Children's Hospital's Uncertain Future

Three years ago, Children's Hospital Oakland merged with UC San Francisco and received $50 million from Marc Benioff. Yet now it's facing major budget cuts.

By Kathleen Richards

On the outside, Children's Hospital Oakland appears to be thriving. The hospital at the corner of 52nd Street and Martin Luther King Jr. Way is in the first phase of a $500-million, 10-year expansion project to seismically retrofit and modernize its facilities. When completed, it will include a new six-story outpatient clinic, new surgical recovery, diagnostic, and treatment rooms, and new support services and clinics.

In 2014, the private, not-for-profit hospital also raised its profile by affiliating with UCSF Benioff Children's Hospital. The merged entity instantly became one the top 10 largest children's health care centers in the country. That same year, SalesForce.com founder Marc Benioff and his wife, Lynne, donated $100 million to the two hospitals.

UCSF Benioff Children's Hospital Oakland, as the East Bay hospital is now called, is also one of only five American

College of Surgeons Level One pediatric trauma centers in the state. Together with its San Francisco counterpart, the medical center is ranked by *U.S. News & World Report* as among the nation's premier children's hospitals in 10 pediatric specialties.

Although Children's Hospital Oakland has long struggled financially, affiliating with UCSF was expected to stabilize its finances. "Our donors will no longer have to worry if we're going to be here in 10 years," then-Children's Hospital Oakland president and CEO Bertram H. Lubin told the *East Bay Times* in 2014. "We will be."

But three years later, the outlook is less certain. In February, the hospital announced it needed to cut $40 million in operating expenses, or 6.5 percent of its budget, while UCSF was seeking $80 million in cuts. For Oakland, this followed a $72.7 million net loss in fiscal year 2016.

While Children's Hospital Oakland has long operated at a deficit, the challenges it faces now are unprecedented. Despite the affiliation with UCSF and the donation from the Benioffs, hospital administrators say shifting market trends—including lower Medi-Cal reimbursement rates, higher drug and labor costs, and decreased demand for inpatient services—are straining finances more than ever.

The hospital is also contending with increased competition from Stanford, which opened a pediatric clinic in Emeryville in 2013 that is siphoning off privately insured patients, on whom Children's Hospital Oakland has historically relied to help offset the cost of treating its large Medi-Cal population. "There's always been fiscal issues," said Michael Anderson, the new president of the UCSF Benioff Children's Hospitals. "The good news is the previous leadership here, Dr. Bert Lubin and others, have done a great job of patching together funding streams to get through—always at a loss, but to get through. Now that expenses are outpacing our revenue, that's not sustainable."

Yet while acknowledging the larger forces at play, some physicians at Children's question the decision-making of the hospital's new leadership. And they say that instead of helping the hospital save money and strengthen its position in the marketplace, the affiliation with UCSF has appeared to do the opposite.

"Periodically, we're given a financial assessment on the state of the hospital, and it's almost always bad news," said Dr. Caroline Hastings, a pediatric hematologist oncologist who has been at Children's Hospital Oakland since the early 1990s. "And then to follow that with, 'Well, we're going to cut this program, or we're going to cut these people.' We've been on a trimming process for a decade. It feels like we're cutting off our ankles at this point. We're not going to be able to stand up much longer."

Among the areas being considered for the budget chopping block are research, education, and the hospital's federally qualified health center, which provides much of the primary care to indigent and chronically ill patients. The Children's Hospital Oakland Research Institute, or CHORI, is one of the nation's top 10 research centers for National Institutes of Health funding to independent children's hospitals. And the Graduate Medical Education program trains pediatric residents and pediatric subspecialty fellows and educates numerous health care professionals annually.

Physicians say cuts to these programs could undermine the hospital's core mission, leaving some of the most vulnerable kids without vital care.

An online petition launched in early March by the medical staff, community physicians, residents, and alumni of the hospital in protest of possible cuts to the hospital's outpatient clinic on Claremont Avenue gathered nearly 900 signatures in just five days. The petitioners expressed concern that the proposed cutbacks "are contrary to the Board's responsibility to the mission of the hospital, are based on incomplete data, and raise questions about the management of the hospital." It blamed "chronic poor management" and a "reactive" leadership for leaving the hospital "with options that are not sustainable."

