UH CANCER CENTER REPORT

Presented by Vassilis Syrmos, VP for Research and Innovation

Observations

- Federal research dollars continue to remain difficult to obtain
- Debt service, renewal and replacement reserve and electricity ($11 .4M) leave little for research support out of declining cigarette tax revenues
- Should look to reduce operating costs such as through shared services with JABSOM; pruning and reorganizing with new business plan; and changing budget process
- Might look at ways to handle debt service problem
- Clear that cannot continue along the same path

Summary of Observations

- At the time of this writing, interim UHCC administration and faculty have already begun to address some of issues that were identified 6y the Task Force. In the recently convened legislative session, UHCC finances are one of several UH issues receiving detailed analysis. The Task Force offers the following summary observations:
    - UHCC is at a critical point in its evolution.
    - UHCC has an operational deficit, draining its reserves.
    - UHCC's business plan is flawed, and its consortium arrangements are ineffective and different from all other cancer centers in the U.S. While some of this may be due in part to changing local and national conditions, a credible business moael needs to be developed.
    - Many of UHCC's productive faculty members have left and replacement has been slow.
    - Federal cancer research funding has been level at best.
    - Management and governance issues exist, and interim administration and faculty have begun to address these.
    - UHCC status as an NCI designated center is a prestigious element of the Center and affords potential benefits to the people of the state especially in access to clinical trials. Progress in establishing clinical trials has been slow.
    - Concern over the fate of the Cancer Center Support Grant ("P30 award"), which grants NCI designation, is justified.
    - UH Manoa and various stakeholders need to critically analyze the costs and benefits of retaining the NCI designation. This analysis should also examine the efficacy of the structure and implementation of the Hawai'i Cancer Consortium.

Consultant recommends University of Hawaii Cancer Center go private

By Lorin Eleni Gill - Reporter, Pacific Business News
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An independent consultancy recommends the University of Hawaii Cancer Center reconfigure as a private enterprise to address shrinking revenue, according to its business plan published Thursday.

The research center has been plagued with an annual $8 million mortgage payment for its $119 million Kakaako facility which completed in 2012. It is currently running a multi-million deficit for the fiscal year that began in June.

Atlanta-based Warbird Consulting Partners and Chicago-based Navigant Consulting Inc. were hired by the university last year to come up with a new business strategy for the research center. The new plan outlines ways to increase efficiency through collaboration with its neighbor, the University of Hawaii John A. Burns School of Medicine, use shelled space as a new revenue source, and connect with research partners in the U.S. and abroad.

The center has relied on a diminishing state cigarette tax revenue — a funding mechanism set up in a 2010 business plan that assumed the center's tax revenue share would remain steady at $20 million annually, but has since been cut down to $14 million to $15 million as fewer Hawaii residents smoke.

"[Warbird Partners' assessment report] noted that most university cancer centers are supported by clinical patient activity tied to a university hospital," the report said. "Warbird Partners strongly advised that the university consider in the long term operating the center as an enterprise fund, i.e. a unit that is operated semi-autonomously from university to allow the formation of joint ownership with the Center's community based medical centers."

The center is requesting $5 million from the state Legislature this session to cover the recruitment of ta new center director, associate director, support staff, and new faculty recruits.

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UH officials have discussed increasing its annual investment of university funds to $1.5 million beginning in July. That would be 20 percent of increased state general funds, compared to the 10 percent UH investment the university currently provides the center.

The center is in the beginning stages of a merger with the University of Hawaii John A. Burns School of Medicine that began last fall to cut administrative and custodial costs.

The university is up for renewal of its National Cancer Institute designation in 2017. The Hawaii center currently receives about $4.3 million in annual research funding each year due to the designation. Approximately 85 percent of federal funds for cancer research are distributed to NCI-designated centers. The center would lose about $10 million of federal grant income a year if it lost NCI designation.

The cancer center ended fiscal year 2015 with a $6.4 million operating deficit, compared to $10 million deficits in fiscal years 2013 and 2014. If a new strategy is not adopted, Warbird Partners warns the center will run out of money by fiscal year 2018, which begins the summer prior.

“If the goal is to sustain unique cancer research capabilities in Hawaii, no management or governance action that can be taken today (without extensive, inter party, detailed discussion) will change the UHCC’s economic equation sufficiently in the short term to eliminate the need for continuing financial support from many sources,” Warbird's report says. “If UH and the state, among other stakeholders, do not share that goal and the financial support it entails the cancer center will not be “saved” by outside partners and advisors.”

UH Manoa Chancellor Robert Bley-Vroman said Thursday that the university plans to complete the second phase of the business plan and decide on an action plan internally, rather than proceeding with the second phase of the two-phase $250,000 contract. The $131,000 encumbered by the University of Hawaii Foundation for the second phase will be returned to the foundation.

The business plan will be presented to the UH Board of Regents next Wednesday.

“[Going private] would pull the cancer center out of the university and put it as a separate enterprise that would partner with UH and other institutions in the state,” said Jerris Hedges, interim Cancer Center director and medical school dean, at. “This may be an ultimate solution, but it is long term and one we cannot implement without [partners]. It would require us to work closely with unions as to how that would impact faculty and how they’d be compensated moving forward.”

Access full Warbird Assessment Report Here

UH CANCER CENTER ASSESSMENT FINDINGS

Warbird Consulting & Navigant Consulting
Oct. 16, 2015

- **Find synergy with Hawai'i's existing clinical operations.** Hawai'i's small state population, along with other factors, will always prevent UHCC from matching the scope and scale of many other major NCI-designated centers, including those at UCSF, UCLA, USC, MD Andersen or the Seattle Cancer Care Alliance. These same factors also limit UHCC's potential for clinical operations in the UHCC facility. UHCC should not attempt to create its own clinical operation at Kaka'ako. For the UHCC to have optimal performance, the UHCC's research focus must find synergy with existing clinical operations, including Consortium members and community cancer physicians.

