

H P A E W H I T E P A P E R

The Reorganization of UMDNJ: GETTING IT RIGHT



**Health Professionals
and Allied Employees**

www.hpae.org ■ 201-262-5005

110 Kinderkamack Road, Emerson, NJ 07630



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INTRODUCTION

On January 25, 2012, the University of Medicine and Dentistry of New Jersey Advisory Committee released their final report regarding the reorganization of medical higher education in New Jersey. While we hope that restructuring will have a positive impact on the health, education and economic well-being of New Jerseyans, the implementation plan for protecting services, funding, medical research, staffing and workplace rights is still unclear, and lacking in public input. If instituted responsibly, with the involvement of key stakeholders, the recommendations outlined by the committee could protect vital healthcare services for our communities and strengthen medical education throughout the State.



The Committee's final recommendations endorse a transfer of Robert Wood Johnson Medical School (RWJMS), The UMDNJ School of Public Health (SPH) and the Cancer Institute of New Jersey (CINJ) to Rutgers University. The remaining pieces of UMDNJ would be renamed the New Jersey Health Sciences University (NJHSU). Within NJHSU, the School of Osteopathic Medicine (SOM), the University Behavioral Health Center (UBHC) and the Public Health Research Institute (PHRI) would be granted a larger degree of autonomy. While the committee recommended that University Hospital (UH) remain State-owned, they proposed a public-private partnership that would vest management duties with a New Jersey based non-profit hospital operator. With recent talks between Barnabas Health and UMDNJ in regards to an expanded partnership, Barnabas is likely the 'private partner' the committee envisions.

OUR GOALS

A broad-based coalition of interns and residents, nurses, researchers, professionals, faculty and the community have joined together bonded by the principle that any reconfiguration of medical education in New Jersey must make each of the institutions stronger and enhance the quality higher education in the state. In order to maintain the strong, consistent professional standards that uphold the missions of these institutions, any proposal to merge must protect the services currently provided, the skilled professionals who provide the services, New Jersey residents, and the students and communities that rely on these services.





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Therefore, any reorganization proposal and implementation must:

- Improve collaboration and innovation among all of our public healthcare facilities and educational institutions to enhance instruction, research, healthcare services and graduate medical education.
- Support increased funding for medical research and improve access to quality healthcare services for all the residents of NJ currently being provided by these institutions in hospitals, clinics, and institutions.
- Maintain or improve continued access to a quality and affordable education for current and future students who enroll at Rutgers, NJHSU, and Rowan and any other institutions that may become involved in any reorganization plans.
- Maintain the jobs, terms and conditions of employment of current professionals and staff, and maintain current bargaining unit and union affiliation for all represented employees at NJHSU, Rutgers, and Rowan.

What follows are the elements of the reorganization proposals from the Advisory Committee; key facts, assumptions and current program, funding, debts or services affected by the plan and questions and recommendations from HPAE, which represents 4,000 nurses, medical researchers, clinicians, and other health and technology professionals.





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UNIVERSITY HOSPITAL

University Hospital is the primary teaching hospital of UMDNJ. Since its beginnings as the City Hospital of Newark in 1882, University Hospital's foremost mission has been to serve the health needs of City and State residents. University Hospital is the State's sixth largest employer. It is the largest training site for healthcare professionals in NJ and its Graduate Medical

Education program graduates the second-largest number of minorities with MDs in the country.¹

The educational relationship between University Hospital and UMDNJ can be traced back to the Newark Agreements forged between the State and the Newark community in 1968.

"The college will operate the city hospital as an integral part of its education and community health program. It will seek to improve the quality of medical care at the city hospital to a level equivalent to that expected of the teaching hospital to be built on college grounds... The college agrees to implement a comprehensive community health services program."

