

Who Pays the Bills?

A short primer on the flow of money within the three-part structure of Loma Linda: the healthcare facilities, the faculty practice plans, and the academic programs.

by Kent Seltman

LOMA LINDA, THE CROWN JEWEL OF SEVENTH-day Adventist institutions, is almost as many-faceted as a fine-cut precious stone. Loma Linda, however, defies a comprehensive description. Loma Linda is an incorporated city with about 18,000 citizens. Loma Linda is a church—the University Church of Seventh-day Adventists. Loma Linda is a major academic center for health-related sciences. Loma Linda is a world-class medical center. Loma Linda is a community of healthcare professionals.

The city of Loma Linda, of course, is officially unrelated to Seventh-day Adventist institutions. Its identity as an Adventist community dates from 1905 when its new Adventist owners changed the name of the Mound City Hotel to the Loma Linda Sanitarium. Loma Linda incorporated as a city 65 years later in 1970. Over the past 22 years, all members of

the city council and all mayors have been Seventh-day Adventist Church members. Today, about half of the residents consider themselves to be Adventists.

The University church sits prominently on the campus mall. As the property of the South-eastern California Conference of Seventh-day Adventists, it is not legally part of the university, but is integral to its identity. Its affiliation with the university, as well as its status as the largest Adventist church in the world, with nearly 6,000 members, make the University church an important aspect of the Loma Linda identity.

The identity of Loma Linda for Seventh-day Adventists around the world centers around Loma Linda University. Yet, even for many who live and work in Loma Linda, the maze of relationships among the operational units to Loma Linda University remains unclear. While these corporate structures are complicated in large part by legal considerations, for the lay mind it is simplest to divide them into three major elements: (1) healthcare programs and facilities, (2) faculty practice plans, and (3) academic programs and facilities.¹

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Ranked in terms of impact upon the world church, academic programs would win out, followed by the faculty practice groups that have supported humanitarian missions around the world. But in terms of financial operations, the medical center, with net revenues of over \$300 million—more than \$800,000 per day—is three times larger than the \$100 million of revenues generated by the faculty physician corporation. In contrast, the university operates on an annual budget of about \$75 million. Of the nearly \$500 million in annual operating revenues at Loma Linda institutions, it is important to note that only about \$12 million (2.4 percent) comes from the Seventh-day Adventist Church. This \$12 million operating subsidy, of course, goes to the academic program of the university. And for its investment, the church receives a quality education for more than 2,000 young members each year.

Just as the founding of Loma Linda University began with the establishment of a healthcare facility—Loma Linda Sanitarium—so today its continued well-being is dependent upon its large healthcare facility—Loma Linda University Medical Center. With such a massive flow of cash, Loma Linda University Medical Center has become the deep pocket for its related institutions. While the academic mission of Loma Linda University remains strong and central to operations today, a rude irony remains: Loma Linda University would not exist as a health-sciences university without the medical center, while the medical center could survive as a regional tertiary hospital without the university. This reality, in the form of about \$20 million of annual medical center support of medical education at Loma Linda University, is a background against which day-to-day operations of the university-related institutions proceed. The background has in recent months seemed almost a storm cloud on the horizon as the

profitability of the medical center has suffered in the midst of a major economic recession in Southern California. Additionally, severe competitive pressures and public policies reduce payments for healthcare.

The interdependence of the organizational elements at Loma Linda is revealed by the multiple administrative roles occupied by the two top administrators at Loma Linda. B. Lyn Behrens, president of Loma Linda University, is a voting member and vice chair of the Loma Linda University Medical Center Board of Trustees. She is also a member of the board of the Loma Linda Faculty Medical Group, Incorporated.

