

MEETING OF EXECUTIVE COMMITTEE (#68-2)

COUNCIL OF TEACHING HOSPITALS  
ASSOCIATION OF AMERICAN MEDICAL COLLEGES  
Thursday and Friday, January 11-12, 1968  
Hotel Dupont Plaza  
1500 New Hampshire Avenue, N.W.  
Washington, D.C. 20036

Thursday, January 11, 1968

6:30 p.m. Reception Gallery Room

7:00 p.m. Dinner Meeting Gallery Room

1. Dinner
2. Presentation:  
John Parks, M.D.  
President, AAMC

Robert C. Berson, M.D.  
Executive Director, AAMC

10:00 p.m. Recess

*BR/et - 6 N York  
7:00 A.M.*

Friday, January 12, 1968

8:30 a.m. Reconvene--Roll Call of Committee-Gallery Room

3. Approval of Minutes Tab 1
  - A. Meeting of October 27, 1967
  - B. Meeting of October 30, 1967
4. Status Report on Membership, Fiscal Year 1968-69 Tab 2
5. New Applications For Membership Tab 3
  - A. Applying As Having Met Internship & Residency Requirements  
1. Monmouth Medical Center - *med. Surg. ped*  
Long Branch, New Jersey
6. Inquiries as to Possibilities for Membership Tab 4
  - A. Detroit Osteopathic Association
7. Report of Committees Tab 5
  - A. Committee on Construction and Modernization Funds - *Recommendation*
  - B. Committee on Financial Principles (Information, in event of any commentary)
  - C. AAMC-COTH Committee on Federal Health Programs
  - D. COTH-AHA Liaison Committee

*Not  
not  
not*

*Roxbe  
Friday  
2/1/68*

JACK KAVANAUGH  
HARRIS M. CAVANAUGH  
MEMORANDUM

Bob Link  
LIFE  
HARRIS M. CAVANAUGH

- 1) Suggestion as to AHA Representation on COTH Committee on Construction & Modernization Funds
- 2) Report regarding status of HAS specialist for teaching hospitals
- 3) Report of Informal Discussion - *See 3rd Committee*
8. Appointment of Nominating Committee for Administrative Year 1967-68
9. Discussion of Theme and Specific Content for 1968 Annual Meeting

Tab 6

12:30 p.m. Luncheon -- To be joined by:

James H. Cavanaugh, Ph.D.  
Director, Office of Comprehensive Planning  
U.S. Public Health Service  
Department of Health, Education and Welfare

Thomas G. Moore, Jr.  
Director, Office of Legislation  
Office of the Surgeon General  
Department of Health, Education and Welfare

1:30 p.m. Reconvene

10. AHA Definition of A Teaching Hospital
11. Recent Reports and Studies Relevant to Health Facilities
12. Discussion -- National Advisory Commission on Health Manpower (See Folder)
13. Discussion - Conference on Costs of Health Care Facilities
14. Discussion -- National Advisory Commission on Health Facilities
15. IRS Regulations Regarding Sale of Over-the-Counter Pharmaceutical Supplies
16. Health Legislation Recently Enacted (See Folder)
1. Social Security Amendments of 1967
2. P.L. 90-174 (Partnership for Health Amendments of 1967).
17. Federal Health Legislation Expiring in 1968 and 1969

Tab 7

Tab 8

Tab 9

Tab 10

Tab 11

Tab 12

Modernization  
HARRIS M. CAVANAUGH

FRANKLIN DAVIS  
DAVID A. HARRIS  
HARRIS M. CAVANAUGH

Concerned  
About Part A  
+ Regulations  
Also IRS on  
concerned  
Trust  
Fund  
Arrangement  
operated  
non-  
profit  
hospital.

Representative  
of AHA  
H/B VS AHA  
VS AHA  
VS AHA

Alfred  
P. S. Lee  
Research  
C.R.

Write to Vign, h Stee  
How  
money  
Institutions  
are members  
Advise  
Ex. Comm.

-3-27

Tab 13

18. Status of Proposed Projects
1. Teaching Hospital Information Center
  2. Study of Impact of P.L. 89-97, Titles XVIII and XIX on Teaching Hospitals Patient Population - *From M. M. M.*
19. Informational Report on:
- A. Yale- New Haven Study
  - B. HEW-AAMC Cost Information Study (Mr. Thomas Campbell)
20. Future Meetings of Executive Committee (Particularly meeting of September 12 & 13)
21. Other Business

4:00 p.m. Adjournment

Comm.  
Revise  
Rules  
&  
Regulations  
Ex Comm.  
6/13  
11/1

Thur. 5/9  
5/9  
Thur 9/2  
9/2  
FRC  
11/1  
Mon 11/4

30/1/1  
Regional  
meetings

COUNCIL OF TEACHING HOSPITALS  
ASSOCIATION OF AMERICAN MEDICAL COLLEGES  
1346 Connecticut Avenue, N.W.  
Washington, D.C. 20036  
202/223-5364

MINUTES  
MEETING OF THE EXECUTIVE COMMITTEE (67-5)  
Friday, October 27, 1967  
Room #513  
New York Hilton Hotel  
Rockerfeller Center  
New York City, New York  
1:40 p.m. - 4:35 p.m.

Present:

Stanley A. Ferguson, Chairman  
Lad F. Grapski, Chairman-Elect  
Russell A. Nelson, M.D., Immediate Past Chairman and COTH Representative to the AAMC Executive Council  
Matthew F. McNulty, Jr., Director and Secretary, COTH, and Associate Director, AAMC  
Ernest N. Boettcher, M.D., Member  
Charles H. Frenzel, Member  
Charles R. Goulet, Member  
T. Stewart Hamilton, M.D., Member  
Dan J. Macer, Member  
LeRoy S. Rambeck, Member  
Richard D. Wittrup, Member  
Grace W. Beirne, Staff Assistant, COTH  
Fletcher H. Bingham, Ph.D., Assistant Director, COTH  
Elizabeth A. Burgoyne, Secretary, COTH

*LeRoy E. Richwagon*

Absent:

LeRoy E. Bates, M.D., Member

I. Call to Order:

The meeting was called to order at 1:40 p.m. by Mr. Stanley A. Ferguson, Chairman, Council of Teaching Hospitals.

1. Call of Roll of Membership:

Attendance was as noted previously in these minutes.

2. Approval of Minutes, Meeting of September 14-15, 1967:

Mr. Grapski moved that the minutes be approved as distributed. The motion was seconded by Messrs. Rambeck and Macer and passed unanimously.

ACTION #1

VOTED APPROVAL OF MINUTES OF THE SEPTEMBER 14-15, 1967, MEETING OF THE  
EXECUTIVE COMMITTEE

3. New Applications for Membership:

A. Nominated by a Dean (2)

- (1) West Virginia University Hospital  
Morgantown, West Virginia
- (2) Detroit General Hospital  
Detroit, Michigan

B. Applying as Having Met Internship and Residency Criteria (1)

- (1) Allegheny General Hospital  
Pittsburgh, Pennsylvania

- A. Mr. Grapski moved that West Virginia University Hospital be approved for membership. The motion was seconded by Mr. Macer and passed unanimously.
- B. Mr. Macer moved that Allegheny General Hospital be approved for membership. The motion was seconded by Dr. Boettcher and passed unanimously.

Mr. McNulty then introduced the application of Detroit General Hospital which had been nominated by the Dean of Wayne State University School of Medicine, but received too late to be placed on the agenda. Mr. Goulet moved that Detroit General Hospital be approved for membership. The motion was seconded by Mr. Rambeck and passed unanimously.

ACTION #2

VOTED APPROVAL FOR MEMBERSHIP OF HOSPITALS LISTED IN A.(1), A.(2) AND  
AND B.(1).

4. Reports of Committees:

A. Committee on Government Relations and Subcommittee on Construction and Modernization Funds for Teaching Hospitals:

Mr. Frenzel, Chairman of the Committee on Government Relations reported that the Committee had not met since the last Executive Committee Meeting but that the Sub-committee on Construction and Modernization Funds for Teaching Hospitals had held its first meeting on October 10, 1967. He reported that, at this meeting, initial steps were taken in organizing

the Subcommittee and informing the members on legislation and other matters that might touch upon the subject of modernization. This meeting, he reported, had put the Subcommittee beyond the organizational stages and into the action stage, with the next meeting scheduled for December 12, 1967.

Mr. Frenzel reported as to the visit of Harald M. Graning, M.D., Assistant Surgeon General and Director, Division of Hospital and Medical Facilities, Bureau of Health Services, U.S. Public Health Service, with the Subcommittee. He noted that it was the observation of Doctor Graning that the legislation introduced by Senator Lister Hill (D) Alabama (S. 2251) to extend the Hill-Burton Program would be of benefit to teaching hospitals, especially if the legislation modifies the present law concerning preference for rural hospitals.

Mr. Frenzel enumerated the American Hospital Association's recommendations for amendments to Senator Hill's bill (S. 2251). A copy of these recommendations was attached to the minutes of the Subcommittee Meeting of October 10, 1967. Mr. Frenzel further noted that Doctor Graning had indicated that there was a need for more information regarding the specific needs for teaching Hospitals. He then reviewed the actions indicated in the minutes of the Subcommittee meeting.

