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STATE OF IOWA
LEGISLATIVE FISCAL BUREAU

State Capitol
Des Moines, Iowa
50319

MEMORANDUM

DATE: August 12, 2002
TO: Legislative Oversight Committee
FROM: Mary Shipman
RE: University of Iowa Hospitals Clinics (SUIHC) Clinic System

This memo contains revised information that was provided at the Legislative Fiscal Committee meeting on July 25, 2002, in response to an article in the Des Moines Sunday Register.

Attached are the following five documents:

- **Attachment A** – Text of the Sunday Des Moines Register article and related sidebar articles published July 7, 2002, regarding the SUIHC Clinic System
- **Attachment B** – Memo from Gregory Nichols at the Board Office dated August 5, 2002
- **Attachment C** – Memo from the Attorney General's Office dated September 8, 1994
- **Attachment D** – Memo from Frank Stork at the Board Office dated January 5, 2001
- **Attachment E** – Board of Regents Docket Memo SUI B-8 dated March 8, 1999

Brief Funding History: The Board of Regents authorized two transfers totaling \$30.9 million to the University of Iowa Health System. The first transfer of \$18.9 million was authorized by the Board on October 18, 1995. The second transfer of \$12.0 million was authorized on March 8, 1999. In both transfers, half of the funds were provided by the SUIHC and half of the funds were provided by the SUI College of Medicine.

The University of Iowa Health System was created as a private non-profit corporation and has several private subsidiary companies. The University of Iowa Community Medical Services, Inc. is the private subsidiary corporation that owns and operates the clinic system referred to in the Des Moines Register article. Financial information regarding the private corporation that owns and operates the clinics is not available to the public. Contrary to the Des Moines Register article however, the Fiscal Bureau has requested financial information regarding the System and its subsidiaries and the Board Office declined to provide the information (see item number

2 in **Attachment C**). Stacey Cyphert, Senior Assistant Director of Statewide Health Services at the SUIHC, indicated at the Legislative Fiscal Committee meeting on July 25, 2002, that a financial audit of the Health System would be released sometime during August 2002. That audit has not yet been received by the LFB. The audit that Mr. Cyphert referred to is for the non-profit parent corporation of the clinic system and will not contain specific details regarding the clinic system, such as the purchase price of the clinics or their current fair market value. When the audit is received, the LFB will provide copies to the Fiscal and Oversight Committees.

State Funding: According to the SUI (**Attachment B**), no State General Fund money was included in the funds transferred to support the Health System or the clinic system.

U OF I PLAN FOR CLINICS BLEEDS STATE CASH

Published in the Des Moines Sunday Register dated July 7, 2002

Eight years into competition with managed care, university-affiliated private companies struggle.

By COLLEEN KRANTZ
REGISTER IOWA CITY BUREAU
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Iowa City, Ia. -The University of Iowa designed a group of health care companies in the 1990s to compete as managed care took hold of the health industry.

Eight years and millions of dollars in state money later, the companies are bleeding red ink. They have gone to the Iowa Board of Regents twice for help, and their network of clinics is half the size it was expected to be.

The private companies created under the auspices of the state's University Hospitals in Iowa City and the U of I's College of Medicine have been plagued by:

- * Losses of about \$4 million annually over the last four years.
- * Low and declining reimbursements from government health plans.
- * Questions about setting up state-backed clinics in towns where private clinics already existed.

The businesses were to have become self-sufficient at least two years ago, but they continue to lose money. Since late 1995, the Iowa Board of Regents has funneled nearly \$31 million in state money through a private parent company called University of Iowa Health System. All but \$6.8 million has been distributed.

Ownership of several clinics has been transferred to the public arena, becoming in fact part of the University of Iowa. The university now pays one of the companies to run several clinics that state money established, and pays to use the clinic's equipment.

The future of the companies is uncertain:

- * Officials are considering options for reorganization, including making the companies part of the public university.
- * A university official acknowledges that having a state entity establish private companies might not have been the wisest move.
- * The lack of public oversight into how the companies use public money has generated outside criticism.