– The Newark Agreements, 1968

FAST FACTS ABOUT UNIVERSITY HOSPITAL

BEDS	519
FULL-TIME EMPLOYEES	3,092
INPATIENT ADMISSIONS	20,049
OUTPATIENT VISITS	236,000

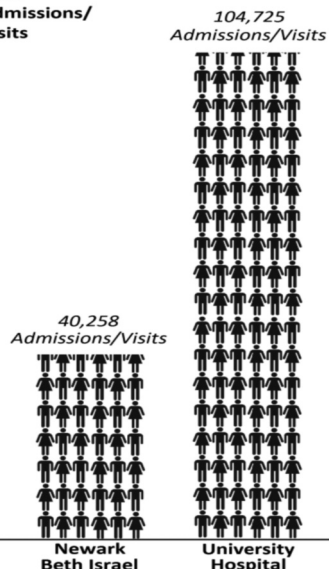
SOURCE: UMDNJ FAST FACTS

- Northern New Jersey's only Level 1 Trauma Center
- Neurological Institute of New Jersey, including the Stroke Center
- Oncology Services
- Advanced Cardiovascular Services
- The Adult Onset Genetic Disease Program
- Transplant Programs
- Outpatient HIV Services
- Prenatal Care

The Hospital is a Lifeline to the Community: Serving the Underserved

Provision of Charity Care

1 Person =
1000
Admissions/
Visits



The University Hospital is renowned for its generous provision of charity care. All patients are screened to determine eligibility for public assistance programs. Over 50% of patients are charity care, self-pay and Medicaid.² The Hospital serves federally-designated Medically Underserved Areas and Populations.³ Cutting services means turning away the most vulnerable patients with fewest options for care. Some services, not surprisingly, are unprofitable. Private healthcare companies have been unwilling or unable to provide the same level of community care. Barnabas Health's nearby Newark Beth Israel is slightly larger than UH in size (patient revenue), but UH provides far more free and below cost care. If University Hospital were to provide BI's level of charity care, the institution would have been profitable last year (with a net \$20 million in operating revenue).

"University Hospital must remain strong and vibrant. University Hospital serves as the region's only tier I trauma center. It serves as a vital safety net for tens-of-thousands of New Jerseyans. Not only here in Newark, but hospitals all around – as well as individuals – have patients that come to our hospital seeking serious care. It is a principal provider of low-income community outreach and clinics and it is, in my opinion, one of the greatest assets we have as a community."

– Mayor of Newark, Cory Booker
at November 18, 2011 Press Conference

¹ UMDNJ Means: A Vital Resource for New Jersey, p. 18. ² NJ Cost Report Data, 2010.

³ Medically Underserved Areas/Populations are areas or populations designated by the Department of Health and Human Services as having: too few primary care providers, high infant mortality, high poverty and/or high elderly population.



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Governor Christie's Plan	What we know...	What we need to know...
<i>A Public-Private Partnership will manage University Hospital</i>	<p>NJ has a mixed record with Public-Private Partnerships, indicating a need for oversight.⁴</p> <p>Two processes protect the community in NJ's healthcare industry: the Certificate of Need (CN) process and the Community Health Care Assets Protection Act (CHAPA). CN regulates healthcare licensing and CHAPA protects assets in hospital sales and mergers. CHAPA does not currently apply to public hospitals.</p> <p>Since June, 2011, Barnabas and UMDNJ have discussed expanding their partnership, making the system a likely private partner. Barnabas has a recent track-record of closing hospitals to strengthen its 'financial position and operating results'.⁵</p>	<p><i>Who will be responsible for oversight of the Private-Public Partnership?</i></p> <p><i>What process and standards will be applied to select a partner to manage UH?</i></p> <p><i>Will UMDNJ's stakeholders have a seat to negotiate any management agreement?</i></p> <p><i>Will the DHSS conduct a CN process for any PPP or management agreement?</i></p> <p><i>Will the State require a CHAPA review?</i></p> <p><i>Will the 'private partner' be required to abide by the Newark Agreements?</i></p>
<i>Judge management using patient-care quality standards</i>	<p>Hospital reimbursements will soon depend on meeting quality standards. Hospitals will reach patient outcomes or face penalties.</p> <p>Collective Bargaining Agreements provide for safe staffing levels at UH and practice committees involving nursing.</p>	<p><i>Will the State hold the private partner responsible for penalties related to quality of care?</i></p> <p><i>Will the State enforce safe staffing levels, and involve professionals in quality initiatives as currently found in the CBAs?</i></p>
<i>Maintain essential services, but "rationalize" others</i>	<p>UH is a lifeline to New Jersey's communities. It provides unparalleled service to charity care and self-pay patients. Some of UH's most critical services are essential but unprofitable.</p> <p>UH addresses community health needs with a full range of care options (e.g. acute & clinical).</p> <p>CHAPA and CN processes are responsible for safeguarding essential services in NJ hospitals.</p>	<p><i>Will the State protect essential services, even those which are not profitable?</i></p> <p><i>Will the State protect services based on community needs and apply CN and CHAPA standards?</i></p> <p><i>If any services are to be "rationalized", will the State require that alternatives be available, such as clinical options?</i></p>
<i>Create a "Financial Firewall" that prevents NJHSU from investing in UH</i>	<p>Currently, UMDNJ lends money to UH to stay afloat. The Committee estimates it will take at least 5 years to stem losses at UH.</p> <p>UH is in need of vital capital improvements. Governor Christie expects changes to be budget neutral and Barnabas has been quoted saying they will not put their finances in jeopardy.</p>	<p><i>Will the State contribute necessary operating funds to ensure that UH remains solvent?</i></p> <p><i>How will vital capital improvements be funded?</i></p> <p><i>Will the separation of the Hospital from the University create barriers between educational and patient care missions and interfere with synergy between UH and NJHSU?</i></p>
<i>Appoint to the Boards of UH and NJHSU a representative from the private partner</i>	<p>The boards of UH and NJHSU are likely to make important decisions about any management agreement. The Boards will likely oversee and review the outcomes of the Partnership.</p>	<p><i>How will the State ensure that having a representative from the 'private partner' on the boards of UH and NJHSU not create conflict of interest?</i></p>