"The concern was that it appeared that all of the focus was on cuts and not on increasing revenue," said Margery Lackman, a community physician who is an active staff member and former resident at the hospital and a petition organizer.

The petitioners demanded more time to consider the cuts, increased transparency about the financial situation of the programs, "clear, reliable data" about costs and revenue, as well as more information about how the cuts will impact the residency program, because the residents get the bulk of their primary care training at the clinic. They also demanded to know where the patients who use these critical programs would go for care if the clinic closes.

That includes Nancy Netherland, a Berkeley mom of two adopted girls who have significant health issues. She signed the petition, writing that her daughters were "quite literally saved by pediatricians at the CHO Claremont clinic."

"I don't know where my family would go," she said in an interview. "And I say that as someone who has a lot of resources."

The petitioners were successful in getting the attention of hospital leadership. Lackman said she and other community physicians were invited to meet with Anderson, who said he wanted regular input from them through quarterly meetings. "I am pleased that someone seemed to listen to what we have to say and that things didn't just happen in a vacuum," she said.

Still, it's unclear just what will happen next. And many physicians and their patients are worried.

Financial pressures are nothing new for Children's Hospital Oakland. They began more than a century ago, when a nurse named Bertha Wright, a social worker named Mabel Weed, and a group of other civic-minded women decided to create a hospital specifically for babies in the East Bay. According to *The Hospital Women Built for Children* by Murray Morgan, Wright and others saw a need for a centrally located hospital to be available to all children in Alameda County, regardless of their ability to pay.

The women formed an association and began raising funds to purchase an old estate at 51st and Dover streets in North Oakland. According to Morgan, they paid for it using proceeds from "card parties," the performance of a play, and contributions from the nine members of the all-male board.

Children's President Michael Anderson says the hospital's expenses are outpacing revenues.

Hospital by D. Ross Cameron; Michael Anderson courtesy of UCSF Benioff Children's Hospital

Dr. Caroline Hastings says it feels as if Children's is "cutting off [its] ankles at this point."

But in September 1914, almost immediately after the Baby Hospital—as it was first known—began operation, it was running a deficit. Although there was no shortage of patients, the hospital had trouble making enough money to cover its costs. So the association created "Branches" whose members began fundraising: holding bridge parties, rummage sales, and dances.

Over the years, the hospital continued to grow and expand its services, while a gap remained between the money received in fees and the amount spent on patient care. Often, it was the efforts of the Branches—through fundraising drives, thrift shops, and the like—that helped keep the hospital alive.

But times have changed.

Like many children's hospitals, the one in Oakland—which, despite its affiliation with UCSF, remains a private, not-for-profit hospital—has grown into a huge, multifaceted institution with a budget in the hundreds of millions. Philanthropy is responsible for just 4 percent of the hospital's annual revenue, according to its most recent yearly report, covering fiscal year 2015. The rest of its revenue comes from a combination of government-sponsored plans, provider fees, supplemental funds, and investment income.

The problem is that about 70 percent of the hospital's patients are on Medi-Cal, yet reimbursement rates are unsustainably low. According to the California Children's Hospital Association, Obamacare greatly expanded the number of youths covered by Medi-Cal, but the state has one of the nation's lowest Medicaid reimbursement rates. Anderson said the hospital loses about 35 cents on every dollar for Medi-Cal patients. Privately insured patients have higher reimbursement rates, yet in recent years there's been increased competition for their business.

In 2013, Stanford's Lucile Packard Children's Hospital opened a 14,000-square-foot pediatric clinic in Emeryville, offering more than 10 clinical subspecialties. Stanford also partnered with Walnut Creek-based John Muir Health in 2012 to provide services in Contra Costa County.

While not pointing fingers, Anderson said the fact that other hospitals don't serve as many Medi-Cal patients as Children's Hospital Oakland isn't fair. "We're glad to serve them," he said of indigent patients, "... but if there are other competitors in town that are not taking their fair share, that can be very devastating financially to us."

Increased competition in pediatric care is happening all over the country. Higher reimbursement rates for complex pediatric specialties are attracting more providers to the field, and "megamergers" are allowing general hospitals to get into the pediatric subspecialist game, according to a 2015 article in industry publication *Modern Healthcare*.

And now privately insured patients make up a smaller percentage of Children's Hospital Oakland's revenue, having decreased from 32 percent in 2011 to 29 percent in fiscal year 2015.