The University of Iowa Health System board of directors hopes to avoid returning to the Board of Regents for another handout. The regents, like most state entities, are dealing with the state's budget crisis.

"I think we'd prefer a more definitive solution than just continuing the status quo," said Bill Hesson, a Health System board member and an associate director at University Hospitals.

It started in 1994 with the goal of working with a health insurer. The university wanted to be sure it had doctors involved as primary-care physicians who would become gatekeepers to the rest of the medical world.

The regents agreed in October 1995 to direct \$18.9 million to University of Iowa Health System that would have otherwise been used by University Hospitals and the College of Medicine on operating expenses or new purchases. In March 1999, the regents approved the diversion of \$12 million.

All but \$6.8 million of that money, much of which came from patient payments, has been disbursed. In recent years, the health system has reported annual net losses for its group of subsidiaries ranging from \$3.8 million in 1998 to \$4.67 million in 2001.

Little information has been made public about the financial standing of the system's nine subsidiaries. University officials say public records and meetings laws do not apply and have repeatedly declined to share records. The university recently agreed, however, to open the records of the parent company, U of I Health System, because the board includes university officials who are bound by open-records laws.

Those records suggest that most of the financial hemorrhaging occurs through the company that runs a group of medical clinics across eastern and central Iowa. University of Iowa Community Medical Services accounted for \$1.6 million of the health system's \$1.8 million in losses during the first six months of 1999.

Neither Dr. Robert Kelch, now dean of the College of Medicine and vice president for statewide health services, nor U of I President Mary Sue Coleman, who is leaving in August to become the president at the University of Michigan, returned calls seeking comment. Coleman became chairwoman of the U of I Health System board in 1996. Kelch also sits on the health system board.

At times, secrecy appeared to be a goal.

In July 1995, then-board chairman Henri Manasse Jr., who was U of I vice president of health sciences, "noted that the intent in creating UIHS was to create a mechanism to insulate the business activities of it and its subsidiaries from public scrutiny by potential competitors," according to minutes from meetings of the U of I Health System board.

The minutes of a December 1994 meeting state that Drew Ives, a lawyer at the U of I who then served as an adviser to the health system board, "noted that it was possible to create buffers that would shield the records of subsidiaries from public disclosure, but that it would be difficult to protect the official records" of the health system because university officials sit on the board.

Before a request from the Des Moines Sunday Register, no one outside the university had asked to see the U of I Health System records, university officials said.

University Hospitals, like medical centers throughout the country, wanted an early foot in the door of managed care. For many hospitals, that meant diversifying, said David Burnett, vice president of University Health System Consortium, an Illinois-based group that represents many of the country's academic medical centers. Hospitals purchased primary-care practices, got involved with health care plans, set up physician groups and even added facilities such as nursing homes, he said.

In Iowa City, heads turned to Des Moines, where the state's largest health insurer, Wellmark Blue Cross Blue Shield, is based. The university could not have invested in a partnership.

"The University of Iowa Health System was created so we would have a vehicle that would be permitted to invest since state agencies are prevented from doing so directly," said Hesson, who is secretary and treasurer for the parent company, University of Iowa Health System.

U of I Health System invested about \$3 million with what is now known as Wellmark Health Plan of Iowa. It also set up a physician network as a separate company and established the company that began buying primary-care clinics.

U of I Health System, alone or with other businesses, created more companies, which provided everything from cancer care to occupational medicine services to telemedicine.

A 1994 letter from the state attorney general's office supported the university's creation of the private companies. The letter, however, points out that there is no legal precedent in Iowa courts for such an arrangement.

Burnett, whose organization represents teaching hospitals, said many other medical centers that purchased or set up groups of primary care clinics have struggled financially.

"In some cases, these relationships were very well managed and the organization did achieve results," Burnett said. "But, generally speaking, one or more problems occurred and people began to do analyses of the financial consequences and a number that came out in the mid-to late '90s was that each of these primary-care physicians was costing about \$100,000 (in losses) a year."

Some losses stemmed from the fact that doctors who had once owned their clinics were now run by large medical centers. As employees, they lost some of their incentive to keep expenses down, Burnett said.