⁴ For instance, in 1994 the City of Camden entered into a 20-year agreement to operate, maintain and repair the City's water supply and wastewater collection systems. The State audited the partnership and found serious issues, concluding that "operations and long-term sustainability of the City's water and wastewater systems are jeopardized."

⁵ Barnabas divested from Wayne General, closed West Hudson, Irvington General and Union Hospitals and sold its long-term care operations. For more, please see Barnabas' October 26, 2011 Bond Prospectus, pp. 105-106.



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GETTING IT RIGHT: OUR RECOMMENDATIONS FOR UNIVERSITY HOSPITAL

For the proposed Public Private Partnership to work:

- The Hospital must remain a primary teaching hospital for UMDNJ's schools.
- There must be a seamless transition of patient care and education.
- Employees and students will need to transfer with comparable conditions to avoid interruption of operations.
- Stakeholders must be involved in shaping any management agreement.
- Services must be preserved and quality standards advanced.
- NJ should assume final responsibility for safeguarding the community's assets.
- There must be public review and oversight by the NJ Department of Health and Senior Services (DHSS) and Office of Attorney General





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ROBERT WOOD JOHNSON MEDICAL CENTER, CANCER INSTITUTE OF NEW JERSEY, AND SCHOOL OF PUBLIC HEALTH

Robert Wood Johnson Medical School

Robert Wood Johnson Medical School (RWJMS) was originally founded as the Rutgers Medical School in 1961. By 1970 it was reorganized to have closer ties with what are now the New Jersey Medical School (NJMS) and the New Jersey Dental School (NJDS). RWJMS in Piscataway/ New Brunswick is now one of three UMDNJ medical schools, with NJMS in Newark and the School of Osteopathic Medicine (SOM) in Stratford. RWJMS's student body is second in size.

RWJMS also operates clinical practices and over 70 centers and institutes. Programs include the Cancer Institute of New Jersey, the Child Health Institute of New Jersey, the Eric B. Chandler Health Center and the Environmental & Occupational Health Sciences Institute. The Eric B. Chandler Health Center alone provides healthcare to 57,000 patients annually.⁶

Cancer Institute of New Jersey

CINJ is a nationally designated comprehensive cancer center in NJ, a center of Excellence, providing cancer screenings, educational curricula and lectures throughout the state, as well as providing outreach to NJ's medically underserved populations.

School of Public Health

The School of Public Health (SPH) has 109 students on its Newark campus, 243 students on its New Brunswick/Piscataway campus and 28 students on its Stratford campus. Overall, 380 students – 79% NJ residents – are enrolled at SPH.