While competition for privately insured patients grows, children's hospitals nationwide are also facing higher costs of care and dwindling demand for inpatient services. According to the health care consultancy firm Sg2, inpatient discharges in the next decade are projected to decline nationally by 4 percent, while outpatient services are expected to grow by 7 percent. At Children's Hospital Oakland, inpatient admissions declined from 11,010 in 2010 to 10,815 in 2015. Outpatient clinic visits, on the other hand, grew from 219,721 to 263,585 in the same time period.

"The good news is kids are getting healthier," Anderson said. Hospitals are also discharging patients sooner, patients are receiving treatments at home, and preventative care became incentivized under the Obama administration, he added. But this isn't so great for the hospital's finances because insurance companies have higher reimbursement rates for inpatient services.

Thus, partnering with a larger institution in order to consolidate operations and offer more services seemed like a viable solution. Initially, the hospital considered affiliating with Lucile Packard Children's Hospital Stanford, but, according to then-Children's CEO Lubin, UCSF was ultimately seen as a better fit. "We both have a major public mission that's very aligned—to serve all children regardless of ability to pay," Lubin explained to the *East Bay Times*.

In a 2016 article in *Modern Healthcare*, however, Stanford Children's Health CEO Christopher Dawes said Packard ultimately decided the merger with Children's was too expensive.

Although Children's remains separately licensed, its operations are deeply entwined with UC San Francisco. Children's budget has to be approved by UCSF and by Children's board, whose members also include UCSF employees. Those employees include Mark Laret, president and CEO of UCSF Health, and Anderson, who, in addition to being president of the two hospitals, is also senior vice president of children's services for UCSF Health. Children's Hospital Oakland's Chief Medical Officer, David Durand, is also employed by UCSF, as is joint Chief Financial Officer Robert Fries. (Chief Operating Officer Richard DeCarlo, another UCSF employee, stepped down in May.)

Some wonder if UCSF's leadership role in the Oakland hospital's finances constitutes a conflict of interest.

Although affiliating with UCSF was supposed to improve Children's Hospital's finances, it's not entirely clear whether it has.

For example, as part of the affiliation, pediatric subspecialty groups in Oakland and San Francisco are combining—a move designed to increase efficiency but, in some cases, appearing to increase costs. "The vision for integration is we have one program delivering essentially the same services in multiple locations by the same team," explained Durand.

But once the groups integrate, Oakland physicians become part of UCSF faculty, and in some cases this is more expensive. Durand said this has to do with cost structures under the university and differences in overhead, payer rates, and the way cash flows.

Elliott Vichinsky, division chief of hematology oncology at Children's Hospital Oakland, said the integration has added an "enormous amount of extra work" to his division. Whereas before certain decisions could be made quickly and efficiently, "now there are layers of people before I can get anything done," he said.

While acknowledging some of these extra expenses, Durand said the hospital is also purchasing something different from the university—a broader training and research enterprise. "To some extent the cost is different, the revenue is different, the services that we're

Photo by D. Ross Cameron

ST. PAUL'S
EPISCOPAL SCHOOL

Inspiring students through fearless learning, service, and diversity

BEST of Oakland Magazine 2017

Oakland's Best Independent Elementary School and Independent Middle School

Visit us today!
www.spes.org

An independent K-8 day school located steps from Lake Merritt

Nancy Netherland says the Children's primary care clinic has been invaluable to her kids' care.

contracting with to some extent is substantially different," he said. "It's a more nuanced issue than just are we paying some extra level of overhead to the university."

And Anderson contends that the claim that the affiliation has hurt the Oakland hospital financially is "a complete myth."

"Oakland as a freestanding campus would have been in an even deeper fiscal crisis if it hadn't been for the affiliation," he argued. He said UCSF helped bring in monies that Oakland wouldn't have received otherwise, including through philanthropy and "intergovernmental transfers."

"There is indeed strength in scale," he said.

But by its own numbers, the Oakland hospital has had larger deficits since the affiliation. For example, with the exception of fiscal year 2015, when there was a surplus of $56.1 million, every year since the affiliation has shown a net loss. In calendar year 2014, that amounted to $11.3 million, in fiscal year 2016 it leaped to $72.7 million, and in the first three months of fiscal year 2017 (from July to September in 2016), the loss from operations was $11.4 million.