Also, having the doctor's offices didn't guarantee referrals to the main hospital. Some patients didn't want to wait to see a specialist at a teaching hospital if they could get in somewhere else sooner, he said.

Low and declining reimbursements for federal programs Medicare and Medicaid have hurt the clinics set up by the University of Iowa Community Medical Services, said Terry Protector, the company's executive director. Rural areas where many of the clinics were set up tend to have more senior citizens and others who rely on government plans, he said.

"We've worked very hard to tighten our belt on the expense side, but now we need to work on our members of Congress to change those reimbursement levels," Protector said.

One thing is clear, according to Burnett: No one wants to go through this again.

"No new purchases are being made now," he said. "In the places where they have these types of expanded primary care practices, they realize they need to manage them better and are putting in incentives about productivity . . . and in some cases they are saying this didn't work and we are going to close this down."

Minutes from U of I Health System meetings hint at growing frustration among board members who expected the companies to turn a profit by 2000.

During a September 1999 meeting, Coleman urged the rest of the board to make sure "not to keep ventures we can't justify under any circumstances."

By that time, the regents had authorized the \$31 million for the companies.

U of I Health System board members predicted in March 2000 that the state money might last three to four more years. Today, the money is running out and the system is still operating at a loss, Hesson, a board member, said.

Kelch "stated a plan will need to be developed in the next couple of years, as it will be extremely difficult to repeatedly approach the regents for funding," according to the minutes from that March 2000 meeting.

Hesson said, however, that losses per physician at the U of I clinics are comparable with losses experienced by other medical centers.

"We are well within the average, and actually, I think, doing better than average," Hesson said.

Still, there is general agreement that more changes are needed, he said.

"We do continue to look at other ways of structuring the primary-care network both to improve efficiency and . . . deal with what appears to be an ongoing need to subsidize practices," Hesson said.

Returning to the regents for more money isn't a top option, he said.

Kelch, now vice chairman of the U of I Health System board, noted during a March 2001 meeting that "from a political standpoint we can no longer tolerate losses in a subsidiary company."

The U of I Health System minutes mention an effort in 1995 to keep the regents fully informed of the company's activities. But by March 2000, the U of I Health System board was discussing how many new regents were probably unfamiliar with the companies.

Of the current regents, only Owen Newlin, now president, was on the board when University of Iowa Health System was first given the OK to receive state money. Newlin didn't return a phone call seeking comment.

Regent David Fisher, who was named in 1997, said he is familiar with the company because he has experience on hospital boards.

"It's a very complicated issue and I know they could grasp it, but it would take a little time. It did me, and I had a background in this area," Fisher said.

David Neil, a regent since 1999, said he wouldn't be able to discuss particulars of the operations of U of I Health System without looking back through regent documents.

"I know it was approved and it was set up to assist in some places and make sure we have internships out there in rural areas, but I can't speak with any authority," Neil said.

Academic opportunity for medical students was cited in the mid-1990s by the university as one of the reasons for creating U of I Health System. During a 1998 meeting of the health system board, however, it was noted that the clinics had yet to be used much for educational purposes.

"Ideally, about 2 to 5 percent of the time we'd like to have some students or residents in our clinics," said Protector, the Community Medical Services executive director. Some clinics meet that goal. Others don't, he said.

In late 2000, ownership of three clinics was transferred from the private company to the public university. Those clinics -in Lone Tree, North Liberty and Iowa City -are staffed by university physicians.

University of Iowa Community Medical Services, the subsidiary that still owns eight primary-care clinics, was paid \$28,500 last year to manage the three Johnson County clinics. The university also paid the corporation \$59,000 for wear and tear on equipment, Hesson said.

Similar payments are expected this year, he said.

The Iowa Legislature hasn't formally discussed the subsidiaries, said Mary Shipman, a senior legislative analyst with the Legislative Fiscal Bureau. Because University Hospitals supports itself almost entirely with patient payments, the only money regularly allocated directly to the hospital is for care of indigent patients.

