



8-24-1993

# University of Tennessee Board of Trustees Exhibit Records, 1993 August 24, Exhibit 1

University of Tennessee

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Office of the General Counsel and Secretary

719 Andy Holt Tower  
Knoxville 37996-0170  
Telephone 615/974-3245  
FAX 615/974-1324

TO: Members of the Executive Committee, Board of Trustees

Colonel Tom Elam, Chairman  
Mr. James A. Haslam, II  
Mr. Amon Carter Evans  
Mr. J. Houston Gordon  
Mr. Paul J. Kinser  
Mr. Donelson M. Leake

FROM: Beauchamp E. Brogan 

DATE: August 18, 1993

SUBJECT: Meeting of the Executive Committee by Telephone Conference Call  
1:00 p.m. EDT (12:00 Noon CST), Tuesday, August 24, 1993  
Office of the President

Upon call of the Chairman, the Executive Committee will meet by telephone conference call at 1:00 p.m. EDT (12:00 Noon CST), Tuesday, August 24, 1993. The call will originate from the Office of the President, 831 Andy Holt Tower, Knoxville.

The purpose of the meeting is to consider the University's proposal to file a Charter of Incorporation to establish "The University of Tennessee Health Plan Incorporated". The corporation would be chartered as a not-for-profit corporation with one member -- The University of Tennessee -- for the purpose of securing a Health Maintenance Organization (HMO) license from the State of Tennessee.

The proposed Charter of Incorporation is attached, together with a memorandum from Charles W. Mercer, M.D. to Dr. Joe Johnson and a copy of the "Presentation to the Governor's Medicaid Task Force from The University of Tennessee Medical Center at Knoxville" by C.E. Bilbrey on July 6, 1993.

If you have questions about the purpose of the meeting, please call Dr. Johnson, Eli Fly, or me.

Attachments

BEB:lrw  
A:\August24.TEL

cc: Other Members of the Board of Trustees w/attachments  
Members of the President's Staff w/attachments  
Mr. Billy Stair w/attachments

CHART...

OF

THE UNIVERSITY OF TENNESSEE HEALTH PLAN INCORPORATED

The undersigned, acting as the incorporator of a corporation under the Tennessee Business Corporation Act, adopts the following charter for such corporation:

1. The name of the corporation is **THE UNIVERSITY OF TENNESSEE HEALTH PLAN INCORPORATED.**

2. The corporation is a public benefit corporation.

3. (a) The street address of the corporation's initial registered office is:

The University of Tennessee  
Office of the General Counsel  
600 Henley Street, Suite 50  
Knoxville, TN 37902  
County of Knox, Tennessee.

(b) The initial registered agent is Steven W. Roads.

4. The name and address of the incorporator is:

Steven W. Roads  
The University of Tennessee  
Office of the General Counsel  
600 Henley Street, Suite 50  
Knoxville, TN 37902

5. The street address and zip code of the initial principal office of the corporation is:

The University of Tennessee  
Office of the Vice Chancellor  
600 Henley Street, Suite 100  
Knoxville, TN 37902

6. The corporation is not for profit.

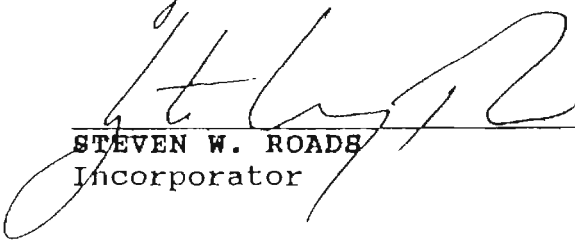
7. The corporation will have members.

8. Upon dissolution of the corporation, which may occur only following approval thereof by the Commissioner of Commerce and Insurance of the State of Tennessee, the assets will be distributed as determined by its Board of Directors.

9. This corporation is organized for the purposes of providing and facilitating the provision of health care services and related activities, including, without limitation, operating a health maintenance organization, to perform all functions which the Board of Directors determines to be necessary or appropriate associated therewith, and to engage in any lawful business.