The interdependence of the organizations, as well as the dominant role of the medical center, is even more clearly found in the multiple roles occupied by David B. Hinshaw, Sr., who returned to Loma Linda University in 1986 as vice-president for medical affairs. By provision of the by-laws of the university, the university's vice-president for medical affairs is also president of Loma Linda Faculty Medical Group, Incorporated, the faculty practice plan of the school of medicine. Independent of any provision in the by-laws, he has been elected by the board of trustees as president of the Adventist Health System/Loma Linda, as well as president of Loma Linda University Medical Center. In addition to these administrative appointments, he is a voting member of the Loma Linda University Board of Trustees and the Loma Linda University Medical Center Board of Trustees.

Healthcare Facilities

Loma Linda University Medical Center, the 610-bed hospital at Anderson Street and Barton Road, is the dominant visual image of Loma Linda. Its distinct design, with three circular towers and a connecting core, has been muted over its 25-year history by con-

tiguous structures. Since 1986 an almost continuous building program with several phases has added two large wings, including one that houses in its lower levels the world's first proton beam facility dedicated to medical treatment.

Loma Linda University Medical Center is the primary tertiary-level hospital in a five-county area of Southern California. The counties include the heavily populated inland empire at the eastern end of the Los Angeles Basin, as well as the desert areas extending to the Colorado River to the east and the southern Sierra Nevada mountains to the north. This service area includes about one-fifth of the entire state of California. About 170 of the medical center's 610 beds are designated for critical care. With 32 percent of the patient admissions to intensive care beds in 1991, the medical center was second—just behind Stanford University Medical Center—of all 14 university-related hospitals in the western region in the percentage of its patients receiving intensive-care services. Annually, more than 21,000 patients are admitted to the medical center. About 45,000 patients are treated each year in its emergency department.

Presently the Loma Linda Children's Hospital is under construction. The children's hospital, however, is not a free-standing facility. It will occupy the five floors above the proton beam facility in the southeast wing added to the medical center. The children's hospital will have a separate entrance, several diagnostic laboratories, and about 70 additional pediatric beds when it opens in 1993. However, about 180 pediatric beds will remain in other parts of the hospital and many diagnostic facilities in the main hospital will continue to serve the pediatric patient. The administration of the children's hospital will continue to function under the administration of the medical center.

But the medical center is more than

meets the eye at the corner of Anderson and Barton. Located about four miles east on Barton Road near the west edge of Redlands is a subunit of the Loma Linda University Medical Center, the Loma Linda Behavioral Medicine Center. The 89-bed psychiatric hospital had been recently built by the Charter Hospital corporation when the medical center acquired it in 1990 for \$12.5 million, in the midst of a legal and financial crisis in the Charter corporation. Since the acquisition, however, reimbursement for psychiatric services has been tightly controlled by employers and third-party payers. Though exact figures are not made available, it is reported that the Behavioral Medicine Center showed an operating loss of around \$1 million in 1991. Even though the governing board and the administration of the Behavioral Medicine Center are organizationally answerable to the Loma Linda University Medical Center board of trustees and administration, that loss is not included in the medical center's statement of income (see table, p. 26).

In a \$28.6 million transaction in 1990, Loma Linda University Medical Center purchased the faculty medical office/outpatient surgery complex from Loma Linda University. This purchase relieved the university of about half of its total debt and enabled repayment of the principal to the General Conference retirement fund which had financed the project. The school of medicine faculty had built this facility in two phases—1977 and 1984—and under the original plan would liquidate the debt by paying monthly lease payments. When the debt was paid off, the lease payments would function as an endowment to the university. However, when the outpatient surgery facility opened in 1987, it operated at losses up to \$600,000 per year. The medical center assumed operational responsibility in 1989, thereby relieving the faculty physicians of this financial burden.

Over the past few years, Loma Linda University Medical Center has also assumed operational responsibility for a number of the support services of the university. For example, personnel services, landscape services, and maintenance services are now managed by the medical center and paid from its payroll, with a reimbursement arrangement from the university.