"I would say there is very little legislative oversight," Shipman said.

The state auditor's office receives some information on the companies in University Hospitals' audit reports, spokesman Warren Jenkins said.

"With the state budget situation lately, we haven't delved into it real far," he said.

Fisher, a regent, said he doesn't believe the Board of Regents has discussed the financially struggling clinics or other subsidiaries for some time. He supports the original plan.

"The overall goal is to drive patients . . . to University of Iowa Hospitals," he said. "That's where the revenue is really generated."

Hesson, from the university, downplays the importance of referrals. The managed-care environment and the chance to become involved with Wellmark drove the decision, he said.

"The purpose for the involvement wasn't in terms of the question of profitability," Hesson said. "What motivated the university was the opportunity to sit at the table to be part of that relationship" with the state's largest health insurer.

Hesson said he didn't have numbers that show whether the public hospital has benefited.

"I do know those clinics make referrals to us, although the more distant ones make fewer referrals," Hesson said. But University Hospitals gets referrals from dozens of nonaffiliated clinics as well, he said.

James Zahnd, a vice president for Iowa Health System, said the U of I Community Medical Service clinics help make health care accessible in rural Iowa.

"But you are always on dangerous ground, I think, when you set up a state-supported entity to compete with a private entity," said Zahnd, whose system includes Iowa Methodist Medical Center in Des Moines, St. Luke's Methodist Hospital in Cedar Rapids and a handful of other hospitals.

Dr. David Swieskowski, a vice president at Mercy Clinics Inc. in Des Moines, said the indirect gain or loss to University Hospitals should be used to judge the worth of the private corporations.

"If it benefits the whole U of I medical system, maybe it's a decent investment," said Swieskowski, who is an unpaid clinical lecturer for the university.

He sees the other side too: "If there's no return, then I think they have to look at the investment and shouldn't be doing it."

LETTER SAYS PRIVATE SYSTEM IS LEGAL, BUT IOWA HAS NO LAW TO COVER IT

By COLLEEN KRANTZ
REGISTER IOWA CITY BUREAU

Iowa City, Ia. -The letter that cleared the way for the University of Iowa to invest in private companies left questions about whether the arrangement could withstand a legal challenge.

University officials refer to a letter from the attorney general's office. But the 1994 letter supporting the university's creation of a series of private health-care companies doesn't proclaim the arrangement undoubtedly appropriate.

"Obviously, I have no way of predicting whether the Iowa Court would follow" in backing such an arrangement as a court in another state did, Iowa Deputy Attorney General Gordon Allen wrote. He mentioned a provision in the Iowa Constitution that says state entities "shall not become a stock holder" in a private corporation.

In the letter, Allen said the university's proposal to create private companies seemed valid because money would be channeled through a nonprofit holding company, University of Iowa Health System.

"Neither the state nor university would directly own stock of any private corporation," he wrote.

The arrangement has not been legally challenged, said Bill Hesson, a U of I Health System board member and an associate director of University Hospitals.

The Board of Regents authorized University Hospitals and the College of Medicine to distribute \$31 million in state money to U of I Health System. In turn, that company buys stock in its nine subsidiary companies, U of I Health System board minutes show.

Hesson said there isn't a clear precedent.

"I think the reason the attorney general wrote the letter that way is we'd never had a case in Iowa, so there's no Supreme Court ruling to say there is the precedent," Hesson said. "So they ended up looking at decisions in other states," although those wouldn't have much significance in Iowa courts.

Allen's letter said the fact that the regent allocation would apparently be a loan was reassuring. But the regents office said recently that the money authorized for the companies was not considered a loan. The companies have no plans to repay the \$31 million, Hesson agreed.

The letter mentioned a loan because at the time the financial arrangements were still being discussed, he said.

When the expenditure is questioned, the university argues that no taxpayer money was used. The Legislature didn't allocate money directly for the project, Hesson points out. He argues that much of the money came through patient fees paid to University Hospitals.

The only direct state allocation regularly provided to the hospital is for the care of indigent patients. Otherwise, the hospital supports itself with patient fees.