Mr. McNulty reviewed the information concerning the recently announced Chairman and membership of the National Advisory Commission on Health Facilities and discussed briefly the matter of the staffing for the Commission (William L. Kissick, M.D., and Jerrold M. Michaels).

Mr. Frenzel asked the Executive Committee for approval of two actions of the Subcommittee: First, to distribute the results of the original COTH-Boston Group Survey on construction needs to COTH members; and second, to

support in principle legislation introduced by Senator Hill of Alabama (S. 2251) and to give further consideration to recommended amendments as they are presented.

Mr. Grapski moved for approval of the distribution of the results of the original COTH survey to the membership (See Action 2 on page 3 of the minutes of the meeting of the COTH Subcommittee on Modernization and Construction Funds for Teaching Hospitals - A copy of those minutes is attached and made part of the file of these minutes), and the support in principle of S. 2251, Hospital and Medical Facilities Construction and Modernization Assistance Amendments of 1967, and to give further consideration to recommended amendments as they are presented (see Action 4 on page 9 of the minutes of the Subcommittee Meeting). The motion was seconded by Mr. Macer and approved unanimously.

ACTION #3

VOTED APPROVAL OF THE DISTRIBUTION OF THE RESULTS OF THE ORIGINAL COTH MODERNIZATION QUESTIONNAIRE TO COTH MEMBERSHIP.

ACTION #4

VOTED APPROVAL TO SUPPORT IN PRINCIPLE HOSPITAL AND MEDICAL FACILITIES CONSTRUCTION AND MODERNIZATION ASSISTANCE AMENDMENTS OF 1967 (S. 2251) AND TO GIVE FURTHER CONSIDERATION OF RECOMMENDED AMENDMENTS AS THEY ARE PRESENTED.

B. Committee on Financial Principles for Teaching Hospitals:

Mr. Goulet, Chairman of the Committee, reported on the first meeting of October 17, 1967. He said that the meeting had gone well and that certain major issues had been discussed, with the agreement that the Committee should prepare several presentations, especially one on the unique social responsibilities of teaching hospitals and the influence which this particular social responsibility has on the financing of research, education and patient care rendered in teaching hospitals. Mr. Goulet related that the Committee had reviewed the current and proposed AHA principles for reimbursement and indicated that the major

differences between the two are: 1) charity services would no longer be treated as a deduction from income, but would be included as a cost factor; 2) depreciation on any kind of historical cost basis would be deleted and would be replaced by the introduction of a "use charge"; and 3) allow new capital equipment up to a certain fixed dollar amount to be included in current expense. Any purchases beyond this amount would require prior approval of a planning association.

Also noted was the understanding that these principles were being considered for implementation by Thomas M. Tierney, Director, Bureau of Health Insurance, Social Security Administration. The Executive Committee expressed approval of the Committee's actions as reported in the Minutes of the October 17 meeting as follows:

ACTION #1: THERE WAS UNANIMOUS AGREEMENT THAT A STAFF MEMBER OF THE AHA SHOULD BE ASKED TO PARTICIPATE IN THE COTH COMMITTEE MEETINGS IN AN EX-OFFICIO CAPACITY. IT WAS AGREED THAT MR. McNULTY ASCERTAIN FROM DR. CROSBY WHAT INDIVIDUAL WOULD BEST SERVE IN A LIAISON CAPACITY FOR THE AHA.

ACTION #2: MR. McNULTY WOULD WRITE TO MR. THOMAS M. TIERNEY (DIRECTOR, BUREAU OF HEALTH INSURANCE) INFORMING HIM OF THE EXISTENCE OF THE COMMITTEE, AND REQUESTING FROM HIM A COPY OF THE RECOMMENDATIONS PRESENTED BY THE BUREAU OF HEALTH INSURANCE, SOCIAL SECURITY ADMINISTRATION, TO THE PRESIDENT'S COMMITTEE ON HOSPITAL EFFECTIVENESS.

ACTION #3: MR. MARTIN, AS A MEMBER OF THE PRESIDENTIAL COMMITTEE, WOULD REVIEW THE SUBSTANTIVE RECOMMENDATIONS INCLUDED IN THE DRAFT OF THE COMMITTEE'S REPORT AND IF, IN HIS OPINION, THERE ARE ISSUES THAT THE COTH COMMITTEE WOULD FIND OF CONCERN, HE WILL CONTACT THE COTH CHAIRMAN AND STAFF, IN ORDER THAT THE COMMITTEE COULD BE CALLED TO MEET AND DISCUSS ANY ITEMS AT ISSUE.



ACTION #4: COTH STAFF WOULD DEVELOP FOR COMMITTEE REVIEW A POSITION, SUITABLE FOR USE AS A "WHITE PAPER," ON THE UNIQUE SOCIAL RESPONSIBILITY OF TEACHING HOSPITALS AND THE INFLUENCE WHICH THIS PARTICULAR SOCIAL RESPONSIBILITY HAS ON THE FINANCING OF RESEARCH, EDUCATION AND PATIENT CARE RENDERED IN TEACHING HOSPITALS.

ACTION #5: DR. HARTMAN AGREED TO HAVE HIS STAFF PREPARE A PAPER ON THE APPLICATION OF COST BENEFIT ANALYSIS TO DECISION-MAKING IN TEACHING HOSPITALS. THE PURPOSE OF SUCH A PAPER IS FOR REVIEW BY VARIOUS GOVERNMENTAL AGENCIES AND BUREAUS AS AN INDICATION OF RELATIVE SOPHISTICATION, IN FINANCIAL MANAGERIAL TECHNIQUES, DISPLAYED BY THE ADMINISTRATION OF TEACHING HOSPITALS.

ACTION #6: COTH STAFF WOULD DEVELOP THE ITEMS DISCUSSED, AS WELL AS A LISTING OF ADDITIONAL ITEMS WHICH WOULD SERVE AS A FRAMEWORK FOR COMMITTEE DELIBERATION AND RECOMMENDATION. IT WAS AGREED THAT THIS LIST WOULD BE CIRCULATED TO THE COMMITTEE PRIOR TO THE NEXT MEETING.

Discussion then led to the meeting held on October 23, 1967 of the HEW Committee to Develop Implementing Procedures for Hospital Cost Principles, regarding the implementation of the Guide to Hospitals: Establishing Indirect Rates for Research Grants and Contracts with the Department of Health, Education and Welfare. It was noted that the HEW personnel had once again indicated that the AHA had given prior approval to the Guide before its distribution. Following discussion, it was agreed that Mr. McNulty and Dr. Crosby should coordinate the subject matter to either verify the present HEW record that AHA had approved the Guide, or to evolve with the cooperation of Dr. Crosby a written correction of that HEW record.

There was some discussion regarding Action 2 of the minutes of the meeting of October 17, 1967 (see ACTION mentioned above), and particularly regarding recommendations that may be presented by the Bureau of Health Insurance, Social Security Administration, to the President's Committee on Hospital Effectiveness. It was determined that the Committee on Financial Principles will continue to gather as much information as is available, especially from the Barr Committee.

C. COTH-AHA Liaison Committee:

Mr. Grapski indicated that the liaison between COTH and the AHA was quite good at the moment and that such relationships need constant attention. He and several other members indicated that the confusion surrounding the Guide to Hospitals was indicative of the need for closer liaison.

It was noted that the AHA-COTH Liaison Committee had met on October 3, but the AHA representatives had not prepared an agenda for discussion. It had been agreed previously that responsibility for each meeting would alternate. The October 3rd meeting was the responsibility of the AHA. Dr. Hamilton commented that because we were the younger organization, it was necessary for the Council to put forth the greater effort in an attempt to stimulate a closer tie. Mr. Rambeck indicated that there was a need to find a linkage with the AHA that is more formal.

5. Recommendation for Distribution of COTH Communication Media:

Mr. McNulty reviewed the recommendation presented to the Executive Committee by the staff. (See Appendix A). Mr. Goulet moved to accept the recommendations and Mr. Macer seconded the motion. Dr. Hamilton's proposed amendment to the motion that extra copies of the General Membership Memoranda be made available for a price to certain officials, with the mechanism to be determined by the COTH staff, was accepted by Mr. Goulet and the motion, with the amendment, was unanimously approved.

ACTION #5: ACCEPTED RECOMMENDATION FOR DISTRIBUTION OF COTH COMMUNICATION MEDIA WITH MODIFICATION THAT FOR FOUR TYPES OF MEMORANDA, ADDITIONAL COPIES MAY BE REQUESTED AT A CHARGE PER ITEM TO BE DETERMINED BY COTH STAFF.

6. Discussion of Feasibility of Holding a Teaching Institute:

Mr. McNulty reported that he and the COTH staff would approach foundations as well as contact Dr. Lee Powers, who organized the previous teaching institutes, for information and suggestions as to subject matter, format, financing, etc. of a teaching institute. Several subjects were suggested such as Medical Care and Education, Manpower, and the Role of the Teaching Hospital in the Education of the Physician. Mr. McNulty stated that as soon as he had concrete information on the possibilities of such an institute, he would report back to the Executive Committee.