As the statement of income indicates (see table, p. 26), the medical center has doubled its total operating revenue since 1986, with gross revenue in 1991 totaling over \$540 million. Net income in 1991 totaled \$306 million. Because of the changing economic environment of healthcare, fewer and fewer payers are paying full charges. Insurance companies, health-maintenance organizations, employers, and governmental agencies contract for discounted service costs or agree to pay only fixed amounts for given services regardless of charges. Loma Linda University Medical Center's contractual adjustments as a percent of the gross patient revenue has increased markedly. In 1986, \$71.9 million in discounts was deducted from gross revenue, 27 percent of the gross revenue. In 1987 the percentage for adjustments was 32 percent, in 1988 37 percent, in 1989 38 percent, in 1990 43 percent, and in 1991 49 percent. These pressures to discount charges have significantly affected profitability in the present, and threaten even lower net profits in the future.

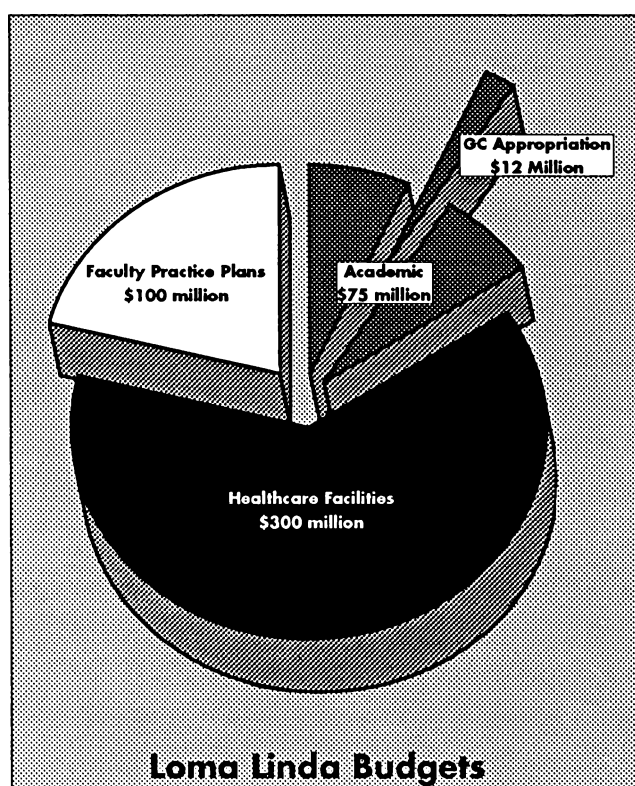
Because of a program to improve oper-

ating margins that began in 1991, by early 1992 the monthly operations of Loma Linda University Medical center were profitable—but just barely. With the advice of a group of “turn around” consultants, the medical center is endeavoring to maximize the productivity of its operations in 1992 and further into the future. One significant change has been the reduction of several hundred full-time-equivalent employees, between January 1991 and August 1992. Other operational improve-

ments in areas such as inventory management have provided operational savings. However, one ongoing major expense offers little opportunity for immediate reduction—the expense of servicing an effective debt totaling \$240 million.

In the strictest legal sense, most of the healthcare facilities associated with Loma Linda University are not university property. Prior to 1980, Loma Linda University Medical Center was legally operated by Loma Linda Uni-

versity. The assets and liabilities of the medical center were shown on the university's balance sheet. For reasons largely to do with reimbursement policies for medical services, the Loma Linda University Medical Center was independently incorporated as a nonprofit religious corporation in 1980. Should the corporation ever be dissolved, the remaining assets after the payment of debts and obligations will go to the General Conference Corporation of Seventh-day Adventists.



Also in 1980, Adventist Health System/Loma Linda was created and it purchased the Loma Linda Community Hospital for \$16 million. The Loma Linda Community Hospital, along with Loma Linda University Medical Center are the two major facilities of Adventist Health System/Loma Linda.