10. To the fullest extent permitted by the Tennessee Nonprofit Corporation Act, as in effect on the date hereof, and as hereinafter amended from time to time, a director of the corporation shall not be liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director. If the Tennessee Nonprofit Corporation Act or any other successor statute is amended after adoption of this provision, to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Tennessee Nonprofit Corporation Act, as so amended from time to time. Any repeal or modification of this paragraph 10 by the members of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification, or with respect to events occurring prior to such time.

DATED this the 3 day of August, 1993.

  
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STEVEN W. ROADS  
Incorporator

216549

July 19, 1993

**MEMO TO:** Dr. Joe Johnson  
**FROM:** Charles W. Mercer, M.D.   
**RE:** Health Care Management Organization

As you know, the implementation of TennCare by the State of Tennessee and our potential roles in that are occupying a great deal of the administrative time for those of us at the Medical Center. I feel that it is important that we relate to you the major steps that will be necessary for us to take in order to have a health maintenance organization available as a mode of care and payment for TennCare patients at its inception on January 1, 1994. We feel this timetable is very important if we are to continue with care of this patient population and our related educational programs.

Our interest in the development of an HMO began many months ago when, for Medicaid purposes, capitation was pushed by Commissioner Manny Martins. Prior to the development of TennCare, he sought ways to increase competition and form health care delivery systems for the Medicaid population. We began this slow and arduous process initially with faculty and medical staff education. We picked key leaders of the medical staff, held conversations with them, provided them reading information, and encouraged their thoughts in regard to the ongoing transition in health care payment methodology. Our timetable was appropriately pushed by the state with the development of TennCare, but in doing that, the timetable set forth by the state and thus by us has been severely contracted, especially when one considers the significant number and scale of issues to be resolved in order to effectively reach our desired goal. Our use of available time is critical.

It is pertinent to remember that a PPO format of TennCare insurance will be available through Blue Cross-Blue Shield of Tennessee and we certainly plan to participate in that, staying in as close contact as possible with the leadership of Blue Cross-Blue Shield in regard to their plans. They, also, are in an early stage of development.

I have tried to list below some of the principal steps that we deem important. This should highlight our timetable which is attached.

1. The development of a freestanding corporate entity for insurance purposes -- We have previously discussed and sent supporting information to you about the role of a freestanding organization of the hospital

and physicians for insurance and other contractual purposes. It is my desire that this initially be used for the insurance and management roles of the health maintenance organization, but should ultimately allow us a wide variety of managed care roles including other product lines for the HMO, special PPO arrangements for such things as open heart surgery at a single price unit, and contractual arrangements allowing us to do services for outlying hospitals on a negotiated price basis. All of these, obviously, would provide not only hospital services, but also physician services, home health services and other services of a professional type. It is to be a joint effort of the Medical Center and physician medical staff moving toward a comprehensive integrated delivery system. It is, in my opinion, an essential mode to compete successfully in the forthcoming years. At this point, we have done nothing more than review a draft format for such application and sought the advice from Steve Roads in the General Counsel's Office and he has been in consultation with Mr. Brogan and others in this regard.

2. HMO License Application - We must very quickly proceed with an application for an HMO license. Following our earlier conversation in late June, I proceeded to declare our intent to the Commissioner of Commerce and Insurance to make such a license application. People in her office have been very kind in giving us advice about the accuracy, timing and steps we must take. I have made the Commissioner and her staff both aware that we were there pending the approval of the Board of Trustees and I will seek that approval before a formal application process could be forwarded. Many other organizations from within and outside the state of Tennessee are in the process of making license applications with the state. The Commissioner's office is shorthanded; therefore, it is estimated that from the time the application is submitted, it will take approximately six to ten weeks for the license to be approved. At the time of submission, we must be able to assure the state of adequate funding, corporate ownership, adequate medical staff size, submit a pro forma of our expected breakeven point with a minimum of three years' financial projections along with a long complex application form. We are proceeding with the initial phases of this.