Finances

Reorganization does not come without a cost. Shifting revenue-generating components to Rutgers presents new financial challenges for NJHSU just as UMDNJ is showing signs of recovery from a decade-long financial slump. **The combined size of RWJMS and SPH is over 20% of UMDNJ (in terms of revenues).** A transfer of this size also triggers debt service safeguards built into UMDNJ's bond covenants. The State will have to address debt or else UMDNJ's remaining assets could face fiscal woes caused by default.

ROBERT WOOD JOHNSON MEDICAL SCHOOL

STUDENTS (NEW BRUNSWICK/ PISCATAWAY)	550
% OF NJ RESIDENTS	99
INTERNS, RESIDENTS AND FELLOWS	432
PAID FACULTY	1,123

SOURCE: UMDNJ INSTITUTIONAL PROFILE 2011

⁶ http://rwjms.umdj.edu/about_rwjms/about/at_a_glance.html (Last Accessed 2/13/2012).



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Governor Christie's Plan	What we know...	What we need to know...
<i>Shift the Robert Wood Johnson Medical School and the School of Public Health to Rutgers</i>	<p>Integration teams made up of Rutgers and UMDNJ leadership are already working on a plan to merge.</p> <p>RWJMS depends on research grants such as federal National Institutes of Health (NIH) grants.</p> <p>RWJMS currently runs clinics in New Brunswick such as the Chandler Center while Rutgers has little healthcare experience.</p>	<p><i>Under what authority are integration teams moving ahead with merger?</i></p> <p><i>Will debt used to fund projects at RWJMS and SPH also be transferred to Rutgers?</i></p> <p><i>Will there be a public process to implement merger?</i></p> <p><i>Will the State ensure that grants and clinics are seamlessly transitioned?</i></p> <p><i>Will Rutgers take responsibility to administer healthcare in New Brunswick?</i></p>
<i>Transfer the Cancer Institute of New Jersey into Rutgers as a distinct unit</i>	<p>CINJ is currently housed within RWJMS and would be separated from the School.</p> <p>CINJ is designated a Comprehensive Cancer Center by the National Cancer Institute.</p> <p>This proposal specifically refers to CINJ, but RWJMS and SPH have other respected institutes and centers besides CINJ.</p>	<p><i>What changes would CINJ see when the institute is considered a distinct unit?</i></p> <p><i>Since CINJ is recognized under RWJMS, could accreditations or designations be lost?</i></p> <p><i>What will happen to the other centers and institutes within RWJMS and SPH?</i></p>
<i>Reduce 'operational and administrative distinctions' to improve employee morale</i>	<p>Employees of Rutgers and UMDNJ work side-by-side at joint projects and programs, but are subject to different working conditions and are represented by different Unions.</p>	<p><i>To encourage a seamless transition, will Rutgers be required to respect the standards and rights in the Collective Bargaining Agreements at UMDNJ?</i></p>
<i>Partner with the private sector</i>	<p>Research conducted on campus with the private sector can bring in grant money, but developments may be owned by the private corporation.</p> <p>Biotech firms are well represented on the UMDNJ Advisory Committee, including the former CEO's of Johnson and Johnson and Celgene.</p>	<p><i>Would the State allow Universities to trade potential revenues in the long-run for grant money now?</i></p> <p><i>In light of the potential benefits to biotech companies of partnering with Universities, how will the State prevent the conflicts of interest possible when biotech industry leaders are central decision-makers in the reorganization process?</i></p>



GETTING IT RIGHT.

TO ACCOMPLISH A MERGER OF RWJMS, SPH AND CINJ INTO RUTGERS:

- Any transfer should be seamless.
- Transferred students, assets, debts/funds, employees must transition into Rutgers in a well-calculated way that maintains UMDNJ's core missions of education, patient care and community service.
- Services and studies must continue uninterrupted, so that current students may elect to receive a degree associated with UMDNJ.
- Assets should be accounted for and detailed integration plans developed which specifically identify any pieces of RWJMS that would not transfer to Rutgers, if any, such as the many centers and institutes in Middlesex County.
- Funds and debt to transfer should be determined so that neither Rutgers nor UMDNJ suffers fiscal or credit difficulties as a direct result of reorganization.
- Employees must retain their rights and statuses earned at UMDNJ to minimize staff exodus and retain qualified staff.
- All of these details should be decided in a public process.