Today, Loma Linda Community Hospital is a 120-bed facility utilized by many faculty and non-faculty physicians in the Loma Linda and Redlands area. The university family practice residency utilizes this facility for its residency program. Loma Linda Community Hospital has become an integral part of the Loma Linda healthcare delivery system, with several health-maintenance organizations using it for general medical/surgical patients. Patients needing more specialized testing, nursing care, or procedures are transferred to Loma Linda University Medical Center for these services. In 1991, Loma Linda Community Hospital reported a \$1.4 million profit on its operations.

The Jerry L. Pettis Memorial Veterans Hospital is, of course, owned and operated by the United States Department of Veterans Affairs, but it has a significant affiliation with the medical center and the school of medicine. The medical staff of the veterans hospital are faculty members of the school of medicine, and provide more than \$1 million of educational services to medical students, interns, residents, and fellows each year. In addition, research laboratories at the veterans hospital enhance the scientific activities of the faculty.

Faculty Practice Plans

The faculty practice plans for the school of medicine and the school of dentistry comprise a second element of corporate Loma Linda. Without these plans, operation of the respective schools would be impossible. In the school of medicine, for example, tuition income from medical students—even at \$18,750

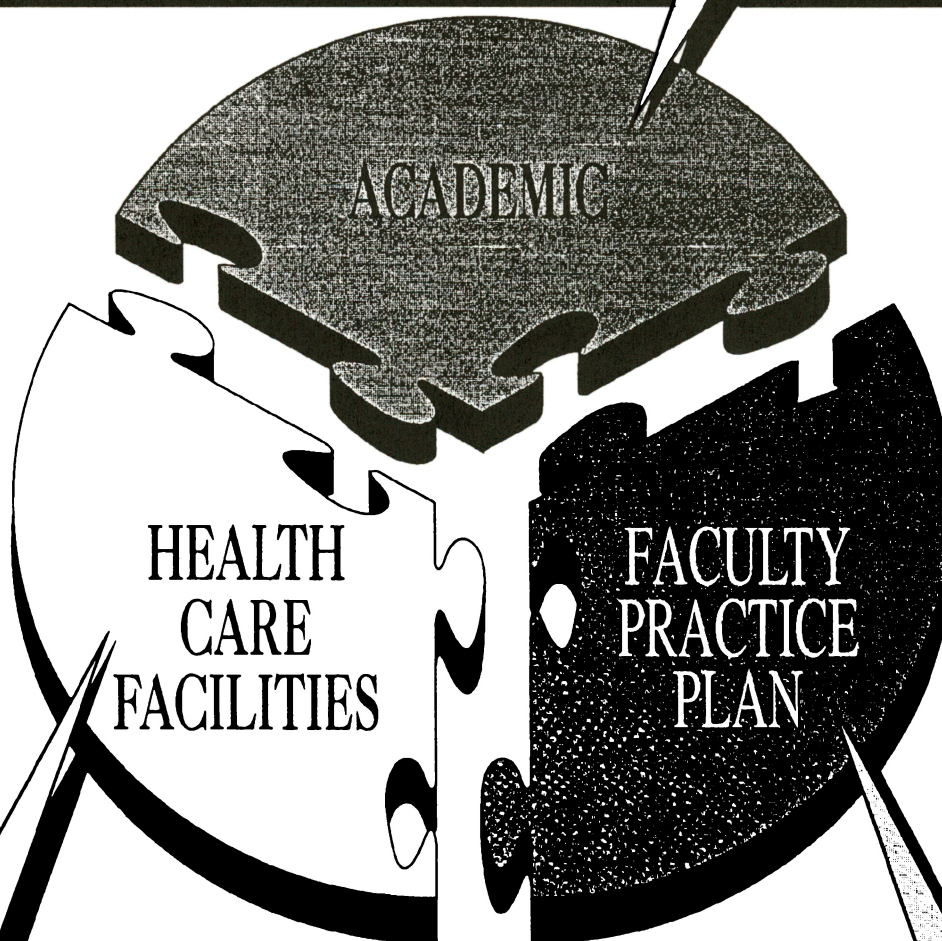
per year—pays less than half of the cost of their medical education. The clinical portion of the training—which consumes most of the last two years of the program—is financed largely by the \$12 million that the faculty physicians contribute to the school of medicine from annual gross revenues of more than \$100 million.