3. A great deal of time and effort has gone into educating and working with the faculty and various physician groups at our medical center plus regional primary care physicians leading to an as yet incomplete state of unity regarding the need for personal ownership of a capitated health care plan. I can assure you that the medical staff leadership including such people as Bill Vandergriff, Jack Lacey and many others have been instrumental in assisting in bringing the medical staff to a level of awareness of the importance of developing a capitated health care plan with hospital and physician involvement. I am very encouraged and pleased by the state of mind of our medical staff particularly when compared with some of the other hospital/physician relationships in Knoxville at this time. Our consultant has been instrumental in helping reach that stage. We are proceeding with the development of scales of payment. We are impeded in that progress by the inability of the state, at this time, either through HMO rates or PPO rates (Blue Cross-Blue Shield) in that they have not determined these rates and certainly have not announced such. We continue to work on a pro forma basis with good input.

4. Because we hope to establish this separate corporate entity, we must write, approve and initiate provider agreement contracts both for the hospital and the physicians. A variety of other providers' contracts

Memo to Dr. Johnson  
July 19, 1993  
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*including pharmacists, home health agencies, and all other provider contracts must be enacted. Methodology is in place commercially to allow us quickly to bring some of those inhouse by purchase (e.g. information systems). We are focused primarily at this point on physician and hospital contract agreements.*

5. *We are developing a quality assurance-utilization review program in conjunction with a committee of medical staff leaders. That particular committee is being led by Dr. George Shacklett with broad representation and especially weighted towards primary care physicians, but also some specialty representation. This particular function is essentially the focus for success of a capitated or prepaid health care form as the control of utilization and resources and the education of people about how to use resources under capitation is a critical step. Over a period of two years, the success of this portion of the plan will have a major role in determining how successful we are at operating under capitation. It will continue to draw a great deal of our attention and time. As a portion of that we are developing a medical staff policy and procedure manual and a great deal of consultant and medical staff time is being addressed towards that. We are thereby at the stage where we are interviewing for the position of medical director of the managed care organization as well as administrative director. We are in the process of recruiting for those positions as they are critical at this time. We are still a few weeks away from the necessity of hiring and training staff and have just begun the thought process of where such folks might have office space.*

*Joe, further down the road is the question of enrollment. We had sought under Medicaid for the privilege of mandated enrollment. It is less clear at this point whether TennCare will mandate enrollment in the HMO's although the state obviously has reason to encourage enrollment in a capitated format in Knox, Shelby, and Davidson which are the three counties where HMOs will be established first.*

*Throughout all this, we must also continue to monitor the activities within state government as well as the reaction to the developing plan amongst other providers throughout the state. As we previously mentioned, fee schedules, reimbursement rates, etc. have not been announced and there is a great deal of attention focused there by the health provider community as they await that announcement. Early figures that are indicated show a fee schedule that will lead to a significant challenge for most institutions to even maintain costs. That may lead a variety of providers across the state, especially in non-urban areas, to question the value of participating in this plan. At the state level, the federal waivers have not yet been released and much is yet to be done in policy development, definition of terms and enrollment size. Specifically, the determination of what to do with the uninsured and how they will be enrolled is a major consideration. These and many other issues will be monitored.*

*Each of these issues has several steps beneath it. I have tried to give you an overview of the tasks and our current status. Your support, advice and leadership are essential to us as we proceed, and I will be most happy to keep you informed by whatever format you wish. My plan, with your approval, is to make members of the Medical Center Liaison Committee aware of these issues over the next couple of weeks, to seek your advice on the method and timing of Board approval and to proceed with as much accuracy and speed as*

*Memo to Dr. Johnson  
July 19, 1993  
Page 4*

*possible. TennCare offers us an opportunity to establish a hospital physician organization and to enter capitated health care. Without the stimulus of TennCare, this would have taken much longer. I believe we should utilize this opportunity even though the expense and time is significant. My primary concern is that we proceed in a timely and procedurally correct manner.*