UMDNJ CENTRAL ADMINISTRATION

Central Administration (CA) is the division of UMDNJ, which oversees library services, human resources, purchasing, regulatory compliance, medical malpractice insurance and more as listed alongside this page. CA is designed so UMDNJ can cut costs through economies of scale and benefit from synergy between UMDNJ's components. For example, by centralizing purchasing UMDNJ can use the combined buying power of its components to negotiate better deals with vendors.

Compliance and Oversight

Over the past decade, UMDNJ has entered into agreements to settle allegations of corruption and fraud. The University entered into a Corporate Integrity Agreement, which requires disclosure of information to the US Department of Justice (DOJ) and implementation of a compliance program. This program is currently run through CA and includes an independent investigations team.



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THE PIECES OF CENTRAL ADMINISTRATION

- Senior Administration
(The Board and Leadership)
- Academic Affairs
(Policies, Handbooks, Bylaws, etc)
- Administration and Finance
- Compliance Program
- Emergency Management and Occupational
Health and Safety
- Office of Compliance & Corporate Integrity
- Facilities, Planning, Management,
and Construction
- Controller's Office
- Payroll
- Financial Aid
- Government Affairs
- Human Resources
- Information Services and Technology
- Internal Audit
- Investigations Group
(independent unit for compliance cases)
- Legal Management
- Logistical Services
- Media Services
- Office of Patents and Licensing
- Physical Plant
- Policy and Project Management
- Printing Services
- Public Safety
- Purchasing
- Research
(Policies, Grants, Clinical Research
Organization to link school's depts.)
- Risk and Claims Management
- Office of Supplier Diversity and
Vendor Development
- University Advancement and
Communications
- University Libraries
- Community Affairs
- Office of Workplace Diversity

GETTING IT RIGHT.

BEFORE OUTSOURCING SERVICES:

- NJ should require proof of cost savings without loss of quality.
- Changes should not interrupt services or cause job losses that cost NJ taxpayers and hurt NJ's struggling economy.
- Employees providing services should continue their work.
- Conflict of interest policies should be established.
- Vendors and bids should be public and maintain current regulatory compliance standards.



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Governor Christie's Plan	What we know...	What we need to know...
<i>Streamline Central Administration</i>	UMDNJ Advisory Committee explicitly singles out Central Administration for major cuts. The report cites 'opportunities' to find alternative providers of central services (as listed below).	<p><i>Will the State require proof of cost-savings before streamlining or decentralizing services?</i></p> <p><i>How will streamlining the component responsible for oversight and compliance enhance the reputation and culture of UMDNJ?</i></p> <p><i>Will the State ensure no loss of jobs and facilitate seamless transfer of current staff into any entities that will provide services to UMDNJ?</i></p>
<i>Cede CA responsibilities at UH to the 'private partner'</i>	<p>UMDNJ has a special arrangement with NJ's Department of the Treasury to provide malpractice insurance to faculty and staff.</p> <p>Barnabas — a likely choice for the private partner — signed an agreement with the US Department of Justice to settle Medicare fraud allegations, an experience similar to UMDNJ's.⁷</p>	<p><i>Will the State and/or UMDNJ compensate the private partner for services to the hospital?</i></p> <p><i>Will the State allow transfer of administration even if cost savings are not realized or quality suffers?</i></p> <p><i>With its own problematic history of fraud allegations, would contracting administration through Barnabas positively impact the reputation of UMDNJ and UH?</i></p>
<i>Shift management and administration of RWJMS, SPH and CINJ to Rutgers</i>	<p>Presumably, Rutgers would eventually take over administration of services for these components.</p> <p>Revenues earned by providing services to RWJMS and SPH account for over 30% of CA's income.</p>	<p><i>Will the State ensure that CA remains funded when revenues from RWJMS and SPH are lost?</i></p> <p><i>Will the State oversee a transition period?</i></p> <p><i>To prevent interruption of services, will CA staff follow the Schools into Rutgers?</i></p>
<i>Encourage or require NJHSU's Semi-Autonomous components to offer services in-house or seek outside vendors</i>	<p>UBHC, SOM and PHRI are to become semi-autonomous within NJHSU. CA will provide at least legal and auditing services, others will be decentralized, such as HR and purchasing.</p> <p>These components could contract out services to private vendors after conducting a cost/benefit analysis.</p> <p>The Committee insists decentralization would provide 'regulatory relief'.</p>	<p><i>Will jobs be lost at CA or will staff already working with these components seamlessly transfer into them?</i></p> <p><i>How would costs be cut if services are duplicated?</i></p> <p><i>Will the State oversee any process to outsource services and/or require proof of cost-savings?</i></p> <p><i>What regulations would be 'relieved' with these changes and how would regulatory relief further the mission of UMDNJ?</i></p>
<i>Renegotiate the Corporate Integrity Agreement between UMDNJ and the Federal Government</i>	UMDNJ signed a Corporate Integrity Agreement with the US Department of Justice to resolve Medicare fraud allegations. It requires disclosure to the DOJ and oversight by a Compliance Department, now housed in CA.	<p><i>Will the Corporate Integrity Agreement apply to Rutgers, the private partner or others?</i></p> <p><i>Will renegotiation of the CA and decentralization of services contribute to compliance with ethics and national laws and regulations?</i></p> <p><i>How will the agreement be altered?</i></p>