7. Discussion - How to Include COTH Representatives to AAMC Executive Council at COTH Executive Committee Meetings:

Mr. McNulty outlined, as he had at the September 14-15 meeting, the fact that the Institutional Membership of the AAMC would vote on Monday, October 30, on the increase of COTH representation from one to three for the AAMC Executive Council. He reviewed the action of the Executive Committee Meeting No. 67-4, September 14 and 15, 1967, at which meeting members agreed to propose three names to the AAMC Nominating Committee through the COTH Nominating Committee for staggered terms on the Executive Council in the event that an increase was approved. The Executive Committee members stressed that the COTH representation on the Executive Council should not be identified solely as "COTH people", but as AAMC members with an interest in all aspects of the Association's activity. The Committee agreed that it would be good to have the three representatives sit at the COTH Executive Committee Meetings, but that the question should be discussed and resolved on Monday afternoon at the first meeting of the 1967-68 Committee when the results of the voting and the report of the COTH Nominating Committee would be known.

8. Report -- GCRC Recovery Status:

Mr. McNulty reported that COTH had a General Membership Memorandum ready for distribution outlining the historical sequence in seeking solution to the GCRC "85-15" NIH reclaim procedures, starting with the position of one year ago when COTH thought the problem could be solved by the introduction of the Hill Amendment to the Appropriations bill. That 1966 plan as an early interest in COTH existence failed because of some ineptness in its support by a federal agency and by attack from "Fountain" Committee representatives. Now the most recent Fountain Committee Report (#800, The Administration of Research Grants in the Public Health Service, Ninth Report by the Committee on Government Operations, October 20, 1967) and the order from the General Accounting Office to the NIH to proceed to recover the funds, including the first year, practically eliminated any successful course of action. The positive accomplishment for COTH is that NIH and now HEW have taken the position that the first year is justified under the 85-15 formula. COTH had prepared a draft resolution for possible introduction in the Congress, but the recent release of the Fountain Committee Report creates a climate in which any "forgiveness" action is hopeless. In response to Mr. Wittrup's question on how the GAO would collect the funds, Dr. Nelson said that the government could hold back all other grant payments from the university until the GCRC funds were paid back. It was agreed that the COTH membership should be notified.

9. Report - Possibility of Developing a Position and Appeal for Capital Modernization and Expansion Funds and Operating Funds as a Function of the Special Contribution Made to Society by Teaching Hospitals:

Mr. McNulty reported that in relation to this subject he was anticipating a stronger overall appeal now that the COTH Committee on Government Relations and the AAMC Committee on Federal Health Programs would be combined. He indicated that through this combined committee, COTH would pursue the possibility of special support grants for teaching hospitals. Dr. Nelson added that Hill-Burton extension is coming up for reconsideration in the next Congressional session and that the Joint Committee should take a position as soon as possible on the matter of the Hill-Burton amendments so

that the benefits to teaching hospitals might be more meaningful.

Mr. Frenzel affirmed that it is the main concern of the Committee on Construction and Modernization Funds for Teaching Hospitals to decide what form such suggestions should take. The subject of definition of the term "teaching hospital" was discussed, with Mr. Rambeck mentioning that the AHA was presently evolving such a definition. The Executive suggested no action in connection with such AHA interest. In connection with the new Presidential Commission the National Advisory Commission on Health Facilities of which Mr. Boisfeuillet Jones is Chairman, Mr. McNulty reported that he had been in touch with Mr. Jones identifying for the Chairman the "teaching hospital" needs.

Dr. Nelson suggested that evolving a stand on Hill-Burton now, since it was up for revision, could be most helpful to hospitals. Mr. Ferguson mentioned that the AAMC has made the suggestion to the Comprehensive Health Planning programs that medical schools and teaching hospitals have a peculiar mission that cannot be kept solely in state boundaries. He agreed with Dr. Nelson and Mr. Frenzel that now is the time we should take a fresh look at Hill-Burton and other related legislation and get a position evolved to present when the Congress is reconsidering the legislation. It was suggested that the COTH staff prepare, in conjunction with the Committee on Construction and Modernization Funds for Teaching Hospitals, a paper that is forceful and comprehensive. Mr. Ferguson concurred for the Executive Committee, indicating that unless there were comments to the contrary such action would be evolved. There were no "contrary" comments.

ACTION #6

COTH STAFF PREPARE A WHITE PAPER OF COTH POSITION ON THE COMPREHENSIVE HEALTH PLANNING ACT, HILL-BURTON AMENDMENTS, AND OTHER RELATED LEGISLATION FOR THE USE OF THE COMMITTEE ON CONSTRUCTION AND MODERNIZATION FUNDS FOR TEACHING HOSPITALS.

10. Report - AHA Indicates that HAS Exhibit is Sufficient Representation:

Mr. McNulty reported that when he approached the AHA offering the opportunity of a separate AHA exhibit for the COTH Annual Meeting, as suggested at the September Executive Committee Meeting, the AHA expressed appreciation but indicated that the HAS exhibit was adequate representation for the total AHA.

11. Fiscal Report - Fiscal Year 1966-67:

Mr. McNulty reported that the Fiscal Report of the Council of Teaching Hospitals could be found in the Annual Report of the AAMC. He mentioned that the report does not separate COTH income and expense but as with all other income and expense activities of the AAMC, the annual AAMC fiscal report reports on the total operation. There was complete agreement with this method of reporting.

ACTION #7

FISCAL REPORT FOR 1966-67 AS CONTAINED IN ASSOCIATION OF AMERICAN MEDICAL COLLEGES ANNUAL REPORTS OF STAFF AND COMMITTEES (ATTACHED TO AND MADE PART OF THE PERMANENT FILE OF THESE MINUTES) WAS APPROVED AS PRESENTED.

12. Report on Status of a Guide for Hospitals: Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education, and Welfare:

Mr. McNulty referred members to the Report of the Committee on Financial Principles for Teaching Hospitals and prior discussion when Mr. Goulet presented his report as having covered the status of the Guide.

13. Report on Tribute to be Presented at Plenary Session of Annual Meeting:

Mr. McNulty reported that the symbolic "three-legged milking stools" would be presented to all those persons indicated at the September meeting (listed hereafter) but that the public presentation to be made at the COTH Plenary Session on October 30 as suggested by the Executive Committee would be only to Lowell T. Coggeshall, M.D., Donald J. Caseley, M.D. and Gerhard Hartman, Ph.D. (AAMC Past President, author of the "Coggeshall Report" and active in initiation of COTH; second Chairman; and first Chairman respectively).

14. Report on Annual Program Schedule:

Mr. McNulty distributed the proposed agenda for the Plenary Business Session, Annual Meeting, and outlined the arrangements for paper presentations on October 28 and group discussions on October 29. It was agreed that the agenda be abbreviated to allow for a faster-running meeting. The finalized agenda is attached as a permanent part of these minutes but was not distributed at the Plenary Session (see Appendix B).

15. Review of Annual Activities of COTH and Discussion of Future Objectives and Goals:

- A. Opportunity for Recall of Any Old or New Business that should be Discussed -- No one recalled any business that should be received.
- B. Prospectus -- Possible Activities for Administrative Year 1967-68 -- Mr. McNulty outlined two projects with which the COTH staff is working in relation to contracts with the Federal government:

- 1) U.S. Public Health Service, Bureau of Health Services -- COTH Research and Data Services
- 2) U.S. Public Health Service, Bureau of Health Manpower -- Survey of Title XVIII and XIX Impact on Teaching Hospitals.

It was agreed that both of these proposals represent significant items of research potential and that they should be pursued. Mr. Ferguson indicated that COTH had accomplished much in the past year. The Executive Committee members agreed that in the first year the COTH development and contribution had exceeded all expectations. For the second year the Committee expressed the recommendation that COTH and the Committee should not get deeply involved in too many new programs during the upcoming administrative year. Rather, as Dr. Hamilton and several others suggested, there should be development fully of the programs that have already been initiated with particular emphasis on representation of COTH existence and purpose to the many sectors of Congress, government, executive agencies, foundations and other public and private policy contributing organizations.

16. Old Business:

There was no old business introduced.

17. New Business:

Mr. Grapski introduced under new business his gratitude on behalf of the Committee for the excellent work of Chairman Ferguson and the COTH staff. The Committee agreed that Mr. Ferguson be recognized for his outstanding work as Chairman and that the COTH staff be aware of the gratitude of the Executive Committee for the industrious work of the past administrative year. Regional Meetings should also be continued to provide a continuing forum, to provide identity for membership and help to consolidate and solidify the membership.

## ACTION #8

EXECUTIVE COMMITTEE UNANIMOUSLY EXPRESSED COMPLIMENTS AND APPRECIATION  
FOR A JOB "WELL DONE" TO:

- A) STANLEY A. FERGUSON, CHAIRMAN, COUNCIL OF TEACHING HOSPITALS, 1966-67
- B) STAFF, COUNCIL OF TEACHING HOSPITALS.

18. Adjournment:

There being no further business, the meeting was adjourned by Chairman Ferguson at  
4:30 p.m.