Before the affiliation, from 2011 to 2013, the hospital showed surpluses. (Although in 2008 the hospital laid off 84 medical staffers as a result of $60 million in losses, according to the *San Francisco Chronicle*.)

The scenario is reminiscent of another merger that happened in the Bay Area. Back in 1997, UCSF and Stanford Medical Centers decided to merge and consolidate expenses because of declines in Medicare reimbursements and increased concessions to private insurers.

Dr. Ward Hagar, who was an assistant professor in medicine at Stanford at the time (and is the husband of Dr. Hastings), described an atmosphere of confusion among the staff about the merger and how it would work. "Nobody quite knew what was happening," he said. "They kept trying to figure out how to reorganize the faculty. Nobody was ever completely clear on where the whole thing was going at the end of the day."

As with the Children's-UCSF affiliation, the UCSF-Stanford merger showed a surplus in its balance sheet in its first year. But by the end of the second fiscal year, there were losses totaling $86 million. A few months later, the merger was declared dead. Ultimately, the failed transition ended up costing tens of millions of dollars for both Stanford and UCSF, according to the *San Francisco Business Times*.

Hagar said there was a culture clash between the two institutions: The much larger UCSF had a more hierarchical and bureaucratic structure, while Stanford was smaller and more nimble. "It was much more collegial than competitive," he said of Stanford.

Now, Hagar is the director of the adult sickle cell service at Children's Hospital Oakland. He sees parallels with what happened 20 years ago with what's occurring now with the Children's Hospital-UCSF affiliation, primarily in the confusion among the staff about what's happening and why. But unlike Stanford, Children's Hospital Oakland doesn't have the resources to survive a failed integration. "It's important to them what happens," he said, "because it's not like they can afford to make a mistake."

That's not to say the UCSF affiliation will follow the same path. But some of the Oakland hospital's most valued programs might be impacted anyway.

Michael Anderson called the hospital's outpatient clinic on Claremont Avenue the "crown jewel of the Oakland campus." More than 90 percent of its patients are on Medi-Cal, and many have chronic health conditions. A federally qualified health center, or FQHC, it plays a critical role in providing care for medically underserved populations. (Clinics at McClymonds and Castlemont high schools are also part of the hospital's FQHC services.)

Nancy Netherland said she took both her daughters to the Claremont Avenue clinic because of its reputation for caring for foster children with exposure-related health issues. Her older daughter was infected with Hepatitis C by her birth mother, while her younger daughter was born prematurely and has a rare autoinflammatory illness. Both were also born addicted to opiates. Netherland said the doctors at the primary care clinic went "above and beyond" with her children's care, educating themselves about their conditions, helping her older daughter get admitted to a clinical trial at UCSF (she has since been cured), and getting both of them the necessary referrals for the various tests they needed.

"It's a rigorous process," said Netherland, who also works in health care. The primary care doctors "have to file authorization work and referrals. It's extra work, but the doctors at the Claremont clinic were willing to do that. … They had a smooth system for getting those referrals out."

As a foster mom of children with complex medical needs, Netherland said she also appreciated the clinic's inclusive, nonjudgmental culture, especially when her youngest daughter was having withdrawal symptoms. "It was the cultural competency of all the providers—from the front desk to the doctors at the Claremont

Photo by D. Ross Cameron

clinic—that was really profound in making that a comfortable experience," she said. "I knew I'd be unlikely to find a private practice doctor who could walk me through that as a mom."

Netherland is one of many East Bay parents who say the clinic has been invaluable to their child's care. But now Children's is exploring the idea of having a separate community health organization take over or help run the clinic.

According to hospital representatives, the clinic incurs additional costs because it's under the hospital's license, while similar FQHCs in the community don't have this burden. Oakland is also one of the few children's hospitals in the nation to administer a FQHC. Durand said any partnership would probably still involve the hospital. "Regardless of the business arrangement, there's likely to be very tight clinical coordination."

Still, the initial news of potential changes to the FQHC caused panic in the community. Lackman said she and many other community physicians feared the hospital wouldn't find a partner and would close the clinic instead, which is why they launched the petition. "The concern was that they were not going to be able to find somebody to take this over," she said. "Nobody knew. This wasn't really communicated to the community."