⁷ Like UMDNJ, Barnabas entered into a Corporate Integrity Agreement with the Department of Health and Human Services. For more, please see Barnabas' October 26, 2011 Bond Prospectus, pp. 105.



NEW JERSEY HEALTH SCIENCES UNIVERSITY (NJHSU)

Under the proposed reorganization, NJHSU will contain the New Jersey Medical School (NJMS), the New Jersey Dental School (NJDS), the School of Nursing (SN), the School of Health Related Professions (SHRP), and the Graduate School of Biomedical Sciences. Semi-autonomous but also included are the School of Osteopathic Medicine (SOM), University Behavioral HealthCare (UBHC) and the Public Health Research Institute (PHRI).

Debt & Finance

As a public institution, a major source of funds for UMDNJ's growth and development has been tax-exempt debt. UMDNJ has over \$650 million in debt. NJHSU will need to continue the practice of issuing bond debt to fund capital investment. Since the cost of issuing debt (e.g. the interest rate) depends on institution's credit rating, any downgrade by credit rating agencies would have a negative impact on the new NJHSU. Uncertainty about the University's future has already caused S&P to revise UMDNJ's credit outlook and Moody's suggests reorganization could weaken UMDNJ.

Moody's made these remarks in its 'Special Comment' of February 7, 2012:

Rutgers, the State University... and Rowan University... would each be strengthened... Newark-based University of Medicine and Dentistry of New Jersey would be pared down... The plan, as expected, leaves many details yet to be worked out that could affect credit ratings of the affected organizations... if this plan were to be adopted, at least a portion of UMDNJ's outstanding debt would have to be paid off or defeased.

Determining Costs & Benefits

In 2003, a previous attempt to reorganize higher education in NJ was thwarted by an estimated price tag of over \$1.3 billion. Yet, even with a final report from the Governor's UMDNJ Advisory Committee, we still lack detail necessary to estimate costs and benefits of reorganization.

The 2003 plan was designed so that benefits would outweigh the costs as proposed new investment would attract additional grants, better talent, and provide new jobs. These projected benefits have been used to justify Gov. Christie's plan, but the Governor has discounted the price-tag. Similar returns are unlikely to materialize without similar initial investment.

Centralized Structure

UMDNJ is designed with a centralized administration to promote synergy and cooperation between Schools. Currently, Central Administration reallocates some funds between UMDNJ's components to promote ongoing operations and strategic plans. Central Administration also oversees grant applications. As UMDNJ is broken apart and decentralized, competition for State funds and grants is likely to pick-up and will be increasingly zero-sum.