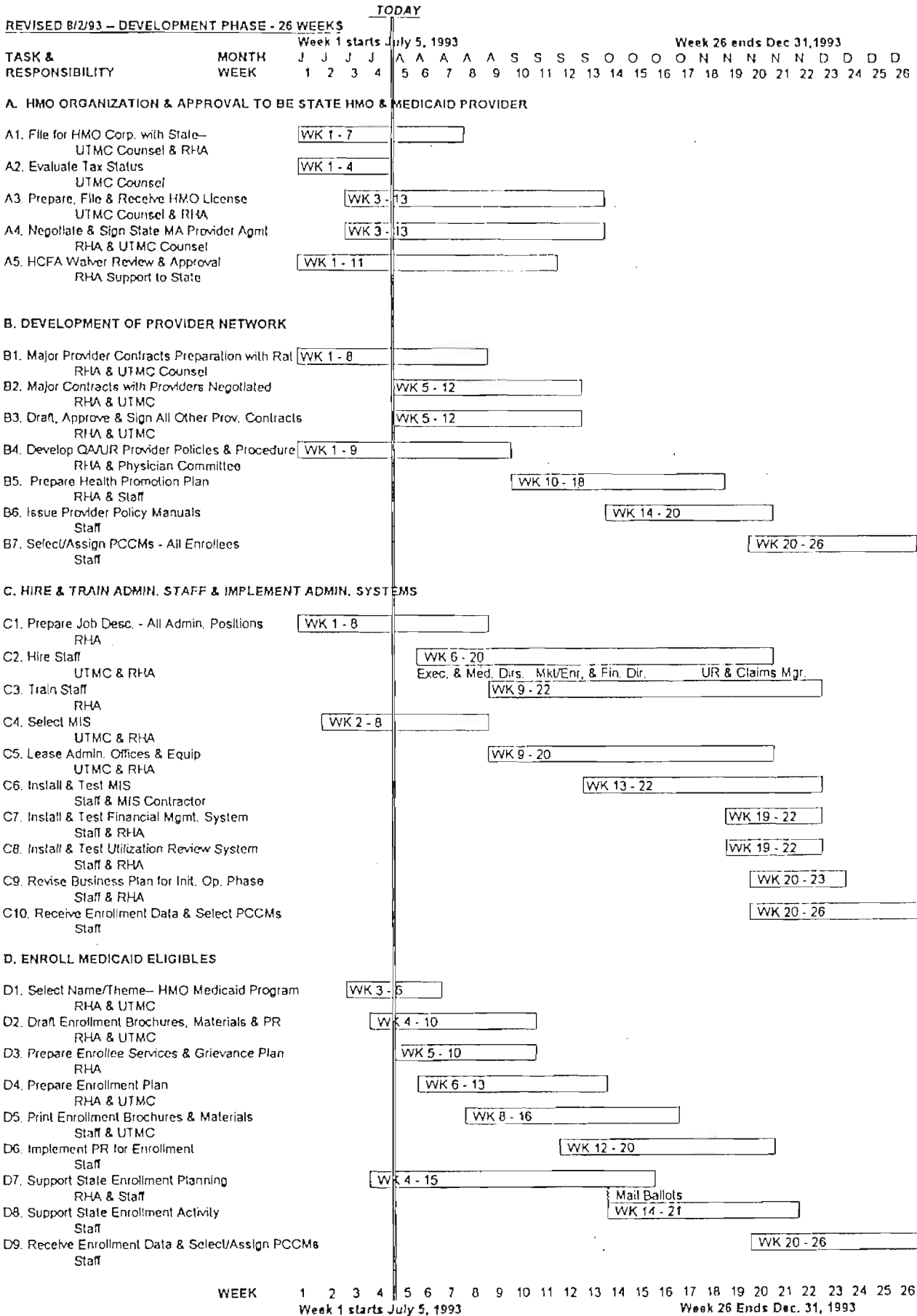
*jg*

*Attachment*

*cc: Mr. Bill Rice  
Mr. Eli Fly*



UTMC-K MCP HMO DEVELOPMENT PHASE TASK SCHEDULE - REVISED 8/2/93  
 TO BEGIN OPERATIONS JAN. 1, 1994 FOR TENNCARE - ALL MEDICAID CONVERSIONS  
 \*DEVELOPMENT FOR TENNCARE UNINSURED TO BEGIN OCT. 1993



**PRESENTATION TO THE  
GOVERNOR'S MEDICAID TASK FORCE**

**July 6, 1993**

**From**

**The University of Tennessee Medical Center at Knoxville**

**Presented by: C. E. Bilbrey  
Associate Vice Chancellor - Administration**

On behalf of The University of Tennessee Medical Center at Knoxville, let me express our sincere thanks to the Governor's Medicaid Task Force for inviting us to participate in these important discussions pertaining to the future provision of healthcare services to those Tennesseans currently covered through the Medicaid program. Certainly, the students, residents, staff, employees and patients we serve salute Governor McWherter and the members of this Task Force for their bold initiatives to strengthen and enhance medical and healthcare services for all Tennesseans. We are honored to be a participant in this process.