Allen used that logic in his letter, as well.

"The structure I have reviewed indicates that no tax dollars will be at risk. The funding for the proposal is to come from nonappropriated dollars of the hospital," he wrote.

Hesson acknowledged, however, that patient fees are technically state money.

"The university is a state entity, so in that sense, yes, it's state money," Hesson said. "But not in the sense of money being raised through appropriations. These are not tax dollars."

SOME WONDER ABOUT THE VALUE OF SYSTEM'S TROUBLED CLINICS

By COLLEEN KRANTZ
REGISTER IOWA CITY BUREAU

Tipton, Ia. - A network of medical clinics in eastern and central Iowa has fallen far short of its intended reach, and some people now question whether all the clinics were needed.

The plan for University of Iowa Community Medical Services was to have as many as 20 clinics across Iowa by now, the private corporation's executive director said five years ago. Instead, the company set up by the University of Iowa is slowly ridding itself of poorly performing clinics.

"We are basically trying to stabilize and work with the clinics in the communities that we have," said Terry Protector, executive director of Community Medical Services, one of nine health care companies set up under the parent company University of Iowa Health System.

In the seven years since Community Medical Services was created, at least four clinics have closed, and ownership of three has been transferred to public entities: U of I Hospitals and the U of I College of Medicine. Eight primary-care clinics and one oncology clinic remain in the Community Medical Services network.

Reaction has varied in towns where Community Medical Services set up clinics. Some embraced the clinics as filling a need for health care, while others question why a state-subsidized clinic would be set up in towns where doctors' offices already exist.

The clinic in Tipton, where two other medical centers already were set up, closed last summer after being open three years. It had become apparent the clinic wouldn't draw patients quickly enough.

"I don't think they did their homework," Tipton Mayor Don Young said. "I just didn't feel it was needed. We're close to the university and already had two others in town."

Bill Hesson, an associate director of University Hospitals, said clinics were set up only in towns where residents or physicians approached the company.

"It was always part of the understanding that we would be looking to participate in communities that were interested in having us," he said.

Before closing the Tipton clinic, Community Medical Services called a meeting with residents who had encouraged the company to set up shop in town, said John Golinvaux, who built and owns the clinic building.

"They asked the community, 'Is there some way you can support us? To get more people in here or support us some other way?'" Golinvaux said. "The people were like, 'You don't understand a small town. It could take 10 years to get established. Just hang on.'"

Community Medical Services called it quits anyway. It is still paying rent under a 10-year lease. The company is searching for someone to sublease, Protector said.

When financial troubles arose in Wapello, where a Medical Services clinic brought the town its only doctors, the reaction was different.

Local businesswoman June Hardin organized a fund-raising effort to come up with \$252,000 to buy the building the medical office is renting. Since February, the group has raised \$175,000, she said.

If they reach an agreement with the owners of the clinic building, residents will set up a nonprofit group that will own the structure, Hardin said. It will be leased to the U of I Community Medical Services for a token fee.

Hardin said she had the impression Community Medical Services either didn't receive state money or no longer could. In fact, the University of Iowa Health System has been authorized by the Iowa Board of Regents to spend \$31 million in state money.

"We were bound and determined not to lose the clinic. He's the only doctor and we are an underserved area of the county anyway," said Hardin, whose daughter-in-law works at the clinic.

Lori LaFayette, a physician assistant at another Wapello clinic who represented the only medical care in town for many years, said the two university-affiliated doctors have been a welcome addition.

She wonders, though, when she sees U of I Community Medical Services setting up in other towns that already have physicians.

Dr. Paul Poncy, whose solo practice in Centerville competes with a U of I Community Medical Services clinic there, said he doesn't "know if it's exactly fair" that the other clinic receives state money.

"But getting health care to rural Iowa is important to the state" and his clinic hasn't suffered, Poncy said.

Bob Ruch, a health care consultant from Urbandale, said many medical centers that bought physician practices during the 1990s found it difficult to make a profit. Eliminating the poorest performers isn't always easy, he said.