Estimated Cost of
2003 Vagelos Commission Plan

\$1.30 Billion Total Cost	\$306	Shared Costs Some costs were to be shared between regions, such as legal costs
	\$389	Costs in South NJ
	\$172	Costs in Central NJ
	\$437	Costs in Northern NJ
In Millions		



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Governor Christie's Plan	What we know...	What we need to know...
Rename the remnants of UMDNJ to NJHSU, including the Newark-based assets, UBHC, SOM and PHRI	<p>The rationale for change has been based on claims of ineffective bureaucracy, perceived corruption and fraud, and inefficiency. While these may be real issues, we have seen no study pinpointing the problems or on the impacts of the Governor's plan.</p> <p>UMDNJ is also renowned for quality care, community service and affordable top-tier medical education.</p>	<p><i>How will NJ ensure that splitting UMDNJ will not create unnecessary competition for resources for medical research funding among the Universities and schools?</i></p> <p><i>Will the State require a transition so that UMDNJ's name change does not impact the positive aspects of its reputation?</i></p> <p><i>Will the State fill any gaps in NJHSU's finances caused by reorganization if operations are threatened?</i></p>
Provide UBHC, SOM and PHRI with more autonomy	<p>The Committee insists decentralization would provide 'regulatory relief'.</p> <p>The final report suggests SOM should be pulled into Rutgers or Rowan in the future.</p>	<p><i>What regulations would be 'relieved' and how would this further the University's mission?</i></p> <p><i>Will the State allow uncertainty about SOM's future to continue impacting its performance?</i></p>
Separate UH from NJHSU by a 'Financial Firewall'	<p>As a primary teaching hospital of UMDNJ's schools, UH plays an unequalled role in the educational mission of UMDNJ.</p>	<p><i>Will the State require that UH remain NJHSU's primary teaching hospital?</i></p>
End a decade of uncertainty that prevented full attainment of UMDNJ's potential	<p>For communities that depend on UMDNJ, reorganization should provide a seamless transition with minimal disruption to patient services, research and education.</p> <p>Collective Bargaining Agreements currently include rights and protections for patients and employees. CBAs enforce quality care, such as minimum safe staffing levels.</p>	<p><i>Will the State allow veteran employees to be transferred as 'new employees' in their new institutions, losing benefits and status – possibly even triggering mass departure?</i></p> <p><i>Will a fresh bout of uncertainty pose additional challenges to morale?</i></p> <p><i>Will the State ensure that rights and protections achieved in Collective Bargaining be respected?</i></p>
Work with accrediting agencies to prevent loss of accreditation	<p>Accreditation is a key operating requirement. If NJHSU lost accreditation, its reputation would suffer and its graduates would no longer be eligible for many professional licenses.</p>	<p><i>Since repercussions of lost accreditation could be severe, will the State require that accreditation be secured before continuing with any plan?</i></p> <p><i>Will the State endorse a transition plan for students, as required by accrediting bodies?</i></p>
Address financial and legal details, such as outstanding debt (?)	<p>The Interim Report promised to provide details in the Final Report on handling debt, among other issues. Instead, it contains a verbatim copy of the promise.</p> <p>The Vagelos Commission proposed similar changes in 2003, but was halted when the cost was estimated to be over \$1.3 billion.</p> <p>UMDNJ holds over \$600 million in outstanding debt, held centrally. It pays around \$50 million toward debt every year. CA and RWJMS are the foremost contributors toward debt payments.</p> <p>Credit agencies are concerned by uncertainty and potential harm to UMDNJ. A failure to meet standards in bond covenants would trigger default and cause a credit squeeze.</p>	<p><i>Will the State commission another report to lay out specifics since the Final Report did not?</i></p> <p><i>Will the State analyze how much reorganization will cost?</i></p> <p><i>Was a detailed analysis of cost deliberately left out of the final report to avoid controversy?</i></p> <p><i>Will the State require a plan to manage debt?</i></p> <p><i>How will UMDNJ's debt be distributed?</i></p> <p><i>Will the State allow NJHSU to bear the full cost of UMDNJ's debt, even if this effectively set NJHSU up to fail?</i></p> <p><i>Will ongoing uncertainty cause further financial damage?</i></p> <p><i>When can we expect any clarity or action?</i></p>



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GETTING IT RIGHT.

