



Revised

MEMORANDUM

June 12, 2012

To: Members of the Board of Trustees

From: Nancy L. Zimpher, Chancellor

**Subject: University Reserve Line of Credit for Downstate
Medical Center**

Action Requested

The proposed resolution expresses support for the mission and continuation of Downstate Medical Center, and authorizes the Chancellor to establish a line of credit, convertible later into a term loan, to Downstate Medical Center in an amount not to exceed \$75 million, as an extension of the University Reserve Borrowing Policy, upon such terms as the Chancellor deems necessary and appropriate, and within the terms of this resolution. The Board grants such line of credit on the presumption that the State will partner with SUNY to support the restructuring of Downstate Medical Center by providing resources to ensure a successful transformation of Downstate.

Resolution

I recommend that the Board of Trustees adopt the following resolution:

Whereas the State University of New York operates an academic medical center at SUNY Downstate, including two teaching hospitals and other clinical facilities in Brooklyn, which are a critical component of the academic mission of the campus, providing the learning laboratories for the students on that campus; and

Whereas Downstate is the only public academic medical center in New York City, and 92% of its students are from New York State; 71% are from New York City; 31% are African-American or Hispanic; and

Whereas one in three physicians who practice in Brooklyn received their training at Downstate, as did one in nine physicians who practice in New York City; and

Whereas Downstate provides well over 1,000 medical residents to hospitals throughout Brooklyn, providing cost-effective care to vulnerable populations; and

Whereas Downstate ranks 9th out of 140 U.S. academic medical centers in the number of graduates who are sitting professors of medicine, and 13th out of 140 in the number of graduates who are department chairs in other American medical schools; and

Whereas the State has provided financial assistance for many years to SUNY's three teaching hospital centers, including SUNY Downstate, to help cover the costs associated with State sponsorship that the hospitals do not control, particularly related to fringe benefits and collective bargaining; and

Whereas since 2008-09, during the State's financial crisis, State support to the three SUNY hospital centers has not kept up with cost increases related to State sponsorship, declining by over 60% between 2008-09 and 2011-12, while costs continued to rise; and

Whereas State support reductions along with Medicaid reimbursement reductions and unanticipated declines in inpatient volume have had serious short-term and long-term implications for SUNY Downstate's fiscal viability, including that SUNY Downstate is facing multi-million dollar current cash flow challenges, and that substantial reshaping and transformation of SUNY Downstate will be necessary; and

Whereas strong consideration must be given by the State to SUNY Downstate's role as an educational institution, and any changes in the healthcare system in Brooklyn must not jeopardize the vital educational and public service missions of Downstate Medical Center; and

Whereas any changes in the healthcare delivery system in the East Flatbush/Central Brooklyn neighborhood should support the vital and appropriate continuation of SUNY

Downstate, as New York City's only public academic medical center, and the leading source of medical professionals for New York City; and

Whereas Downstate Medical Center is experiencing substantial and unprecedented financial distress, and needs to borrow funds from University reserves in order to maintain program quality while developing a long-term plan to resolve fiscal issues; now, therefore, be it

Resolved that the Chancellor be, and hereby is, authorized to implement in accordance with the terms specified in this resolution, a line of credit, and later to approve a loan with appropriate repayment terms, to Downstate Medical Center in an amount not to exceed \$75 million, upon such terms as the Chancellor deems necessary and appropriate, including the following:

- a. No principal payments due for first three years (and in the discretion of the Chancellor, interest payments during that time may also be delayed and added to principal, rather than paid currently);
- b. Repayment of the loan over a period not to exceed ten years after repayment begins;
- c. There will be active, detailed and thorough supervision of, and assistance to, Downstate by and from SUNY System Administration, including Downstate's preparation of an action plan for System approval, and frequent and regular reporting from Downstate to SUNY System Administration, and the Board;
- d. The line of credit will come from University-wide unrestricted reserves, which shall be actively monitored by System Administration;
- e. Downstate's progress will be formally reviewed on a quarterly basis including any proposed major changes to the restructuring plans that affect the line of credit or loan.

and, be it further

Resolved that the Board strongly urges the State to partner with SUNY to support the vital missions of Downstate Medical Center, by providing all possible temporary and permanent forms of substantial financial assistance, such as:

- a. Fulfilling its commitment to cover that portion of fringe benefit costs at SUNY Downstate and the other SUNY hospitals at Stony Brook and Syracuse in excess of such costs at other non-profit hospitals, as previously agreed by the State;
- b. Providing HEAL funding, Medicaid rate adjustments and other payment terms of assistance to Downstate;
- c. Providing or authorizing accelerated payments of State funds to Downstate, and deferred or forgiven payments from Downstate to the State;
- d. Providing any and all other forms of approvals, financial, operating and other forms of assistance to SUNY and Downstate; and, be it further

Resolved that the Board supports changes in Brooklyn's healthcare delivery system, including a prominent role for SUNY Downstate, to the extent recommendations are in the best interests of the patients served, and students educated by SUNY Downstate, and respectfully requests that the Commissioner of Health work with SUNY System Administration and Downstate to develop a plan in the best interests of the Brooklyn communities Downstate serves; and, be it further

Resolved that the Board supports the Chancellor and SUNY Downstate in their current active process of developing short-term and long-term options, to ensure the long-term financial viability of SUNY Downstate.

Background

Under the existing University Reserve Borrowing Policy, the University may administer a loan of University unrestricted cash balances to a campus in need. The campus may be provided with a one-time influx of cash to enable it to address a shortfall of operating funds. The Policy requires the campus to develop, and the Chancellor to authorize, a recovery action plan to resolve the

issues necessitating the loan and to repay the loan; requires the campus to repay the principal of the loan plus lost interest and, in the discretion of the Chancellor, 3% of the outstanding balance, within one-to-five years; prohibits aggregate loans of more than 25% of the aggregate University unrestricted cash balances; and provides for the campus and System Administration to monitor and to report on the use of borrowed funds and progress in implementing the recovery action plan.

All of those types of provisions, and many more, are reflected in the above authorizing terms and will be expected by System Administration, but since Downstate's need for funds is not necessarily one-time or short-term, this resolution authorizes a separate loan with its own special terms as an extension of the prior policy.

The line of credit will require an on-going reporting and communication, including the following:

- Weekly reporting to the office of Health Affairs and SUNY Controller;
- Monthly reporting to the SWOT Team with regular updates to Chancellor's Executive Committee;
- Quarterly reporting to the SWOT Team with written reports and presentations to the Board of Trustees as needed.

Both the financial and action plan will be monitored at various levels to ensure that any changes in assumptions or deliverables are addressed immediately.