## APPENDIX A

### RECOMMENDATION FOR DISTRIBUTION OF COTH COMMUNICATION MEDIA

<u>LIST OF COTH COMMUNICATION MEDIA</u>	<u>PRESENT DISTRIBUTION</u>
1. General Membership Memoranda	General Membership only
2. Special Membership Memoranda	General Membership only, with the indication that this Memorandum is sent for informational purposes to those institutions not immediately involved in the issue discussed
3. Executive Committee Memoranda	Executive Committee Membership only; if Memoranda content refers to matters for consideration of Committees other than Executive, copies are furnished to them; if distribution need be more extensive a General Membership Memorandum is used
4. Regional Membership Memoranda	Regional Membership only
5. COTH REPORTS	General Membership only
6. COTH PROFILES	General Membership only
7. COTH BROCHURES (COTH COMMITTEE STRUCTURE AND MEMBERSHIP ROSTER)	General Membership by mail; distribution at Annual Meeting

### POLICY OF ASSOCIATION OF AMERICAN MEDICAL COLLEGES AND AMERICAN COUNCIL ON EDUCATION

The Bulletin of the AAMC carries the following statement on the back of its publication:

#### BULLETIN OF THE ASSOCIATION OF AMERICAN MEDICAL COLLEGES

Edited by William G. Reidy

Published approximately 16 issues per year by the Association of American Medical Colleges as a service to members, with the cooperation of the American Council on Education. Editorial office: American Council on Education, 1785 Massachusetts Avenue, N.W., Washington, D.C. 20036 (Telephone: Area Code 202, 483-6620). Distribution: Free in fixed quantities to designated members of the Association of American Medical Colleges. Subscription price: \$20 per year. Order from: Publications Division, American Council on Education, 1785 Massachusetts Avenue, N.W., Washington, D.C. 20036.

It is our understanding that the Association of American Medical Colleges has received approximately three subscriptions at \$20 per year. The publication entitled HIGHER EDUCATION AND NATIONAL AFFAIRS published by the American Council on Education carries the following statement on the back of its publication:

Higher Education and National Affairs

Edited by Frank D. Skinner

A bulletin published by the American Council on Education approximately 40 times a year; distributed free in specified quantities through the heads of organizations and institutions holding membership in the Council, Individual subscriptions \$12 per year.

AMERICAN COUNCIL ON EDUCATION

1785 Massachusetts Avenue, N.W., Washington, D.C. 20036

Advice was furnished that it is the practice of the American Council on Education to furnish the chief officials of the institutions with a number of copies, the quantity having been determined by previous indication of amount that could be used effectively. The rate was recently increased from \$5 per year.

RECOMMENDATION

The following is the recommendation of COTH staff to the Executive Committee:

- (A) Four types of memoranda - the present method of distribution be continued; restrict distribution to institutional member hospitals only
- (B) COTH REPORTS
  - (1) the present method of distribution be continued
  - (2) COTH Membership be advised that after receipt of COTH REPORT they may request additional copies up to three per each issue
  - (3) a statement similar to that used by the Association of American Medical Colleges be placed on the back of the COTH REPORT

COTH REPORT

Published approximately 16 issues per year by the Council of Teaching Hospitals - Association of American Medical Colleges as a service to members. Distribution: Free in fixed quantities to members of the Council of Teaching Hospitals - Association of American Medical Colleges. Subscription price: \$20 per year. Order from: Council of Teaching Hospitals - Association of American Medical Colleges, 1346 Connecticut Avenue, N.W., Washington, D.C. 20036.

(C) COTH PROFILES

- (1) the present method of distribution be continued
- (2) a statement similar to that recommended for COTH REPORTS be placed on the back of COTH PROFILES

MINUTES

Meeting of the Executive Committee (68-1)  
Council of Teaching Hospitals  
Association of American Medical Colleges  
Monday, October 30, 1967  
New York Hilton Hotel  
Rockefeller Center, New York, New York  
Murray Hill Suite  
12:30 p.m. - 2:30 p.m.

Present:

Lad F. Grapski, Chairman  
LeRoy S. Rambeck, Chairman-Elect  
Stanley A. Ferguson, Immediate Past Chairman  
Matthew F. McNulty, Jr., Director and Secretary, COTH, and Associate  
Director, AAMC  
Ernest N. Boettcher, M.D., Member  
Leonard W. Cronkhite, Jr., M.D., Member  
Charles R. Goulet, Member  
Charles H. Frenzel, Member  
T. Stewart Hamilton, M.D., Member and Three-year COTH Representative to  
AAMC Executive Council  
Dan J. Macer, Member  
Lester E. Richwagen, Member  
Richard D. Wittrup, Member  
Grace W. Beirné, Staff Assistant, COTH  
Fletcher H. Bingham, Ph.D., Assistant Director, COTH  
Elizabeth A. Burgoyne, Secretary to the Director, COTH

Absent:

LeRoy E. Bates, M.D., Member  
Harold H. Hixson, Ex Officio Member and One-year COTH Representative to  
AAMC Executive Council  
Russell A. Nelson, M.D., Ex Officio Member and Two-year COTH Representa-  
tive to AAMC Executive Council

1. Call to Order:

The meeting was called to order at 1:30 p.m. by Mr. Lad F. Grapski,  
Chairman, Council of Teaching Hospitals.

2. Roll Call of Membership:

Roll Call was taken as noted above.

3. Welcome to New Chairman-Elect; New Member of the Executive Committee; &  
New Representatives from COTH to the AAMC Executive Council:

Chairman Grapski, on behalf of the Executive Committee, congratulated  
LeRoy S. Rambeck, Chairman-Elect, and welcomed Leonard W. Cronkhite, Jr.,

M.D., newly elected 3-year member of the Executive Committee, and noted that Ernest N. Boettcher, M.D., and Charles R. Goulet had also been elected for 3-year terms. He noted further that T. Stewart Hamilton, M.D., had been elected one of the three COTH representatives to the AAMC Council for a 3-year term; Russell A. Nelson, M.D., for a 2-year term; and Harold H. Hixson for a 1-year term. It was also noted that LeRoy S. Rambeck had been appointed to serve as Chairman of the COTH Section of the COTH-AHA Liaison Committee.

4. Copy of Agenda Material for Executive Committee Meeting No. 67-5 of Friday, October 27, 1967, to New Member of Executive Committee:

Mr. McNulty gave Dr. Cronkhite a copy of the agenda and material that was distributed at the Friday, October 27, meeting of the Executive Committee.

5. 1967-68 Executive Committee Calendar:

Mr. McNulty recommended the Executive Committee Calendar of Meetings for 1967-68 as follows:

- A. Thursday and Friday, January 11 and 12, 1968--Washington, D.C.
- B. Thursday and Friday, May 9 and 10, 1968--Washington, D.C.
- C. Thursday and Friday, September 12 and 13, 1968--Washington, D.C.
- D. Friday, November 1, 1968--Houston, Texas

He added that for the upcoming year the staff was working with the AAMC Evanston Printing office to determine if informational material for each of the meetings could be sent in booklet form more in advance of the meetings. Mr. Grapski added that it seemed desirable to have a time limit on discussion for future meetings so that the Committee can complete the set business and give attention to other items of interest. Dr. Boettcher

indicated that the task of getting out informational items and the agenda in advance was difficult because of frequent "last minute" developments, however, he and the other members agreed that it would make the meetings more meaningful. Mr. McNulty also indicated that the minutes of the meetings would be distributed as soon as possible after the meeting, after a draft had been reviewed by the Secretary and the Chairman.

In response to Mr. Richwagen's query as to whether the format would be the same--with an evening meeting followed by an all-day meeting--Mr. McNulty said that subject to any expression of interest to the contrary, this was the plan. He then outlined the meeting format for the edification of Dr. Cronkhite. Mr. Macer asked if the Committee Meeting dates were firm and Mr. McNulty indicated that they were, though, subject to any recommendations from the Committee.

6. Other Old Business:

Mr. Macer moved that Harold Hixson and Russell A. Nelson, M.D., COTH representatives to the AAMC Executive Council who are not members of the Executive Committee be requested to attend COTH Executive Committee Meetings. Dr. Hamilton seconded the motion. The Committee then discussed the potential status of the two Executive Council representatives. Mr. Macer amended his motion to state that they would be Ex Officio members of the COTH Executive Committee with full voting privileges. The motion was further modified to the effect that the Ex Officio status for the two men would be for the period of a year, pending review and probable revision of the COTH Rules and Regulations. It was agreed that Dr. Nelson and Mr. Hixson would retain the right to abstain from voting at COTH Executive Committee meetings if, in their opinion, there were any conflicts of interest with their Executive Council responsibilities.

ACTION #1 THE MOTION PASSED THAT DR. NELSON AND MR. HIXSON BE EX OFFICIO MEMBERS WITH VOTE OF THE COTH EXECUTIVE COMMITTEE FOR THE ADMINISTRATIVE YEAR 1967-68 AND THAT THEY HAVE THE PRIVILEGE OF ABSTAINING FROM VOTE IF IN THEIR OPINION, ANY CONFLICT OF INTEREST SHOULD ARISE.