Just like any physician practice, these groups derive income from patient care. They pay for their office staff, accounting and billing services, rent on their office space, and salaries to the physician members of the group. They also provide, without remuneration, clinical instruction to medical students and residents, and about \$21 million in support of medical research at Loma Linda. The combined contribution of the faculty to medical research and clinical training, \$33 million a year, is almost three times what the Seventh-day Adventist Church contributes annually. For all this, clinical faculty members earn incomes often in the 25th percentile or lower of what they might earn in private practice.

Presently, the faculty practice plan for the school of medicine is comprised of 18 different not-for-profit physician corporations. Loma Linda University Faculty Medical Group, Incorporated is an umbrella corporation under which the practice groups function. Historically, this organization has enjoyed little power. Its functions were largely limited to personnel management of the office staff employees, to oversight of the malpractice self-insurance plan, and to legally mandated pension/retirement plans.

As more business today is driven by contract with payers, there have been movements within many of the physician groups toward strengthening the Loma Linda University Faculty Medical Group, Incorporated, at the expense of the separate corporations. Addressing this issue is one of the most delicate challenges facing administrators at Loma Linda.

Schools of Allied Health Professions, Dentistry, Graduate School, Medicine, Nursing, Public Health; and the Faculty of Religion



University Medical Center
Ambulatory Care
Behavioral Medicine Center
Children's Hospital
Community Hospital
Faculty Medical Offices

School of Dentistry
Faculty Practice Corporation
and
School of Medicine
Faculty Practice Corporation

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Academic Programs and Facilities

The recent history of Loma Linda University's separation from the La Sierra campus and programs has been reported earlier in *Spectrum*.² Today, Loma Linda University is exclusively a health-sciences university. The university consists of a faculty of religion and six schools: nursing, medicine, dentistry, graduate school, allied health professions, public health. These schools are all based on the Loma Linda campus although most of the schools have off-campus courses or clinical affiliations.

The combined budget of these schools and related academic and administrative support totals more than \$75 million annually. The 1990-1991 fiscal year produced more than a \$1.8 million operating gain, which was

available to retire long-term debt, purchase equipment, or make other capital improvements. The 1991-1992 fiscal year showed an unaudited gain of \$550,000. The balance sheet of the university was improved significantly in 1991, when the Faculty Medical Office building debt was assumed by the medical center and the university was credited with \$28.5 million, which reduced the university debt to about \$24 million.

The school of nursing is the oldest of the schools at Loma Linda University. It continues today the training program begun in 1905. Students may earn associate of science, bachelor of science, and master of science degrees in nursing at Loma Linda. A full-time faculty of more than 30 serves a fall 1992 enrollment of about 255 students.

The school of medicine, established in 1909, is the second oldest of the university's schools. It is also the largest, with a faculty of more than 650, and 594 students in doctor-of-

Loma Linda University Medical Center Statement of Income

	1986	1987	1988	1989	1990	1991
Total inpatient revenue	\$231,972,417	\$259,448,778	\$295,051,730	\$331,919,934	\$402,934,694	\$446,476,560
Total outpatient revenue	32,381,786	34,607,032	41,897,030	57,274,222	76,169,559	94,305,080
Gross patient revenue	\$264,354,203	\$294,055,810	\$336,948,760	\$389,194,156	\$479,104,253	\$540,781,640
Provision for contractual adjustments, uncollectible accounts, and charity care	\$ 71,977,500	\$ 94,182,320	\$127,338,610	\$146,526,685	\$206,320,621	\$264,292,160
Net patient service revenue	\$192,376,703	\$199,873,490	\$209,610,150	\$242,667,471	\$272,783,632	\$275,356,375
Other operating revenue	11,809,318	14,550,665	19,268,432	17,578,191	22,315,805	29,941,411
Total operating revenue	\$204,186,021	\$214,424,155	\$228,878,582	\$260,245,662	\$295,099,437	\$306,430,891
Total operating expenses	\$196,234,198	\$207,509,541	\$219,842,194	\$250,657,979	\$283,050,197	\$302,985,361
Income (loss) from operations	\$ 7,951,823	\$ 6,914,614	\$ 9,036,388	\$ 9,587,683	\$ 12,049,240	\$ 3,445,530
Nonoperating revenue, net	\$ 3,300,533	\$ 794,877	\$ 4,848,344	\$ 3,788,388	\$ 1,120,023	\$ 1,758,942
Loss on advance refunding of debt				1,099,570		
Net income (loss)	\$ 11,252,356	\$ 7,709,491	\$ 13,884,732	\$ 12,276,501	\$ 13,169,263	\$ 5,204,472