"The tough thing is once you've opened those, you've created access points," Ruch said. "It's not like closing a Kum & Go. To simply yank those away from the community is a delicate process."

Board of Regents State of Iowa

11260 Aurora Avenue Urbandale, Iowa 50322-7905

Gregory S. Nichols
Executive Director

Telephone: (515) 281-3934 Fax: (515) 281-6420
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ATTACHMENT B

Members

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David J. Fisher, West Des Moines
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David G. Neil, La Porte City
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Amir I. Arbisser, M.D., Davenport
Mary Ellen Becker, Ph.D., Oskaloosa
Sue Erickson Nieland, Sioux City

MEMORANDUM

TO: Mary Shipman, Legislative Fiscal Bureau
FROM: Gregory S. Nichols
SUBJECT: Legislative Request – COM Funding
DATE: August 5, 2002

The following information is provided in response to your email request of July 19 for financial data on the University of Iowa College of Medicine, specifically, the revenue funding. We apologize for being unable to provide the requested information to you in writing prior the Legislative Fiscal Committee meeting. Stacey Cyphert supplied this information verbally to the Committee on July 25.

The Roy J. and Lucille A. Carver College of Medicine had operating funds of \$375.1 million in FY 2001. The sources were as follows:

- 39% from research grants and gifts;
- 33% from the faculty practice plan;
- 13% from the VA and other professional services; and
- 15% from UI general education funds.
 - 5% research indirect cost recoveries;
 - 3% tuition; and
 - 7% state appropriations. (Data for FY 2002 show that operating funds from state appropriations has decreased to 5%.)

The University of Iowa general education funds allocated to the Carver College of Medicine, including the state appropriation dollars, were used to support faculty salaries and fringe benefits (69%), other salaries and fringe benefits (24%) and general expenses (7%).

No state appropriation dollars were used to support University of Iowa Health System or any of its subsidiaries.

In regard to your July 19, 2002 memorandum to the Legislative Fiscal Committee pertaining to the response to the Des Moines Register article regarding the University of Iowa Hospitals and Clinics system of clinics, we believe a correction is in order.

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IOWA SCHOOL FOR THE DEAF Δ IOWA BRAILLE AND SIGHT SAVING SCHOOL

Legislative Request – COM Funding
August 5, 2002
Page 2

The University of Iowa Hospitals and Clinics had operating funds of \$532.9 million in FY 2001. The sources were as follows: 89% were from paying patient revenues, 5% were other operating revenues, and 6% were state appropriation dollars rather than the 7.5% stated.

The state dollars appropriated to the UIHC were specifically designated for the indigent patient care program and every dollar was expended there. In FY 2001, in exchange for a \$33.0 million appropriation, the UIHC provided hospital services for indigent patients valued at \$56.6 million and waived professional fees of \$22.3 million, for a total value of services provided of \$78.9 million.

Thus, no state appropriation dollars were used by the UIHC to support University of Iowa Health System or any of its subsidiaries.

I hope this information is helpful. Please do not hesitate to contact this office if you need additional information.

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cc: Legislative Liaisons
Legislative Log



Department of Justice

ROBERT J. CAMPBELL
ATTORNEY GENERAL

September 8, 1994

RECEIVED

SEP 9 1994

Office of
General Counsel

ANSWER BY FAX
FOR THE STATE
DEPARTMENT OF JUSTICE
TELEPHONE 515-281-3144
FACSIMILE 515-281-3244

Mark Schantz
General Counsel
University of Iowa
Iowa City, Iowa 52244

Dear Mark:

Article VIII, section 3 of the Iowa Constitution specifically provides that the state "shall not become a stock holder" in a private corporation. The provision originated from concerns that State credit and moneys would be used to financially encourage the fledgling railroad industry. Consideration of this constitutional provision is appropriate at this time in my review of the documents you have provided in reference to the University's anticipated participation in a statewide managed care delivery system.

Several prior opinions of this office are relevant to this question. In 1988 Op.Att'yGen. 87, we held that investment in stock is prohibited for the Treasurer of State. In 1986 Op.Att'yGen. 19, we concluded that the Iowa Product Development Corporation is a unit of State government to which State laws apply, unless otherwise provided for. The latter opinion is important for its conclusion that the constitutional prohibition on state ownership of stock would be applicable to the University of Iowa as a unit of State government.