- Equal playing field so Universities don't out-compete others.
- Properly allocate debt to ensure that the new NJ Health Sciences University's bond rating doesn't suffer further decline.
- Maintain the relationship between UH and NJHSU for clinical, medical education.
- Establish proper oversight over transition issues for medical and nursing students.
- Analyze the true costs of merger and allocate proper funding in state budget.

APPENDIX

Debt at UMDNJ

As a public institution, a major source of funds for UMDNJ's growth and development has been tax-exempt debt. NJHSU will need to continue the practice of issuing bond debt to fund capital investment. Since the cost of issuing debt (e.g. the interest rate) depends on institutions' credit rating, any downgrade by credit rating agencies would have a negative impact on the new New Jersey Health Sciences University (NJHSU). Uncertainty about the University's future has already caused S&P to revise UMDNJ's credit outlook and Moody's suggests reorganization could weaken UMDNJ. While Moody's lists their outlook of both Rutgers and Rowan as stable in the wake of the reorganization proposal, UMDNJ has a negative outlook, meaning downgrading is likely.

According to Moody's "Special Comment" issued on Feb. 7, 2012:

Rutgers, the State University... and Rowan University... would each be strengthened... Newark-based University of Medicine and Dentistry of New Jersey would be pared down... The plan, as expected, leaves many details yet to be worked out that could affect credit ratings of the affected organizations... if this plan were to be adopted, at least a portion of UMDNJ's outstanding debt would have to be paid off or defeased.

While Moody's express's general concern in regards to UMDNJ's debt, they specifically highlighted that, "UMDNJ has made more than \$85 million in loans to University Hospital." While these loans are not split out in the accounting below, it will be important to follow which side of the proposed "financial firewall" this debt is placed on in the restructuring plan.

"What you see standing before you is a united representation of all of Essex County's leadership. It is a rare day indeed that we all... not only are able to be together in one room, but also... we are in firm unanimous affirmation of the principles we will now discuss."

***– Mayor Booker
at November 18, 2011 Press Conference
with Essex Legislative Delegation and City Council***



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Existing UMDNJ Bond Debt

As indicated in the chart below, while some of UMDNJ's Bond debt can be easily assigned to one component, the majority of the debt is difficult to parse out.

Component	Outstanding Bond Debt (in thousands)	Percentage of Total Debt
New Jersey Medical School	\$120,775	18.2%
Robert Wood Johnson Medical School	\$58,300	8.8%
School of Osteopathic Medicine (SOM)	\$13,145	2.0%
University Behavioral Health Center	\$33,400	5.0%
Cancer Institute of New Jersey	\$89,565	13.5%
System-wide	\$349,226	52.6%
Total Outstanding Bond Debt	\$664,411	

Source: UMDNJ Unaudited Financial Statements 2010 and 2011

Debt Servicing

UMDNJ has over \$650 million in outstanding Debt, the costs of servicing that debt were in excess of \$40 million last year. The chart below illustrates the debt servicing payments made by each component.

Component	Debt Servicing Payments (in thousands)	Percentage of Payments
University Hospital	\$5,341	13.2%
New Jersey Medical School	\$1,762	4.4%
Robert Wood Johnson Medical School	\$12,612	31.2%
School of Osteopathic Medicine	\$1,758	4.4%
University Behavioral Health Center	\$80	0.2%
Other	\$614	1.5%
Central Support	\$18,218	45.1%
Total Outstanding Bond Debt	\$40,385	

Source: UMDNJ Unaudited Financial Statements 2010 and 2011

Key Questions

- Will any of the above debt be paid down by the state? How much?
- Is there an equitable plan to divide system-wide debt among Rutgers, NJHSU and the newly autonomous components?
- What safeguards will be put in place to prevent NJHSU and University Hospital from having untenable debt servicing obligations?
- What impact will UMDNJ's negative outlook and Barnabas Health's low credit rating have on University Hospital's continued ability to finance projects?

“These questions are not details. Accessible, affordable and quality patient care, medical research, education, and community health care are issues of substance, and matter a great deal to our communities, our patients, students and medical professionals.”

– *Ann Twomey, HPAE President*

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