Physicians say if the FQHC closes, the impact would be devastating. Vichinsky said there isn't another medical facility that provides such comprehensive services for children experiencing homelessness, abuse, and other issues. And he doesn't think transferring the programs to another health care provider is a viable solution. "There isn't an existing entity that could absorb that right now," he said.

Netherland said she is preparing to take her kids elsewhere if the clinic closes, but admits she's not sure where they'll go. "I've been talking to doctors in San Francisco that take Medicaid, but most of their practices are full," she said. "I'm on their waiting list." While she could take them to an East Bay community health center, she said these don't have the same linkages to specialty care as the Children's clinic. "I think that linkage has really saved my kids," she said.

When interviewed in late May, Anderson insisted that shutting down the clinic was never an option. And he said he's not in a rush to find a partner because the clinic staff is doing a good job of improving operations and becoming more efficient.

Vichinsky believes the hospital is rethinking its plan after the petition and ensuing backlash from the community. He said the clinic could be sustainable if it were better managed. "I think Dr. Anderson is an ethical person," Vichinsky said, "but the financial administrative leadership wants to get rid of the program because it's not a moneymaker."

Even if the hospital finds a partner to take over the clinic, there's a question about how the new arrangement would impact the hospital's residency program, because the residents get much of their outpatient primary care training there.

The hospital has already made some cuts to its graduate medical education program, reducing the number of incoming pediatric residents by two slots. Hospital communications director Melinda Krigel said no decisions have been made about further cuts beyond this incoming class.

But Hastings, who is also the fellowship director in the hematology oncology department and a member of the hospital's graduate medical education committee, rebutted that. She said the cuts of two slots per year are carrying forward for the next three years. The program currently trains 84 residents per year, and by 2019 this number will be reduced to 78, she said.

Reductions in the residency program are detrimental to the hospital, Hastings added. "Residents provide a vital service for care," she said, noting that they train in primary care and rotate among the subspecialties, as well as offer a cheaper source of labor than physicians.

Anderson assured that a partnership for the primary care clinic would only be explored "if they provide the highest-quality care possible and we can educate our residents."

The hospital is also looking to restructure the administration of its research, which has seen decreased government funding in recent years, said Krigel. In the next couple of months, administrators are considering selling or sub-leasing the large building on Martin Luther King Jr. Way that houses the Children's Hospital Oakland Research Institute. The historic building,

the former site of University High School, is also the home of the North Oakland Senior Center.

Anderson said it makes sense to consolidate the costs of conducting research. "UCSF is the nation's leading research university," he said. "Why wouldn't the children on the East Bay deserve the same depth and breadth of research resources as the children on the West Bay do?"

But physicians say the loss of the building would have rippling effects on the hospital's research. "Faculty like myself come to Children's because it has a research facility like that," said Vichinsky. The loss could also make it more difficult for researchers to get grants. Hagar said, "It's hard to set up for studies when you don't know what's available."

As for the research currently being conducted at CHORI, there are questions about how it would be affected. And if research activities have to move to UCSF, this could also make them more expensive. "The rates go up," Vichinsky explained. "It becomes much more bureaucratic."

Research facilities don't typically make money, Vichinsky continued, and he believes the amount of money the CHORI building loses is lower than its value to the public and the hospital's image. "It's a huge mistake," he said. "It's very shortsighted."

"If we lose research, we will lose who we are," Hastings added. "You can't separate clinical care, education, and research. For people to get the latest and best clinical care, you have to be training and teaching and learning continuously and be involved in research in real time. They really do go all together."

But Krigel dismissed these fears, saying research at the hospital is not going away. "Our intent has always been to keep research at UCSF Benioff Children's Oakland," she wrote in an email to the magazine. "We expect that to continue. While no decisions have been made, it makes sense to integrate CHORI administratively into UCSF's large research infrastructure to take advantage of the economies of scale and the larger patient population that UCSF research provides."

As for Durand, he downplayed the importance of the CHORI building. "The infrastructure to support a robust ongoing research program is essential," he said, "but the exact details of who, where, and how that research infrastructure is provided is less important."