7. New Business:

Mr. McNulty made the following announcements concerning actions of the AAMC Institutional Membership at the Annual Meeting: John Parks, M.D., is now President of the AAMC; Robert J. Glaser, M.D., is President-Elect; William N. Hubbard, Jr., M.D., is Immediate Past President; three members from COTH have been elected to the Executive Council by the Institutional membership of the AAMC--they are T. Stewart Hamilton, M.D., for three years, Russell A. Nelson, M.D., for two years, and Harold H. Hixson for one year. He reported that the membership had approved the AAMC dues increase on a graduated assessment basis relative to each medical school expenditure. The Actual proposal was for \$2000 basic dues and a graduated scale to a ceiling of \$10,000.

8. Evaluation of 1967 COTH Annual Meeting:

There followed a discussion regarding the COTH Annual Meeting Program. Mr. Ferguson expressed his opinion that the Saturday session was too long and the luncheon too short. He felt the dramatic impact to a "packed" audience for the first two sessions diminished the last two papers. Also the short luncheon limited the ability of attendees to relax and exchange ideas. Mr. Richwagen commented that more correlation between the AAMC General Sessions and the COTH afternoon sessions would be beneficial. There was general discussion to the effect the program content was timely and well presented and that the attendance was outstanding, and the support from the deans excellent.

Mr. Grapski commented that the staff had suggested that he serve on the overall AAMC, 1968 Annual Meeting Planning Committee for the Annual Meeting in Houston, Texas, which would aid in correlating the AAMC and COTH activities. Mr. Ferguson pointed out that it was important to note that a large number of non-COTH people attended the various sessions. He further pointed out that the fact that Mr. Grapski has been asked to serve on the aforementioned committee was a first for the Council, since it had not before been approached in reference to this committee. Mr. McNulty emphasized that it is COTH policy, whenever possible, to work closely within the AAMC. He cited examples of the newly created joint Committee on Federal Health Programs, the AAMC Committee for Family Practice, the Steering Committee for the AAMC Workshop, and the AAMC Committee on Medical Education for National Defense. He indicated that such accomplishments take a great deal of "staff-time" and negotiation that is not immediately visible as a staff activity.

9. Discussion of Role of COTH Committee on Government Relations & COTH Subcommittee on Construction and Modernization Funds for Teaching Hospitals:

Previous discussion led to the subject of the status of the Subcommittee on Modernization Funds for Teaching Hospitals, and the role, if any, of the COTH Committee on Government Relations. It was agreed without dissent, that with appointment of Charles H. Frenzel, J. Theodore Howell and Harold H. Hixson to the newly enlarged AAMC Committee on Federal Health Programs, the COTH Committee on Government Relations, (formerly Charles H. Frenzel, Chairman, J. Theodore Howell, member and Harold H. Hixson, member) be abolished. Several members voiced the opinion that the former subcommittee on Construction and Modernization Funds for Teaching Hospitals should be kept within COTH responsibility and not be a subcommittee of

the new joint AAMC Committee on Federal Health Programs. Mr. Ferguson moved that the Subcommittee on Modernization and Construction Funds for Teaching Hospitals be made a full Committee. His motion was seconded by Mr. Goulet. Later, Dr. Boettcher suggested that it be left as a committee, but in a somewhat flexible status. Mr. Ferguson accepted that limitation to his motion. It was passed unanimously.

ACTION # 2 THE MOTION WAS PASSED THAT THE COTH COMMITTEE ON GOVERNMENT RELATIONS BE ABOLISHED AND THAT THE SUBCOMMITTEE ON MODERNIZATION AND CONSTRUCTION FUNDS FOR TEACHING HOSPITALS BE MADE A FULL COMMITTEE, BUT IN A FLEXIBLE STATUS, RELATIVE TO NEEDS, DEVELOPMENTS AND OTHER INFLUENCING FACTORS.

10. Appointment of 1967-68 COTH Committees:

Mr. Grapski then used the Chairman's prerogative to appoint new committee members, contingent upon approval of the Executive Committee. He pr - offered the appointment of Arthur J. Klippen, M.D., Director of the Veterans Administration Hospital in Ann Arbor, Michigan, to the COTH Committee on Financial Principles for Teaching Hospitals. Since there was no objection from the floor, Mr. Grapski declared Dr. Klippen a member of the Committee.

ACTION #3 APPOINTMENT OF ARTHUR J. KLIPPEN, M.D., DIRECTOR, VETERANS ADMINISTRATION HOSPITAL, ANN ARBOR, MICHIGAN, TO THE COTH COMMITTEE ON FINANCIAL PRINCIPLES FOR TEACHING HOSPITALS. APPOINTMENT OF OTHER MEMBERS OF COTH COMMITTEES FOR 1967-68-(LIST OF COMMITTEES AND MEMBERS THERETO AS APPOINTED AND CONFIRMED IS ATTACHED TO AND MADE A PERMANENT PART OF THESE MINUTES).

11. COTH Activity Evaluation & Projection:

Mr. Grapski then called for comments from each member of the Committee as to what their evaluation was of what the Council had been doing and what



they thought it should be considering for the future. Mr. Macer indicated his appreciation of staff development of contact with the Association of Hospital Directors of Medical Education, and his belief that COTH should continue to examine the possibility of a closer liaison with them. Mr. McNulty outlined that COTH has had a meeting with DME's, with more planned in the future. Dr. Boettcher noted that COTH should keep closely attuned to activities in the area of community medicine and medical care research. He thought that this increasingly important "fourth leg on the milking stool" might need less influence of educators and researchers and more of administrators. Dr. Hamilton suggested that the Council was, perhaps, too young at the moment to be taking such a critical backwards glance and long look ahead. He believed COTH should continue with programs as they are now so that they can develop to a greater degree before we move into too many other areas. All committee members agreed.

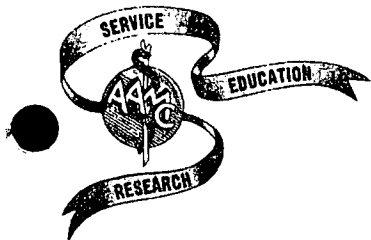
Mr. Frenzel stated that he thought the Construction and Modernization Funds subject and the areas of community health care and the allied health professions need particular attention. He noted that the medical schools were not accepting the responsibility for allied health professions and that someone needed to take a look at that area. Mr. Richwagen agreed that the medical schools looked at those in allied health professions as assistants rather than technicians and that there should be a greater emphasis on the professionalism of those groups. Mr. McNulty recalled for the Executive Committee the activity of the AAMC, through the George A. Wolfe, Jr., M.D., Committee, in trying to include the allied, professional organizations and educational committees in another Council activity of AAMC. That committee, chaired by Dr. Wolfe, continues to meet, although not too fruitfully up to now. He stated that it may be desirable to get

one or two COTH members on that committee. There was general agreement on that point. He further pointed out that Harold Hixson is on the MEND Committee.

ACTION #4 RECOMMEND TO THE AAMC THAT THE COMMITTEE CHAIRED BY GEORGE A. WOLFE, JR., M.D., BE ENLARGED BY THE ADDITION OF TWO REPRESENTATIVES FROM THE COUNCIL OF TEACHING HOSPITALS.

8. Adjournment:

There being no further new business, the meeting was adjourned by Chairman Grapski at 2:45.



ASSOCIATION OF AMERICAN MEDICAL COLLEGES

COUNCIL OF TEACHING HOSPITALS

1346 CONNECTICUT AVENUE, N.W.

WASHINGTON, D. C. 20036

202/223-5364

MATTHEW F. McNULTY, JR.

DIRECTOR

STATUS OF COTH MEMBERSHIP

Fiscal Year 1967-68

As of January 8, 1968

<u>Total Membership</u> 1966-67	323
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<u>New Members</u> 1967-68	11
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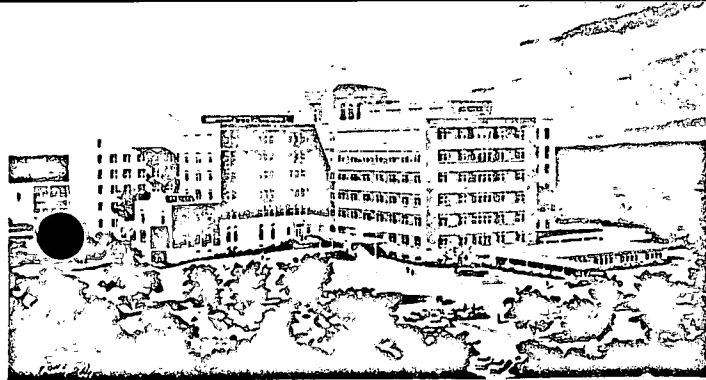
<u>Total Membership</u>	334
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<u>Paid Membership to Date</u> 1967-68	316
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<u>Unpaid to Date</u> 1967-68	18
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<u>Old Members Unpaid</u>	17
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<u>New Members Unpaid</u>	1
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# MONMOUTH MEDICAL CENTER

LONG BRANCH, NEW JERSEY

January 3, 1968

Fletcher H. Bingham, Ph.D.  
Assistant Director  
Council of Teaching Hospitals  
Association of American Medical Colleges  
1348 Connecticut Avenue, N.W.  
Washington, D.C. 20036

Dear Doctor Bingham:

The following information is submitted to support our application for membership in the Council of Teaching Hospitals of the Association of American Medical Colleges.