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- **Address funding of faculty costs.** Faculty at UHCC does not fund compensation with a proportion of extramural (non-institutional) funds that comes close to matching prevailing standards for researchers at mainland cancer centers. Most faculty at NCI-designated cancer centers face standards for productivity, salary support, salary levels and overhead contributions. Elsewhere researchers with grant funding (known as "soft money") might be expected to cover 80% to 90% of their salary support with extramural funds. Additionally, start-up and bridge funding packages – intended to boot-strap new researchers, or bridge grant-less years for more senior colleagues – often are limited to three years, but not at UHCC. As a point of reference, if UHCC faculty received 80% of their salaries from extramural sources, $5 million annually in funding support from the cigarette tax[2] that currently goes to faculty compensation would be freed up for other uses.

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- **Recruit a new UHCC Director.** Director of a cancer research center is not a part-time job, and a background in cancer-focused research is normally a prerequisite. The field described by cancer research is deep, expansive, complex and evolving rapidly. To contribute in UHCC's portion of this research spectrum will involve weaving a web of funding sources and research capabilities. UHCC's Director should aim to optimize the center's assets – people and property – in an effort to garner the most funding for the most cancer-related research. Leadership at UHCC has been a problem. In short order, there have been three different Directors and now the JABSOM Dean as interim (acknowledged as not a cancer researcher), none of whom has been afforded a long-term view. The leadership instability has also frustrated both existing and potential partners. The NCI expects a Director who has clear authority over and accountability for the highest and best use of the cancer research enterprise. To contribute to its potential as a cancer research center, UHCC needs such a directorship, regardless of NCI designation status. Furthermore, a new UHCC Director should have existing research funding and an extensive history of obtaining cancer-related grants and awards.

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- The completed portion of the UHCC building is not fully utilized. Significant cash flow potentially could be generate d by leasing the unoccupied/underut ilized exist ing space and the shelled-in space, although options are complicated by the constraints of the facility's Bond issue.

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3. Industry. The majority of EPCTs are supported through industry (i.e., pharmaceutical company) contracts. Reimbursement typically ranges from $10,000 to $25,000 per patient, depending on the complexity of the trial. These funds will be allocated to support program faculty, research personnel/staff and operational costs.
4. Philanthropy. EPCT programs generally drive significant philanthropic giving from grateful patients. Such philanthropic support will be directed to support the EPCT program.
5. Structure. The EPCT program can be administered in conjunction with UH and UHP (University Health Partners), as an independent component of the Hawai'i Cancer Consortium or could be administered under a separate 501(c)(3) or LLC. Decisions regarding the optimal operating model will be made at a later date, in conjunction with our clinical partners.

Business Plan

Partnership assumptions. The business plan assumes involvement of UHCC, Queens Health System and Hawai'i Pacific Health as principal partners. All principals have committed to supporting the EPCT program.

Initial and overall investments. Initial investment by UHCC will be ~$2.5M over 5 years. Each of the two principal clinical partners will also invest ~$2.5M over 5 years, either directly or through the Hawai'i Cancer Consortium.

Specifics about UH/UHCC-related investments. Two faculty positions assigned to the Cancer Center, currently under recruitment, are specified for physician-scientists to direct early phase trials and facilitate translation of novel discoveries from the laboratory into clinical interventions for the benefit of cancer patients in Hawai'i and beyond. The need for these recruitments was identified by the National Cancer Institute at the time of the most recent Cancer Center Support Grant renewal. Additional funds comprising the UHCC investment are derived from a recent philanthropic gift of over $2 million through the UH Foundation dedicated to support expansion of clinically-related research at UHCC.

Achievement of positive operating margin. A positive annual operating margin

should be achieved by year 4 and the overall program balance (revenues-expenditures) should be positive by year 5. The program will be fully self-sustaining from year 4 forward. Operating funds will be derived primarily from contracts with pharmaceutical companies supporting the individual trials with novel anti-cancer agents. The business plan is extremely conservative, estimating balanced operating budgets with enrollment of 60 patients per year by year 4. However, based on the population of cancer patients in the State of Hawaii, it is estimated that 100-150 patients per year would benefit from early phase clinical trials and therefore enrollment to trials may be significantly higher. This would generate additional revenue, and would lead to an earlier achievement of a balanced operating budget. Additional revenue would be reinvested into the program, and could be utilized to support aligned translational research at the Cancer Center which would enhance opportunities to increase extramural (NIH/NCI) funding.

Considerations for additional clinical partners. Inclusion of additional clinical partners will reduce the amount of investment required for UHCC and the principal clinical partners. Potential additional partners include Kuakini Medical Center, Kaiser Permanente and Adventist Castle Medical Center. Recent discussions with Kaiser indicated significant interest in partnering for early phase clinical trials. There is precedent within the Kaiser System of such a partnership, with Kaiser New Mexico aligned with the University of New Mexico Cancer Center in this fashion.

Correlative opportunities and benefits. The early phase clinical research program will enhance opportunities for translational research and, by increasing the depth and potential scope of existing research programs, will lead to additional extramural research grants and contracts. EPCT programs typically also generate philanthropic donations from grateful patients and families and such funding would provide additional programmatic support. Finally, patient volumes are estimated conservatively and do not include potential patients from Asia. With the development of a novel program, previously unavailable in Hawai'i, the potential to expand "medical tourism" activities, and provide services in Hawai'i