Increasing business sophistication since the constitutional provision was debated in 1857 has required us to consider the purpose for which the provision was drafted and the evils the provision sought to avoid. It is our opinion that any question presented to the Iowa Supreme Court under this constitutional provision would undergo the same analysis, notwithstanding Justice Scalia's propensity to construe strictly the usage of words such as "stock" in a constitution. We have had occasion to review whether the constitutional prohibition is applicable to mutual funds, deferred compensation programs for State employees and venture capital debentures. Clearly, the constitutional provision does not in all cases prohibit ownership of stock by

Mark Schantz
September 8, 1994
Page 2

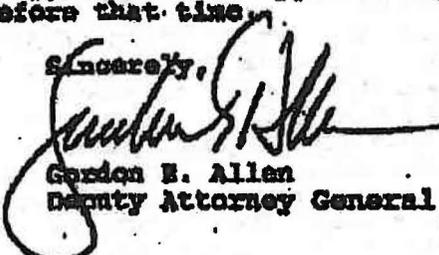
State agencies or instrumentalities, depending upon the purpose of the organizational structure, and the result of the particular business transaction.

Our previous opinions and the applicable case law indicates that article VIII, section 3, of the Constitution was adopted because of a concern over excessive government entanglement in the activities of private corporations, the avoidance of a risk of loss of public funds due to private corporate activity, and the avoidance of public debt for private activity. Op.Att'yGen. #93-12-4. In analyzing a particular investment transaction, we believe the Iowa courts would consider all of these factors.

The University's proposal which we have been discussing has as its purpose the continued provision of quality health care by the University Hospitals and the preservation of a patient base necessary for a nationally recognized teaching hospital. The structure I have reviewed indicates that no tax dollars will be at risk. The funding for the proposal is to come from nonappropriated dollars of the hospital. As you know, the Supreme Court of Indiana has opined that such an expenditure does not run afoul of the Indiana provision, which is similar in language. Obviously, I have no way of predicting whether the Iowa Court would follow the Indiana precedent, but the analysis appears to be sound. Thirdly, as I understand the organization, neither the State nor the University would directly own stock of any private corporation. Instead, a subsidiary nonprofit corporation would be established and as has thus far been explained, moneys from the University would be in the nature of an unsecured loan.

Based upon my review of the documents and the explanations of the purpose, financing, and legal structure thus far, I am comfortable that your plans are not prohibited by this specific constitutional provision. My opinion is obviously contingent upon the conditions in existence at the time of closing on December 31, 1994; I would appreciate the opportunity to review the final proposals on or before that time.

Sincerely,


Gordon E. Allen
Deputy Attorney General

/jan
cc: Wayne Richey

Board of Regents State of Iowa

100 Court Avenue, Suite 203 Des Moines, IA 50319

Frank J. Stork
Executive Director

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ATTACHMENT D

Members

Owen J. Newlin, President, Des Moines
Ellengray G. Kennedy, Bancroft
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David J. Fisher, West Des Moines
Clarkson L. Kelly, Charles City
David G. Neil, La Porte City
Deborah A. Turner, Mason City

MEMORANDUM

TO: Mary Shipman, Legislative Fiscal Bureau

FROM: Frank J. Stork ~~RS~~

SUBJECT: Legislative Request – UIHC Clinic System

DATE: January 5, 2001

The following information is in response to your email questions regarding clinics owned by the University of Iowa Health System.

- (1) List of the clinics that are owned by the University of Iowa Health System. Please include the name and location of each clinic.