1. At the present time there are five approved residencies including the three listed in the application. Beyond those listed we are approved in Orthopedic Surgery and Pathology and have recently been reviewed by the Council and the Residency Review Board for a program in Radiology. We are anticipating submission of our application for a residency in Anesthesiology within the next few months.

2. The hospital has made a major commitment to education for the present and for the long-term future. We appreciate as an institution that it will take several full-time members to implement the residencies for which we are approved, and we currently have in addition to myself as a full-time Director of Medical Education, part-time physicians involved in the programs in Pediatrics, Psychiatry, and Obstetrics and Gynecology. Our Board of Governors has approved a full-time position in the Department of Medicine for a Coordinator to administer the program in the Department of Medicine.

Though we have no medical school affiliation at the present time, the Board of Governors, the Medical Staff and I feel very strongly that this will become increasingly necessary in the future and feel that it will be essential to maintaining excellent programs. In hopes of attaining a medical school affiliation in the future we are committing increasing efforts to our education program and are hopeful that our institution will be attractive for purposes of

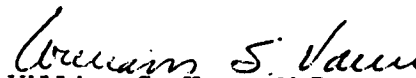
January 3, 1968

affiliation as the future unfolds.

There are currently several programs we maintain with participation from medical school faculty primarily the University of Pennsylvania at the present time. If you wish further details of this program or any other data, I would be very happy to submit it.

With best wishes.

Yours sincerely,



William S. Vaun, M.D.

Director

Department of Medical Education

WSV:mlm

Enclosures

Copy to: G. J. Bartel  
J. Levin, M.D.

PLEASE READ INSTRUCTIONS ON REVERSE SIDE

ASSOCIATION OF AMERICAN MEDICAL COLLEGES

Application for Membership  
in the  
Council of Teaching Hospitals

(Please type)

Hospital: Monmouth Medical Center  
Third and Pavilion Avenues  
Long Branch New Jersey 07740  
City State Zip Code  
Principal Administrative Officer: George J. Bartel  
Administrator  
Name Title

Hospital Statistics: Date Hospital was Established: 1887  
Average Daily Census: 450  
Annual Outpatient Clinical Visits: 16,653

Approved Internships:

Type	Date Of Initial Approval by CME of AMA*	Total Internships Offered	Total Internships Filled
Rotating	<u>1914</u>	<u>16</u>	<u>16</u>
Mixed	<u></u>	<u></u>	<u></u>
Straight (Surg.)	<u>1958</u>	<u>1</u>	<u>1</u>

Approved Residencies:

Specialties	Date Of Initial Approval by CME of AMA*	Total Residencies Offered	Total Residencies Filled
Medicine	<u>July, 1965</u>	<u>5</u>	<u>5</u>
Surgery	<u>1956</u>	<u>6</u>	<u>6</u>
OB-Gyn	<u></u>	<u></u>	<u></u>
Pediatrics	<u>November, 1966</u>	<u>2</u>	<u>2</u>
Psychiatry	<u></u>	<u></u>	<u></u>

Information submitted by:

<u>William S. Vaun, M.D.</u> Name	<u>Director of Medical Education</u> Title
<u>January 2, 1968</u> Date	<u>William S. Vaun M.D.</u> Signature

\*Council on Medical Education of the American Medical Association and/or with appropriate A.M.A. Internship and Residency Review Committees.

PLEASE READ INSTRUCTIONS ON REVERSE SIDE

December 7, 1967

Ralph F. Lindberg, D.O.  
Executive Director  
Detroit Osteopathic Hospital Corporation  
12523 Third Avenue  
Detroit, Michigan 48203

*Consult  
John N. Murphy R*

Dear Dr. Lindberg:

Your letter of November 28, addressed to Dr. Robert C. Berson, the Executive Director of the AAMC, has been referred to the Council for reply.

The questions posed in your letter, regarding your institution's eligibility for membership, have never arisen before. Correspondingly, no firm policy decision has been made by the COTH Executive Committee, which also serves as an interim membership approval committee, with regard to these issues.

The "Rules and Regulations" of the Council, however, are quite explicit and specific in their definitions of the criteria for membership. As you will note in the attached copy of the "Rules and Regulations", the dual minimum standards for membership are those hospitals either nominated by a medical school member of the AAMC or which have approved internship programs and full residencies in three of the five following departments—Medicine, Surgery, OB-GYN, Pediatrics and Psychiatry.

Because of the uniqueness of the question which you posed, I will pursue it through that organizational element of the Council responsible for such decisions and will be in touch with you once a firm solution has been reached.

Thank you for your interest in the Council.

Very sincerely yours,

MATTHEW F. McNULTY, JR.  
Director, COTH  
Associate Director, AAMC

FHB: vg

cc: Robert C. Berson, M.D. (without attachment)

DETROIT OSTEOPATHIC HOSPITAL CORPORATION

12523 THIRD AVENUE • DETROIT, MICHIGAN, 48203

November 28, 1967

RECEIVED

NOV 30 '67

AAMC

1. Not  
Presumably  
eligible  
2. Recognize  
more

Mr. Robert C. Berson, Executive Director  
Association of American Medical Colleges  
2530 Ridge Avenue  
Evanston, Illinois

Dear Mr. Berson:

I have been an individual member of the Association of American Medical Colleges for many years and have attended some of the annual meetings. I am the Executive Director of the Detroit Osteopathic Hospital Corporation responsible for the operation of the three hospitals owned and controlled by our nonprofit corporation.

These three hospitals are, Detroit Osteopathic Hospital in Highland Park, Michigan, Riverside Osteopathic Hospital in Trenton, Michigan and Bi-County Community Hospital in Warren, Michigan. All three hospitals are approved by the American Osteopathic Association for the training of interns and residents. Detroit Osteopathic Hospital is an off-campus teaching hospital of the Chicago College of Osteopathy. This is an official affiliation meeting the requirements of the United States Public Health Service in their approval of the grant-in-aid to the Chicago College for a construction program.

My reason for writing this letter is to inquire if the membership requirements of the Council of Teaching Hospitals would permit Detroit Osteopathic Hospital to be a member of this Council in some category or to have some status whereby I, or some members of our teaching staff (who are individual members of the A.A.M.C.) could attend the educational sessions of this Council of Teaching Hospitals.

I shall be happy to supply any additional information should you so desire.

Sincerely yours,

Ralph F. Lindberg, D.O.  
Executive Director

RFL:mh



MINUTES  
COUNCIL OF TEACHING HOSPITALS  
COMMITTEE ON CONSTRUCTION AND MODERNIZATION  
FUNDS FOR TEACHING HOSPITALS  
December 12, 1967  
Washington Hilton Hotel  
10:00 a.m. to 4:00 p.m.

Present:

Richard T. Viguers, Chairman  
Lewis H. Rohrbaugh, Ph.D., Vice-Chairman  
Charles H. Frenzel, COTH Member on AAMC Committee on Federal Health Programs  
Harold H. Hixson, COTH Member on AAMC Committee on Federal Health Programs  
Robert C. Hardy  
David Littauer, M.D.  
John H. Westerman

Staff:

Matthew F. McNulty, Jr., Director, COTH  
Fletcher H. Bingham, Ph.D., Assistant Director, COTH  
Grace W. Beirne, Staff Assistant, COTH  
Elizabeth A. Burgoyne, Secretary to the Director, COTH

Committee was joined at 12:30 p.m. for lunch by:

James H. Cavanaugh, Ph.D., Director of Comprehensive Planning, HEW and  
Thomas G. Moore, Jr., Director, Office of Legislation USPHS

Absent:

J. Theodore Howell, M.D., COTH Member on AAMC Committee on Federal Health Programs  
John H. Knowles, M.D.  
Richard D. Vanderwarker

I. Call to Order:

The meeting was called to order at 10:00 a.m. by Chairman Viguers

II. Approval of Minutes--Meeting of October 10, 1967:

ACTION #1 DR. ROHRBAUGH MOVED THAT THE MINUTES OF THE OCTOBER 10 MEETING BE APPROVED AS PRESENTED. THE MOTION WAS SECONDED BY MR. HIXSON AND PASSED UNANIMOUSLY.

At Mr. Viguers' suggestion, Mr. McNulty used the minutes as a base for review of events relative to the subject of modernization and construction funds subsequent to the October 10 meeting. He noted the committee had endorsed Hill-Burton Amendment Legislation but that no hearings had been scheduled as yet.

Mr. McNulty also indicated a definite governmental trend toward economy. He reported that: 1) At the request of Secretary Gardener a National Conference on the Cost of Health Care Facilities was held which seemed to present nothing innovative beyond the concept that limiting the number of hospitals would curtail the cost for modernization and construction, 2) The National Advisory Commission on Health Facilities, chaired by Boisfeuillet Jones, met for the first time on December 11, with the emphasis on organization rather than productivity. He said the chief emphasis by COTH, in early stages of the National Advisory Commission on Health Facilities, should be on the priorities of pursuit of modernization funds. He further reported that there is great disagreement within the Department of HEW on what will happen to Hill-Burton in fall of 1968. He said that it is highly likely that action on Hill-Burton might be dependent on the report of the Commission's recommendations, which is slated for completion by next October.