Since the establishment of the Medicaid program, the University Medical Center has played a special role in the provision of primary and tertiary level medical services for this group of Tennesseans. As a part of the state's University and land grant college, the Medical Center has been a long-standing partner with state government in providing access to quality medical care for all Tennesseans. The University remains committed to this philosophy for the future.

As you requested, we are prepared to brief the Task Force on our current planning processes which have focused on the TennCare proposal. However, before doing so, we believe it is important to underscore several key issues and concerns regarding the current Medicaid program and the reforms envisioned by the TennCare initiative. Clearly, our plans for the future have been developed with certain factors in mind as to the probable effects of moving from the existing Medicaid program to the plan espoused in TennCare. Accordingly, our future plans relative to TennCare must address and support the Medical Center's continued financial viability, the continuance and further development of its educational mission, and its role as the region's comprehensive medical resource for the physicians, community hospitals, and other allied healthcare professionals located in the small towns and rural areas throughout East Tennessee.

During 1992, Medicaid insureds accounted for 25% of the inpatient admissions at University Hospital. Net receipts for these inpatient services equalled \$45.5 million. When outpatient services are added to these figures, the Medicaid program accounts for 19% of the Medical Center's total receipts.

Each year, the University's medical center provides services to Medicaid patients from most counties in East Tennessee and several Middle Tennessee counties. Additionally, we routinely provide services to Medicaid insureds from the adjoining states of Kentucky, Virginia, and North Carolina. Thus, more than half of the Medicaid patients treated at the Medical Center reside in areas other than Knox County. As you know, it is not unusual for an academic medical center to provide services to citizens from a broad geographic area, due in part to the specialized services usually found only at university medical centers; i.e., level I trauma services, high risk perinatal services, neonatal services, and a myriad of specialty services for children.

Our analysis of services provided Medicaid insureds by major diagnostic groups reveals that the Medicaid program is providing its majority of coverage to pregnant women, newborns, and sick children. Specifically in 1992, perinatal and obstetric services were responsible for receipts of more than \$10.3 million at the Medical Center, and services provided to newborns and children surpassed \$16.5 million. These two categories alone accounted for more than 60% of medical services provided Medicaid insureds.

Thus, from a financial standpoint, it is important that the University Medical Center continue to be able to provide medical and other healthcare services to this population of Tennesseans. It would be virtually impossible to replace this source of revenue and clearly improper for UT to consider doing so.

But financial statistics alone do not fully describe the impact or importance of the Medicaid program. In any analysis of the Medical Center's participation in Medicaid or other broad-based health insurance programs, we must also consider the program's impact on the training programs for physicians, dentists, nurses and other health professionals. Specifically, any significant reduction in the number of Medicaid insureds seeking care at the University Medical Center would have a correspondingly negative effect on the educational mission of the University. This would be especially the case in those residency training programs focusing on the primary care disciplines of pediatrics, family medicine, general internal medicine, and obstetrics.

Since its founding in 1956, the Medical Center has trained over 1,100 physicians and dentists in formal internship and residency training programs. Today, more than 66% of these graduates remain in practice in Tennessee with 56% locating their practices in East Tennessee. Of this number, more than half are primary care practitioners.

Thus, the Medical Center's contribution to the region's medical manpower cannot be over emphasized especially in view of the number of primary care physicians in practice today in East Tennessee. The growth and continued development of these training programs would not have been possible without a sustained and growing patient base of which a significant portion is comprised of the Medicaid patients. The ability of the University to maintain and further develop this patient base will be critical to the future of our educational mission.

But the Medicaid program's importance is more than a conduit for providing a teaching base for residents. Medicaid and Medicare have also become vital sources of funding for graduate medical education. As you know, the education of the health professional is a long, intense and expensive process.