medicine degree programs. In addition, more than 500 physicians continue their education at Loma Linda in the graduate medical programs for residents and fellows.

The school of dentistry was established in 1953. Today, its programs include the doctor of dental surgery degree as well as advanced graduate programs in orthodontics, endodontics, periodontics, oral surgery, oral implantology, and dental anesthesiology. The bachelor of science degree in dental hygiene is also offered in the school. More than 400 students are enrolled. The school of dentistry is ranked first in the nation for the quality of the student clinical experience afforded. The graduate residency program in oral implantology was the first such program offered in the United States.

The graduate school was organized in 1954 and offers advanced curricula in anatomy, biochemistry, biology, dentistry, family-life education, marriage and family therapy, microbiology, nursing, parentology, pharmacology, physiology, and speech-language pathology. Students in the schools of medicine and dentistry can earn M.S. and Ph.D. degrees in several medical-related science disciplines. Enrollment for fall of 1992 is projected as 300 students.

The school of allied health professions, established in 1966, is comprised of eight departments: clinical laboratory science, health-information administration, nutrition and dietetics, occupational therapy, physical therapy, radiation technology, respiratory therapy, and speech-language pathology and audiology. The school offers two-year associate of science, baccalaureate, and master's degrees. Projected enrollment is for 800 students in the fall of 1992.

The school of public health was founded

in 1967. In 1990 its operations were merged with the department of preventive medicine within the school of medicine. The school still, however, continues to offer graduate degrees: the master of public health, master of health administration, master of science in public health, and doctor of public health degrees. An enrollment of 330 students is projected for the fall term of 1992.

The faculty of religion functions as a service department to each of the six schools of the university. Loma Linda University offers neither undergraduate nor graduate degrees in religion. The Center of Christian Bioethics within the faculty of religion consults with the university's professional schools and services.

While many sons and daughters of the East, the South, the Midwest, the Northwest, and even foreign lands have remained in Southern California and have created the large Loma Linda community, the majority have not. Hardly an Adventist congregation in the world has not been touched by the education or medical mission of this complex of Adventist institutions.

¹ Discussion below is limited to the School of Medicine Faculty Practice Plans as the School of Dentistry Faculty Practice Plan is currently being reorganized.

² See, for example, Ronald Graybill, "Loma Linda Opts for Single University With Two Campuses," *Spectrum*, Vol. 20, No. 1; Ronald Graybill, "Loma Linda—A Multiversity or a Health Science University?" *Spectrum*, Vol. 19, No. 5; John Whitehair, "Loma Linda University Put on Probation For Two Years," *Spectrum*, Vol. 19, No. 4; Ronald Graybill, "The Case for Moving as Well as Merging," *Spectrum*, Vol. 19, No. 1; Jean and Maynard Lowry, "Beyond Moving: The Merging of Loma Linda University," *Spectrum*, Vol. 19, No. 1; Bruce Branson, "The Case for Consolidation," *Spectrum*, Vol. 17, No. 4; and Rennie B. Schoepflin, "Consolidation and Controversy: La Sierra to Loma Linda?" *Spectrum*, Vol. 17, No. 4.