With these developments in mind, Mr. McNulty summarized the actions of the COTH staff in implementing the actions enacted at the October 10 committee meeting, as follows:

Action 1 -- A follow-up on the modernization questionnaire is in the design stage and will be completed.

Action 2 -- The results of the original survey have been distributed and many comments have been received expressing appreciation.

Action 3 -- On the advice of Boisfeuillet Jones to Mr. McNulty, a statement of recommendation to the National Advisory Commission on Health Facilities has not been prepared. Mr. Jones cautioned COTH not to state any position until it was known where the Commission would direct its energies -- and then to tailor any COTH recommendation to what the Commission decides to do.

Action 4 -- COTH has voiced its support of S. 2251 and it will extend to the second session of the current congress.

Action 5 -- In relation to the package "Health Manpower Legislation", Mr. McNulty directed the Committee's attention to the report of the National Advisory Commission on Health Manpower, which covers more than just manpower, including support for facility modernization. Specifically, it was noted that the Report recommended:

(1) Federal assistance in the form of grants or loans (or loan guarantees ) be provided to obsolete hospitals in those areas where modernization needs are so extensive that nongovernment sources of capital funds will be closely insufficient.

(2) Before any decision is made to finance modernization, on a large scale, state and Federal Governments should carry out a careful study to determine criteria for deciding between modernization and replacement.

III. Executive Committee Action of Monday, October 30, 1967, that the Subcommittee be made a Full Committee:

Dr. Bingham reported that at the October 30 meeting of the COTH Executive Committee, subsequent to the combination of the COTH Government Relations Committee and the AAMC Committee on Federal Health Programs, the Subcommittee on Construction and Modernization Funds for Teaching Hospitals was made into a full committee of COTH. In relation to this, Mr. Frenzel outlined some of the events at the November 21 meeting of the AAMC Committee on Federal Health Programs, of which he is one of the COTH representatives. Mr. Frenzel indicated that they met with Ralph K. Huitt, (Assistant Secretary, Legislation) and Philip R. Lee, (Assistant Secretary, Health and Scientific Affairs). The

meeting presented no specific action, being primarily organizational. Mr. Frenzel indicated that the Committee had expressed the belief that if there were forced cuts in funding, they should come out of research activities and not education. He said that the Committee also discussed any reaction that the AAMC should make officially to the "Fountain Report" and decided to let the matter rest as saying anything could bring another barrage of criticism from the representative.

Mr. Frenzel then said that one crucial area for COTH to consider was the working relationship between committees, and the AAMC Committee on Federal Health Program's request that the COTH Committee report directly to them. Mr. Frenzel and others felt that the prime responsibility of the Committee was to report to the COTH Executive Committee and then let any report to the AAMC Committee originate from COTH as a whole.

ACTION #2 IT WAS AGREED THAT THE COTH COMMITTEE ON MODERNIZATION AND CONSTRUCTION FUNDS REPORT FIRST TO THE COTH EXECUTIVE COMMITTEE WHICH COULD THEN USE ITS OWN DISCRETION IN REPORTING FOR COTH TO THE AAMC COMMITTEE ON FEDERAL HEALTH PROGRAMS, WITH EACH COTH MEMBER ON THE AAMC COMMITTEE PARTICIPATING FULLY WITH THE AAMC FOR THE TOTAL BENEFIT.

IV. Problem of Inadequate Overhead on Direct Research Grants and Training Grants:

Mr. Viguers, who had requested this item on the agenda, recognized that although a very important topic, it could be more properly handled by the COTH Committee on Financial Principles for Teaching Hospitals. He said that he had established contact with the Bureau of the Budget on this subject, as had Lawrence E. Martin of Massachusetts General Hospital who is a member of the Financial Principles Committee. The Committee members all recognized that this problem was becoming increasingly difficult to resolve and if there was any information they could

supply to the Committee on Financial Principles, they would be glad to do so.

ACTION #3 IT WAS AGREED TO REFER THE AGENDA ITEM CONCERNING THE PROBLEM OF INADEQUATE OVERHEAD ON DIRECT RESEARCH GRANTS AND TRAINING GRANTS TO THE COTH COMMITTEE ON FINANCIAL PRINCIPLES FOR TEACHING HOSPITALS, WITH THE COMMITTEE ON MODERNIZATION REMAINING AVAILABLE TO BE OF HELP.

V. Report on HEW Conference on Cost of Health Care Facilities:

This item had been covered earlier by Mr. McNulty. Many Committee members voiced the opinion that there were countless commissions, conferences, and committees studying current problems in the field of health care and the delivery of health services, so many in fact that they were hard to delineate and to perceive any kind of tangible results. Mr. McNulty echoed their sentiments, stressing the need for each hospital to involve someone on the staff of the local and state levels as this is the level at which the results of such conferences and commissions will most likely be implemented.

VI. National Advisory Commission on Health Care Facilities:

This item was discussed under Item II, but the Committee took the opportunity to review the composition of the Commission. Mr. McNulty reported that Dr. William L. Kissick, of the Public Health Service would serve as Executive Director of the Commission. Mr. Hardy said that he understood from Dr. Dennis, one of the members of the Commission, that they were extremely eager to be exposed to as many points of view as possible in order that their study could be more comprehensive.

ACTION #4 IT WAS AGREED THAT MEMBERS OF THE COMMITTEE ON MODERNIZATION AND CONSTRUCTION FUNDS FOR TEACHING HOSPITALS ESTABLISH INFORMAL, INDIVIDUAL LIAISON WITH COMMISSION MEMBERS TO SOUND THEM OUT AND APPRISE THEM OF THE COTH POINT OF

VIEW PRIOR TO ISSUING A FORMAL POSITION STATEMENT TO THE COMMISSION.

VII. Consideration of AHA Position on Proposed Hill-Burton Amendments:

This item was mainly informational since Mr. Kenneth Williamson had read the position at the October 10 meeting. The only question was the meaning of "Hospital Educational Facilities" under Item 6 of the AHA position. Mr. McNulty suggested that the phrase was in reference to diploma schools of nursing as well as the paramedical educational function.

VIII. Discussion Regarding Selected Provisions of Social Security Amendments of 1967 (H.R. 12080):

Mr. Viguers said that this item was more of historic interest since it had been defeated, however, he considered that the issue was not totally dead since there was still the matter of handling depreciation funding. Mr. McNulty added that he thought state and territorial health officials would favor Hill-Burton as it is.

IX. "Fund Freeze" for HEW:

Mr. Viguers confirmed that this was the present situation, with Mr. McNulty mentioning that it has now been suggested that an amount over the 2.7 billion dollars previously mentioned be withheld from this point forward. Mr. Viguers said that while the impact has not yet reached some medical schools and hospitals, in all likelihood, it will be very soon.

In response to Dr. Rohrbaugh's question as to whether approved grants would be withheld, Mr. McNulty said that the policy was not that definitive, but that such a possibility existed. Mr. Westerman referred to the testimony of Dr. Frank McKee, (Director, Division of Physician Manpower) in which he stated that programs for the development of new medical schools would run into great difficulty and that the Health Education Assistance Acts projects of the Bureau of Health Manpower are doing worse. He interpreted Dr. McKee's

statements as meaning that a priority schedule would have to be established in which new schools, even though approved for grants, would have a low priority. Mr. McNulty confirmed this comment by stating that George T. Harrell, M.D., at the Pennsylvania State University (Hershey Campus), had experienced a hold-up of funds. Miss Beirne advised that although appropriations had been made there would probably be a 10 percent cut in the amount released because of congressional action, although each department could use its discretion in administering the cuts.

In relation to this topic, Mr. Hixson raised the possibility of having the Committee on Financial Principles look at the "fund freeze" problem of holding up funds that have already been promised as many places expect the hospital to absorb the cost. He also said investigation by that Committee could check into GCRC appropriations. Mr. McNulty said that Miss Beirne and Dr. Bingham had established contact with the Acting Director of the GCRC Branch, Dr. DeCesare. Miss Beirne said that at a meeting with him he said that it appeared there would be no problem this year on funding and seemed quite optimistic. When Mr. Hixson stated that he had a letter from the Chief Investigator to him saying that the government said to remove funding for his Pediatric GCRC, Mr. McNulty asked Mr. Hixson to forward to him a copy of that letter if possible since it was almost the reverse of what Dr. DeCesare had indicated.

ACTION #5 IT WAS AGREED TO REFER THIS ISSUE TO THE COTH COMMITTEE ON FINANCIAL PRINCIPLES.

X. AHA Proposed Definition of Teaching Hospital:

Mr. Viguers noted that there should probably be some coordination for a definition between COTH and the AHA because there can be difficulty when you have two organizations defining the same thing. Mr. Littauer commented that

the proposed definition was two steps away from final approval within the AHA. Mr. McNulty noted that the AHA definition will be discussed by the Executive Committee at its next meeting.

