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January 5, 2018

The Honorable Holly J. Mitchell
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Senator Mitchell:

Pursuant to Item 6440-001-0001, Provision 1, of the 2017-18 Supplemental Report of the 2017-18 Budget Package, enclosed is the University of California's report to the Legislature on *Contracts with Medical Laboratories*.

If you have any questions regarding this report, Associate Vice President David Alcocer would be pleased to speak with you. David can be reached by telephone at (510) 987-9113, or by email at David.Alcocer@ucop.edu.

Yours very truly,

A handwritten signature in black ink that reads 'Janet Napolitano'.

Janet Napolitano
President

Enclosure

cc: Senate Budget and Fiscal Review
The Honorable Anthony J. Portantino, Chair
Senate Budget and Fiscal Review Subcommittee #1
(Attn: Ms. Anita Lee)
(Attn: Ms. Cheryl Black)
The Honorable Kevin McCarty, Chair
Assembly Budget Subcommittee #2
(Attn: Mr. Mark Martin)
(Attn: Mrs. Katie Sperla)

The Honorable Holly J. Mitchell

January 3, 2018

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Ms. Jennifer Troia, Joint Legislative Budget Committee
Mr. Danny Alvarez, Secretary of the Senate
Ms. Tina McGee, Legislative Analyst's Office
Ms. Amy Leach, Office of the Chief Clerk of the Assembly
Mr. Jim Lasky, Legislative Counsel Bureau
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Mr. Jeff Bell, Department of Finance
Mr. Christian Osmena, Department of Finance
Mr. Jack Zwald, Department of Finance
Ms. Tina McGee, Legislative Analyst's Office
Mr. Mac Taylor, Legislative Analyst's Office
Mr. Jason Constantouros, Legislative Analyst's Office
Executive Vice President John Stobo
Executive Vice President and Chief Financial Officer Nathan Brostrom
Associate Vice President David Alcocer
Associate Vice President Cathryn Nation
Associate Vice President and Director Kieran Flaherty
Chief Policy Advisor and Executive Director Jenny Kao
Chief of Staff to the Chief Financial Officer Oren Gabriel

UNIVERSITY OF CALIFORNIA

Contracts with Medical Laboratories

The *Supplemental Report of the 2017-18 Budget Act* contains language requesting that the University of California (UC) report to the Legislature information on its contracts with medical laboratories. That request reads as follows:

Item 6440-001-0001—University of California

- 1. University of California—Contracts With Medical Laboratories.** On or before January 1, 2018, the University of California (UC) shall report to the Legislature on the following issues:
- (a) the number of outside medical laboratories for which UC currently contracts;
 - (b) the value of each contract;
 - (c) a summary of any efforts UC has made to date to consolidate its contracts with outside laboratories; and
 - (d) a summary of Vizient’s recommendations to UC on consolidating contracts with outside laboratories.

Background

UC Health represents and includes UC’s five academic medical centers located in San Francisco, Sacramento, Irvine, Los Angeles and San Diego. While the Clinical Laboratories at each UC health system provide very robust testing menus, our medical centers must use reference medical laboratories because our UC laboratories cannot provide every test needed by clinicians to diagnose and treat patients. Some tests are patented and only available at a few laboratories, while others are of such low volume or require highly specialized knowledge that it becomes necessary to utilize reference medical laboratories.

In aggregate, the UC’s five academic medical centers utilize eighty-five reference medical laboratories. These are listed in Table 1 with their aggregate spend.

Contracts with Medical Laboratories

UC Health established the “Leveraging Scale for Value” Initiative, aimed at identifying and achieving cost savings and operational efficiencies for UC’s clinical enterprise. By coordinating as a single network of health systems, UC Health facilitates master contracts and obtains better terms and pricing from the suppliers who can deliver the level of clinical quality and service required. Responsibility for selection of clinical laboratories, including reference medical laboratories, rests principally with laboratory directors. Master contracts can and should ensure appropriate pricing and service terms for reference medical laboratory services, but the ultimate selection is driven by the clinical judgment of laboratory directors. Laboratory directors must evaluate potential reference medical laboratory services based upon numerous factors, including quality, service delivery, test menu, professional expertise, turnaround time, test ordering and result reporting processes, utilization reports, and other management tools and

services. Cost is not the only factor in selecting a reference medical laboratory for a contractual relationship. This is consistent with the College of American Pathologists' accreditation guidance, which requires that the laboratory director, in consultation with the institutional medical staff or physician clients (where appropriate), be responsible for selecting reference medical laboratories. This decision must be based primarily upon the quality of performance of such laboratories. Failure to comply with this guidance is considered an accreditation deficiency.