As Children's eyes tens of millions of dollars in budget cuts, it's worth noting that the hospital's top administrators make very lucrative salaries. According to publicly available records from the University of California, Anderson, who was hired in December, is paid a total cash compensation of more than $1 million. As of 2015, Chief Operating Officer Richard DeCarlo (who recently stepped down) was compensated $641,474. Lubin, who is now associate dean of children's health, had a gross compensation of $935,668, while Durand topped out at $504,749. Mark Laret, CEO of UCSF Health, has a base salary of more than $1 million. Last year, he came under scrutiny for serving on the boards of two vendors that do business with UCSF, earning an average of $556,000 a year, according to the *San Francisco Chronicle*.

Anderson defended the salaries. "I think if you're going to bring in the leadership that's going to guide through this next storm, then that's part of doing business as a big academic medical center."

But some health care providers worry about where the hospital is being guided to. And others haven't waited to find out.

Karen Hardy was the director of Bay Area Pediatric Pulmonary Medical Corporation, which was contracted to provide comprehensive inpatient and outpatient services to Children's Hospital Oakland, since 1998. When the hospital decided to merge with UCSF, she said her group received offers to join the academic faculty from both Stanford and UCSF. "We looked at both practices," she said. "In the end, we felt that the merger with Stanford was the stronger option for us and our patients."

Hardy said the decision was based on several factors. Her group had previous experience working with Stanford and was already contracted with California Pacific Medical Center, or CPMC, in San Francisco, which had recently entered a joint venture with Stanford. Merging with UCSF would have meant her practice could no longer see patients at CPMC.

But there were also cultural differences with UCSF. "The general feeling was more welcoming and collegial from Stanford." Hardy said. "We had a

better alignment of our practice philosophy."

In December 2015, Hardy's group joined the pediatric pulmonology academic faculty at Stanford and relocated its outpatient site from Oakland to Emeryville. "We're very happy we did so," she said.

For many physicians still at Children's Hospital Oakland, morale is low. "This is an affiliation that's three-plus years going, and I can tell you it's only gotten more confusing," said Hastings. "And the medical staff at Children's Hospital is very upset about this. I don't know anybody who's happy about this."

Some physicians say the merger with UCSF has felt more like a corporate takeover than an affiliation. Hastings said some of the subspecialties at Children's—including endocrinology, cardiology, and ear, nose, and throat—have already merged with their UCSF counterparts, but that all the chiefs of the new integrated divisions are from UCSF. "Many physicians at Oakland have impressive academic records and national reputations and have been here a long time," she said. "There isn't a shared leadership vision."

Durand countered that all the division chiefs are from UCSF because of reasons having to do with the university's structure. While the reporting relationships have become more complex, he said, "the bottom line it leads to is increased stability to do more strategic planning and more aligned recruitment of more subspecialists and more synchronized program development between the two campuses."

But Vichinsky said the fact that all integrated divisions fall under UCSF leadership wasn't made clear at the beginning of the affiliation. "If everything was clear and transparent, you could respond to that," he said, "but it's this cloud."

The relationship between the two hospitals is confusing. Although they are integrating, they remain separate legally: Children's Hospital & Research Center Oakland is still a private, not-for-profit hospital, while UCSF is a public institution.

Vichinsky also noted that, whereas most children's hospitals have a chief of pediatrics who looks out for the interests of the medical faculty, there is no such position at Children's. "There is no one representing the faculty," he said, adding that each faculty group has to fight on its own. "Without having a voice, it has led to, among other problems, increasing loss of morale and apathy and anxiety."

There's also the fact that the UC Regents are the sole corporate member of the Oakland hospital. "From my standpoint, this is largely not an affiliation but a takeover," he said.

Hastings said the fact that great doctors are leaving the Oakland hospital is "unbelievably painful." "And a number of us have said we thought we'd be here forever."

Vichinsky doesn't blame UCSF's clinical leadership for the way things have been handled so far. Instead, he said business leaders are responsible. "I see this as an administrative issue," Vichinsky said. "I don't think it's been done well. I don't think there's been due diligence." Decisions are being made based on reimbursement rates, he said, not on the public health needs of the community.

In light of the current pressures in health care, however, tough decisions seem inevitable. "I am completely committed to maintaining and preserving the incredible legacy that is Oakland Children's," Anderson said, "but I'm going to be honest, it's going to look new in the future because we are a new entity.

"Change is always difficult," he continued, "... but in the middle of this storm, any children's hospital is going to have to evolve. And Oakland would have had to evolve whether UCSF was here or not."