The following clinics are owned or managed by the University of Iowa Community Medical Services, a private corporation owned by the University of Iowa Health System:

- Cancer Care of Iowa City, L.L.C. (Iowa City)
- Centerville Medical Clinic (Centerville)
- Deer Creek Health Center, L.L.C. (Toledo)
- Heartland Family Health Associates (Perry)
- Lowden Family Medical Clinic (Lowden)
- Marengo Medical Center (Marengo)
- Medical Oncology/Hematology of Ottumwa (Ottumwa)
- UI Family Care (Belle Plaine)
- UI Family Care (Sigourney)
- UI family Care (Tipton)
- UI Family Care (Wapello)

- (2) Financial information regarding the System.

We do not have such financial information, as an audit report. It is our understanding that the University of Iowa Health System is a private corporation.

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IOWA SCHOOL FOR THE DEAF ▯ IOWA BRAILLE AND SIGHT SAVING SCHOOL

- (3) An accounting of the \$30,945,000 that has been approved for transfer from UIHC/COM to the System including expenditures for facilities, salaries, equipment, etc.

The initial Board authorization of \$18,945,000 in October 1995 was to provide capitalization for three years. In March 1999, the Board authorized an additional \$12 million capitalization to fund related initiatives during the next three years. Funds remain with the University until specific needs are identified and authorized by the University of Iowa Health System Board.

University officials have reported that the actual transfer to date has been \$20,480,200 to the University of Iowa Health System. Specific internal expenditures of these private corporations are not public records. However, the System has indicated to the Board that the majority of the funding has been used to develop a physician clinic network under University of Iowa Community Medical Services, Inc. In addition, University of Iowa Community Homecare, Inc. has been operational since January 1997, providing home infusion therapy services to patients discharged from UIHC to their homes throughout Iowa. In January 1998, UI HealthWorks was created to provide occupational medicine services directly and through partnerships with community providers. Cancer Care of Iowa City was created in October 1996, in partnership with Iowa City Mercy to provide ambulatory medical oncology services. ResourceLink of Iowa was established in September 1997 in partnership with HELP Innovations to offer home telemedicine.

- (4) A map of Iowa showing where all the UIHC physician placements are under the Primary Care Program, including a copy of names and locations.

See attached map entitled Iowa FP (Family Practice) Graduates Practicing in Iowa (653) and the accompanying lists. Also enclosed is a copy of the most recent annual report of the statewide family practice training program.

Please contact us if you have any further questions.

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Enclosures (2)

cc: Legislative Liaisons
Legislative Log

SUI B-8

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Capitalization of University of Iowa Health System
Date: March 8, 1999

Recommended Action:

Authorize the University of Iowa Hospitals and Clinics (UIHC) and the University of Iowa College of Medicine (COM) to transfer up to an additional \$12,000,000, one-half from each unit, to the University of Iowa Health System (UIHS) for the purpose of continuing the development of network activities through its subsidiary companies, all in support of the clinical, academic, and research programs of the University of Iowa College of Medicine and the University of Iowa Hospitals and Clinics.

Highlights:

On October 18, 1995, the Board authorized the UIHC and the COM to transfer \$18,945,000, one half from each unit, to UIHS for the purpose of continuing the development of network activities through its subsidiary companies. This initial capitalization represented the estimated capital requirements for three years.

UIHS has used the majority of this funding to develop a physician clinic network under University of Iowa Community Medical Services, Inc. This network now includes 28 physicians and physician assistants in 12 clinics. In addition, University of Iowa Community Homecare, Inc. has been operational since January 1997, providing home infusion therapy services to patients discharged from UIHC to their homes throughout Iowa. In January 1998, UI HealthWorks was created to provide occupational medicine services directly and through partnerships with community providers. Cancer Care of Iowa City was created in October 1996, in partnership with Iowa City Mercy to provide ambulatory medical oncology services. ResourceLink of Iowa was established in September 1997 in partnership with HELP Innovations to offer home telemedicine services.

UIHC and COM have estimated that additional capitalization to fund related initiatives during the next three years will total approximately \$12 million. As with the practice followed to date, funds authorized by the Board of Regents will remain within the University until specific needs are identified and authorized by the UIHS Board of Directors or Executive Committee.

This action is consistent with the goals of the UIHC strategic plan to manage value, health, and markets as reported to the Board in 1995.

Pamela M. Elliott

Approved _____

Frank J. Stork