As a part of the Leveraging Scale for Value initiative, UC Health has established two master contracts with reference medical laboratories. These include GeneDx (a division of BioReference Laboratories) and ARUP Laboratories. When available, UC Health utilizes an already established contract with Vizient Inc., a group purchasing organization (GPO) of which the University of California, UC Health, and its five health systems are members. As a GPO, Vizient is able to aggregate the purchasing volume of the several health care providers that participate in the GPO, using that leverage to negotiate discounted pricing with vendors. For the contract with ARUP Laboratories, UC Health utilized a Vizient contract to consolidate. For clarification, this move was one decided on by UC leadership and not Vizient.

Table 1

CLIA Number	Reference Lab Name	UC Health System-Wide
05D0923321	ACCUPATH (LAB CORP)	\$ 126,297.33
50D2046518	ADAPTIVE BIOTECHNOLOGIES	\$ 1,830.00
05D0981414	AMBRY GENETICS	\$ 417,610.00
05D0642412	AMERICAN RED CROSS BLOOD SERVICES	\$ 75,000.00
46D0523979	ARUP LABORATORIES INC	\$ 11,000,000.00
45D2073394	ASPIRA LABS	\$ 37,050.00
22D0069726	ATHENA DIAGNOSTICS	\$ 1,672,952.80
45D0660090	BAYLOR MIRACA GENETICS LAB	\$ 64,431.00
22D1021258	BEACON DIAGNOSTICS LABORATORY	\$ 15,033.00
31D0652945	BIOREFERENCE LABORATORIES GENPATH ONCOLOGY DIAGNOSTCS	\$ 17,005.00
52D1009037	BLOOD CENTER OF WISCONSIN INC	\$ 126,201.00
22D0666524	BRIGHAM AND WOMENS HOSPITAL	\$ 6,109.00
05D0862216	CALIFORNIA DEPARTMENT OF PUBLIC HEALTH NEWBORN SCREENING BRANCH	\$ 1,702,574.85
05D1029609	CAREDX INC	\$ 1,172,664.45
05D0541033	CEDARS-SINAI MEDICAL CENTER (CORE LAB)	\$ 68,626.34
11D0668319	CENTER FOR DISEASE CONTROL & PREVENTION	<\$2,000
06D0880233	CENTER FOR DISEASE CONTROL & PREVENTION DIVISION OF VECTOR-BORNE INFECTIOUS DISEASE	<\$1,000
06D0513583	CHILDREN'S HOSPITAL COLORADO	\$ 1,235.00
05D0542989	CHILDREN'S HOSPITAL OF LOS ANGELES	<\$2,000
39D0198678	CHILDREN'S HOSPITAL OF PHILADELPHIA, THE	\$ 2,300.00
36D0656333	CINCINNATI CHILDREN'S HOSPITAL MED CENTER CORE	\$ 68,507.20
05D0665695	CITY OF HOPE NATIONAL MEDICAL CENTER	<\$3,000
05D1021650	CLARIENT DIAGNOSTIC SERVICES INC	\$ 44,389.39
39D1027912	CONNECTIVE TISSUE GENE TESTS LLC	\$ 10,390.00
03D0911463	CREATIVE TESTING SOLUTIONS	\$ 146,038.25
11D0683478	EMORY GENETICS LAB - MEDICAL AND BIOMED	\$ 4,000.00
32D0653253	ESOTERIX GENETIC LABORATORIES (SANTA FE)	\$ 2,840.00
05D0663070	ESOTERIX, INC. (ESOTERIX LABORATORY SERVICES/ENDOCRINOLOGY)	\$ 260,979.49
05D1075048	EXAGEN DIAGNOSTICS	\$ 31,999.03
05D0644251	FOCUS DIAGNOSTICS INC	\$ 687,357.12
22D2027531	FOUNDATION MEDICINE INC.	\$ 262,032.00
05D2043189	FULGENT THERAPEUTICS	\$ 116,200.00
21D0969951	GENEDX INC	\$ 391,019.00
49D2106421	GRANGER GENETICS	\$ 1,980.00
05D0549406	INTER SCIENCE INSTITUTE	\$ 1,650.00
05D2040778	INVITAE CORPORATION	\$ 100,585.50
39D1085495	JEFFERSON NEUROMUSCULAR DISEASE LAB	\$ 2,400.00
21D0680509	JOHN HOPKINS UNIVERSITY	\$ 7,216.00
	JOHN WELSH CARDIOVASCULAR DIAGNOSTIC LAB	\$ 2,700.00
33D0685375	KALEIDA HEALTH	\$ 6,780.00
21D0649789	KENNEDY KRIEGER GENETICS LABORATORY	\$ 14,215.00
34D0655059	LAB CORP (BURLINGTON NORTH CAROLINA)	\$ 133,446.06
05D0571200	LAB CORP (SAN DIEGO)	\$ 687,940.83
34D0655205	LABCORP OF AMERICA HOLDINGS-CENTER FOR MOLECULAR BIOLOGY AND PATHOLOGY (TRIANGLE PARK)	\$ 239,825.03
39D0948425	LYSOSOMAL DISEASES (JEFFERSON COLLEGE)	\$ 14,700.00
05D1019489	MACHAON DIAGNOSTICS, INC.	\$ 75,937.20
24D0404292	MAYO CLINIC LABS-ROCHESTER MAIN CAMPUS	\$ 1,290,254.28
24D1040592	MAYO COLLABORATIVE SERVICES INC. (MAYO CLINIC LABS - ROCHESTER SUPERIOR)	\$ 895,726.76
	MEDICAL COLLEGE OF WISCONSIN	\$ 1,080.00
11D0703390	MEDICAL NEUROGENETIC LLC (MNG)	\$ 156,755.51
15D0996282	MIRA VISTA DIAGNOSTICS	\$ 5,710.00
05D0941934	MONOGRAM BIOSCIENCE LABORATORY (FORMERLY VIROLOGIC INC.)	\$ 48,278.55
46D0880690	MYRIAD GENETIC LABORATORIES INC	\$ 8,520.00
05D1082992	NATERA, INC	\$ 16,199.00
06D0644307	NATIONAL JEWISH ADVANCED DIAGNOSTIC LABORATORIES (ADVANCED DIAGNOSTIC LABORATORIES)	\$ 73,817.61
39D0197898	NATIONAL MEDICAL SERVICES (NMS LAB)	\$ 4,879.00