Moving forward, Anderson said, the Oakland hospital will remain focused on its core programs, such as its trauma center and newborn intensive care, while looking at ways to partner and be "good fiscal stewards."

But it's not entirely clear just how imminent budget cuts are. Back in February, when Anderson first sent an email to the staff explaining the hospital's financial situation, he wrote, "we are targeting a reduction in operating expenses of $40 million ... over the next six to 12 months." But in mid-May, Krigel said in an email to the magazine, "We are still working on attaining $40 million of improvements by the end of FY 2019." A couple weeks later, Durand said the budget is an ongoing process. "Don't get too hung up on 2019," he

cautioned. As for the decisions about the primary care clinic and the CHORI building, Anderson said those will be considered over the next few months.

Despite his concerns, Vichinsky said he remains optimistic about the UCSF integration. "In theory, it still has enormous strengths and potential for both programs," he said. "There are a lot of good things that could happen."

UCSF and Children's Hospital share a common vision to "improve the lives of all children, regardless of disease, ethnicity, or reimbursement," said Vichinsky, who is also the director of the internationally renowned Northern California Sickle Cell Center, which is part of the hematology oncology department. Sickle cell is a life-threatening complex illness that predominantly affects African Americans, and the patients at Children's are disproportionately publicly insured. Vichinsky said when he was initially discussing the possibility of the hematology oncology division merging with Stanford, their leadership "made it clear that sickle cell disease patients were not part of their mission plan." UCSF, on the other hand, has been "committed to these patients."

Lackman said she's also feeling more optimistic and is confident that the petition helped slow down the process of cuts. But she acknowledged the hospital's huge financial challenges. "It's a tough time in health care for everyone," she said. "We just want to make sure that as we go forward we do it in a thoughtful and relevant way, and in a way that this will better serve our community."

Hastings said she hopes the process will be more "honest, transparent and forward-thinking," and that leadership will engage the physicians and community in the decision-making. Perhaps more than anything, she wants to preserve the culture at Children's Hospital. Hastings lovingly described a culture of care, respect, and high standards. "All of us are fearful we're going to lose this," she said. "Because it's not valued."

Anderson said he understands the fears and concerns of the physicians, but he also believes their energies are being misdirected. Instead of being angry at hospital leaders, he said, they should be pressuring legislators to increase Medicaid reimbursements.

"We have to stop fighting internally," he said. "We've got to organize internally and make Washington and Sacramento aware that children's lives are at stake here."

In the meantime, the hospital is banking on its future. One thing the affiliation did provide was the ability of the hospital to fund its expansion project and seismic upgrade after two parcel tax measures failed to get voters' support in 2008. Construction of the hospital's new outpatient clinic is now underway. It will include cardiology, neurology, endocrinology, rehabilitation, and urology, in what appears to be a bid to compete with Stanford's Emeryville clinic—and most certainly more privately insured patients.

Vichinsky worries that the hospital is moving away from the safety-net programs that Children's has traditionally provided and toward services with higher reimbursements. "Frankly, I think the community is at serious risk for loss of specialty needs," he said. "There's a real sense of Children's converting to high-end programs and particularly high-end programs that are inpatient that bring in revenue."

Children's isn't alone in this regard. Across the country, pediatric hospitals are trying to figure out how to negotiate declining inpatient demand with the fact that such services provide higher reimbursements. Children's Hospital Oakland is expanding the number of its inpatient beds from 190 to 210, and building a new inpatient pavilion. Part of the second phase of its master plan, the work won't begin until 2020, and who knows what the health care landscape will look like when it is completed.

Even if the hospital can resolve some of its inner turmoil, Anderson noted that a bigger storm is coming: The Trump administration and Republican leaders in Congress have proposed $800 billion in cuts to Medicaid, the federal program that finances Medi-Cal. If the current version of the American Health Care Act passes, Anderson said, "the trickle-down effect of that to the children of the East Bay can be devastating."

"There will be … health care institutions that go out of business," he said. "Let's be completely honest. I'm going to fight tooth and nail that Benioff Children's Hospitals remains relevant and thriving, because the kids of the Bay deserve that, but the rally cry has to be in Washington going, 'Please think about what you're doing here.' This is really … an unprecedented time."