Fernando S. Mendoza** to Professor of Pediatrics at LPCH, effective 5/1/01

- Reappointment of **Alistair G. S. Philip** to Professor of Pediatrics at El Camino Hospital, effective 5/1/01

Please extend your congratulations to each of these faculty members.

*******PLEASE FORWARD THIS COMMUNICATION TO YOUR STAFF*******