Since the beginning of the Medicare and Medicaid programs, federal and state governments have provided essential educational dollars as part of the reimbursement mechanism for patient care services at teaching institutions. This "educational pass through" remains today as the very foundation of financial support for residency and other post graduate medical education programs. Thus, the University Medical Center and other teaching institutions across this state are concerned that healthcare reforms and specifically programs such as TennCare have excluded medical education expenses as part of the reimbursement philosophy.

The TennCare plan makes the assumption that hospitals will be appropriately reimbursed for services they provide to the current uninsured population. However, there is no certainty that the current uninsured will enroll in TennCare, and their enrollment and participation is critical if we are to reduce the uncompensated costs associated with providing medical services for this population. Accordingly, a lack of participation will put institutions such as ours at financial risk in fulfilling our mission.

Therefore, to assure the continued financial viability of the Medical Center, to assure a patient base appropriate for residency training programs, and to offset the losses in educational support anticipated via the TennCare reimbursement methodology, the Medical Center believes that it must continue to be a major provider of medical and healthcare services to those Tennesseans to be covered under TennCare. To that end, the Medical Center is embarking on four strategic initiatives to accomplish this goal:

- 1) The University Medical Center in conjunction with its medical staff will continue the planning and development of a managed care organization (MCO). The MCO will be designed to secure an HMO (Health Maintenance Organization) license from the State of Tennessee and to offer a capitated product for TennCare insureds. Beginning in late 1992 and continuing through the winter and spring months, the Medical Center and its medical staff have been in consultation with members of state government in the discussion and analysis of participating as an HMO in TennCare. These efforts continue, and the Medical Center plans to notify the State of Tennessee of its intent to offer an HMO for a portion of the TennCare population in Knox and surrounding counties. Obviously, specific plans and the final decision to launch the HMO have not and will not be made until the State of Tennessee finalizes its plans which are pending the approval of the Health Care Financing Administration.
- 2) The University is committed to continue its participation in existing managed care programs which may participate in the TennCare program via PPO (Preferred Provider Organization), HMO or other managed care arrangements. We continue to hold informal discussions with several HMO and PPO organizations to identify potential opportunities for participation by the Medical Center.
- 3) We will continue to integrate the primary care training programs in various outpatient venues to assure a broad educational experience for residents, medical students, nurses, and other health professionals, and to provide additional primary care coverage for the TennCare population.
- 4) We will continue our intensive efforts to enhance our relationships with the community hospitals and their medical staffs in the non-urban and rural areas of East Tennessee to facilitate the development of a vertically integrated healthcare system for TennCare and other managed care programs.

Although the aforementioned plans are not complete, the Medical Center does believe that the challenges of the TennCare program afford the University the opportunity to plan for and develop its ability to be prepared for other anticipated reforms in the healthcare system. Regardless of the outcome, it is imperative that the University's administration and its medical staff work together to develop programs and mechanisms that will be mutually beneficial not only to the mission of the University and its medical staff, but moreover enable us to be responsive to the medical needs of those Tennesseans we serve.

In summary, the Medicaid patient base is an essential element to the continued long-term financial viability and educational mission of the University's Medical Center. Accordingly, we are prepared to plan and develop a vertically integrated delivery system which will position the Medical Center to be responsive to a changing environment. TennCare will be a vital component of this long-range strategy.

Thank you.

# News from UT

LINDA

The University of Tennessee / News Center / 107 Communications Building / Knoxville, Tennessee 37996-0315 / (615) 974-2225

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FOR IMMEDIATE USE FROM UT NEWS CENTER (615-974-2225)-JMC  
Aug. 18, 1993

UT Board Committee Meets Tuesday (110)

KNOXVILLE, Tenn. -- The executive committee of the University of Tennessee's board of trustees will meet by telephone conference call Aug. 24 to look at the first step in establishing a health maintenance organization (HMO).

The meeting is set for 1 p.m. and the call will originate from UT President Joe Johnson's office, 800 Andy Holt Tower.

Beauchamp Brogan, UT general counsel, said the purpose of the telephone conference call meeting is to consider filing a charter of incorporation establishing "The University of Tennessee Health Plan Incorporated."

Brogan said the new organization would be a not-for-profit corporation with the purpose of securing an HMO license from the State of Tennessee.

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Contact: Beach Brogan (615-974-3265)

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