Table 1 (continued)

CLIA Number	Reference Lab Name	UC Health System-Wide
36D0665271	NATIONWIDE CHILDRENS HOSPITAL DEPARTMENT OF MEDICINE	\$ 1,736.50
05D2080677	NEOGENOMICS LAB	\$ 1,143,267.00
05D0643684	PALO ALTO MEDICAL	\$ 18,826.00
	PENN MEDICINE	\$ 5,600.00
05D2053444	PERSONALIS	\$ 5,000.00
52D2065132	PREVENTION GENETICS	\$ 256,882.50
05D0917432	PROMETHEUS LABORATORIES INC	\$ 1,249,939.92
05D0644209	QUEST DIAGNOSTICS	\$ 6,792,017.99
05D0550276	RDL REFERENCE LABORATORY	\$ 15,643.00
05D0644185	SACRAMENTO COUNTY PUBLIC HEALTH LAB	\$ 165,734.56
05D0060808	SAN DIEGO COUNTY PUBLIC HEALTH LAB	\$ 6,655.10
05D0886122	SAN DIEGO PATHOLOGISTS MEDICAL GROUP, INC. (AP)	\$ 255,840.00
05D0858739	ST. JOSEPH OUTPATIENT PAVILION - LAB	\$ 1,882.00
05D0643688	STANFORD HOSPITAL AND CLINICS	\$ 317,885.50
05D0643684	TOXOPLASMA SEROLOGY LABORATORY	\$ 1,328.00
05D0615657	UC DAVIS MEDICAL CENTER, DEPARTMENT OF PATHOLOGY AND LABORATORY MEDICINE	\$ 14,400.00
05D0579200	UCI MEDICAL CENTER	\$ 65,649.03
05D2027932	UCLA CYTOGENETICS LAB	\$ 453,440.00
05D0542372	UCLA MEDICAL CENTER DEPT. OF PATHOLOGY AND LABORATORY MEDICINE	\$ 208,463.00
05D0594684	UCSF CLINICAL LABORATORY AT MOUNT ZION	\$ 29,852.16
01D0301478	UNIVERSITY OF ALABAMA	\$ 2,600.00
23D0366712	UNIVERSITY OF MICHIGAN- DEPT OF PATHOLOGY	\$ 1,240.00
45D0660483	UNIVERSITY OF TEXAS HEALTH SCIENCE CENTER (PATH LAB)	\$ 97,995.00
38D2018256	UNIVERSITY OF WASHINGTON (KNIGHTS PACIFIC)	\$ 66,713.01
50D0631935	UNIVERSITY OF WASHINGTON LABORATORY MEDICINE	\$ 338,328.03
05D0882389	USC ENDOCRINE SERVICES LAB	\$ 14,825.00
26D0983643	VIRACOR-IBT LABORATORIES INC	\$ 1,980,601.89
24D0400424	VIROMED LABORATORIES, INC.	\$ 10,245.85
26D0652044	WASHINTON UNIVERSITY IN ST. LOUIS/NEUROMUSCULAR CLINICAL LABORATORY	\$ 9,205.11
	TOTAL	\$35.9 million