ACTION #6

IT WAS AGREED THAT THE QUESTION OF THE PROPOSED AHA DEFINITION OF THE TERM "TEACHING HOSPITAL" BE PRESENTED TO THE COTH EXECUTIVE COMMITTEE FOR DISCUSSION AND REFERRAL AS THEY SAY FIT AND THAT ALL COTH COMMITTEES WATCH FOR ANY POSSIBLY CONFLICT BETWEEN THE AHA AND THE AAMC.

XI. Discussion and Committee Proposals for Future Activities:

Mr. Viguers said that under this item it was necessary to consider and establish priorities for future action. He said that the assignment regarding maintaining a contact with the Boisfeuillet Jones Commission was the first priority. Mr. McNulty -- as well as other members -- agreed, saying that although definitive action may not be possible immediately it is crucial that a liaison be maintained. Dr. Littauer then raised the question of whether or not COTH has elaborated the term, "teaching hospital" in terms of construction and operating costs. While none has yet been written, it was agreed that a documented definition is necessary, perhaps getting the information from the follow-up to the COTH questionnaire. Mr. Frenzel reiterated that there is a need to show what beds are needed, why they are needed, when they are needed because the government seems to think that the growing number of outpatient centers diminishes the need for inpatient centers. The group also stressed the necessity of knowing the reason for the number of beds. Mr. McNulty said that this information would be incorporated in the COTH follow-up questionnaire. In line with the foregoing discussion, Mr. Frenzel suggested the need for a position paper defining what we want and why we want it, and Dr. Rohrbaugh suggested that the Committee draw up several pieces of proposed legislation designed to cover hospital needs. After discussion of the possibilities in



these suggestions, Mr. McNulty agreed to the need for a definitive position paper with an addition of three or four legislative possibilities since it would serve to crystalize ir for the Committee.

ACTION #7 THE COMMITTEE AGREED THAT THE COTH STAFF PREPARE A POSITION PAPER DEFINING THE TERM TEACHING HOSPITAL AND BACKING UP A DEFINITION WITH A PRESENTATION OF THE TEACHING HOSPITAL IN TERMS OF CONSTRUCTION AND OPERATING COSTS, WITH A CERTAIN AMOUNT OF DOCUMENTATION OF THE NEED, THE CAUSE FOR THE NEED, ETC., AND WITH AN ADDITION OF SEVERAL LEGISLATIVE POSSIBILITIES TO RESOLVE THE NEED.

XII. Other Old Business:

There was no other old business.

XIII. New Business:

The date of the next meeting was set for February 19, 1967.

XIV. Adjournment:

The meeting was adjourned by Chairman Viguers at 4:00 p.m.

ASSOCIATION OF AMERICAN MEDICAL COLLEGES

Committee on Federal Health Programs  
Minutes of Meeting  
December 19, 1967

The meeting began at 10 a.m. in a conference room adjoining AAMC's Washington offices, continued through a sandwich lunch, and adjourned at 4:10 p.m.

Committee members present: Drs. Chapman, Dietrick, Howell, Hubbard, LeMaistre, Martin and Parks and Messrs. Frenzel and Hixson

Staff: Dr. Berson, Messrs. McNulty and Reidy and Miss ~~Berne~~ <sup>Berne</sup>

Guests throughout: Dr. Ray Trussell and Mr. Noble Sw<sup>a</sup>erengen representing the Association of Schools of Public Health; Mr. Ben Miller and Mr. Har~~old~~ <sup>old</sup> Christensen representing the American Association of Dental Schools

Guests, 12 to 3 p.m.: Mr. Irving Lewis from the Bureau of the Budget; Dr. Ivan Bennett from the Office of Science and Technology; Drs. Lee, Stewart, Shannon, Rosinski, and Fenninger from HEW, and Dr. Lewis Thomas, dean, New York University School of Medicine

Dr. Parks explained to our guests that they had been invited because an obvious mutuality of interest in forthcoming legislative developments indicated the desirability of our maintaining close contact at the staff level and whenever possible coordinating approaches to both the Administration and the Congress. All present agreed that this was highly desirable and could prove quite important.

Dr. Berson discussed the Report of the Commission on Health Manpower as probably underlying whatever proposals the Administration will present us and the Congress. He laid emphasis on two of its points:

1. the production of sufficient M.D.'s to negate our dependence on foreign graduates, and
2. the need to create enough openings in schools of medicine to, at least, maintain the current ratio of medical students to bachelor degrees granted.

This was followed by a general discussion of the elements which should characterize new legislation and of our abilities to formulate and justify our needs.

Dr. Howell felt that although we are now in a bad position relative to presenting an analytical defense of our requirements, our universities have the capabilities of analyzing at least our part of the health system and had best get on with the job. He explained in some detail the computerized systems analysis program in effect at the Henry Ford Hospital. Its objective being to deliver comprehensive care of the highest quality yet at lowest cost, it requires the analysis of each doctor's needs and functions and an analysis of patient needs related to resources available. So far, they have been able to develop such predictability of patient load, of operating room needs, of the cadres of personnel and the type of equipment needed at any one time, and of teaching matrix needed for each service so as to decrease their daily backlog from 300 to 30 or 40 and often to zero.

Similar techniques applied elsewhere, he implied, would put us in a position to justify our needs.

Dr. Trussell said that, with respect to foreign medical graduates, the universities will have to make the decision as to how to cope with their inadequacies of training. In order to protect the patient, the universities must set a pattern and demand the necessary funding thereof. He believes the universities are going to emerge as the large and model group practices and that this will require a much larger Federal financial input. AAMC, he thought, should make some large scale basic assumptions as to what is needed and convey it to the government in no uncertain terms.

Discussion then centered on what factors we should look for in any Federal proposals and on what we ourselves should be prepared to propose should they prove inadequate.

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#### The Administration's Proposal

Dr. Lee explained that the Administration must very shortly reach a decision as to what it will propose to the Congress. He listed some of the questions and alternatives that had been considered and began to explain what the Administration had in mind.

Dr. Bennett then proceeded to present with some force and conviction the proposal summarized below. Irving Lewis concurred. He strongly advised that our reaction should be to this proposal and implied that there was not enough time for us to develop and the Administration to consider any markedly different proposal.

The basic principle underlying the proposal, as explained by Lewis, was that a proposal calling for more Federal funds could not be couched in terms of broad national objectives but must be in terms of very specific goals:

- tied to the output of M.D.'s,
- tied to research actually undertaken,
- tied to service or care delivered.

These three areas, he said, are subject to quantitative measurement and, hence, are politically viable. If money is tight and we want to achieve national goals with each expenditure, "your schools must have financing which will not force you to undertake specific projects".

This represents a new philosophic approach which says that the number of Federal dollars you receive "will be in proportion to your discharge of Federal functions". It is based on the assumption that "in lean times, medical schools need a maximum amount of institutional support to provide flexibility".

The Tentative Proposal for Institutional Grants  
(as clarified in next-day colloquy: see "Comments")

Three types of grants are contemplated:

I. Basic Grants

To provide stable funding for the educational core of a medical school (including such research and service as are essential to the educational process).

This grant to be made each school in direct proportion to the number of its M.D. graduates.

The figure of \$25,000 per M.D. was mentioned.

II. Service Incentive Grants

These would be grants to defray management costs of such other services valued by the federal government as an institution chooses to provide. The conduct of research or the rendition of services over and above those essential to the production of M.D.'s would be included.

The figure mentioned was a management grant equal to 15-percent of the total federal funding of such undertakings.

III. Project Grants to Increase Output of M.D.'s

These would be 3 to 5-year planning and developmental grants made to institutions which undertook to:

- a) Reduce the educational time span,  
and/or
- b) Increase the number of M.D. students enrolled.

Presumably the additional costs to the school after the developmental period would be met by the automatic increase in its basic grant resulting from its increased M.D. output.

#### Comments

At the meeting, Item II was proposed as a subpart of Item I, the basic grant. Subsequent to the meeting, Administration representatives agreed with our contention that it could not be considered "stable" and, perhaps, could be handled as a separate item.

Questions have been raised about the propriety or adequacy of a basic grant related to M.D. output alone and apparently non-responsive to other than M.D. training obligations of the school.

It is our understanding that the Administration is well aware of the complex nature of our function. Political realism would seem to them to dictate a simplistic approach keyed to an assumed Congressional willingness, in 1968, to fund the production of M.D.'s and a concurrent Congressional antipathy to getting involved in those complexities of financing higher education which will be thrust upon them (with equal validity) by a host of institutional forces other than our own.

Two things must be kept in mind:

1) When the administration says "X dollars per M.D. graduate", we can assume that the figure arrived at will reflect awareness of the fact that for each three or four M.D. enrollees the average school should and will enroll Y number of non-M.D. candidates.

2) Many schools will, of course, enroll a much higher percentage of non M.D. students (just as many will render much more community service than will the average). These schools, under the proposal, will be regarded as rendering valuable service over and above their educational function. They will not only continue to receive research grants, training grants, OEO contracts, Medicare and Medicaid payments, etc., under separate legislation as they do now, but will also, as institutions, receive the management fee proposed under Item II above.

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The phrase "management fee" used in Item II seems ill-chosen. No substitute has been agreed upon as yet.

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We have queried the Administration about the failure to mention teaching hospitals. We are advised that the M.D. educational costs to the teaching hospital will be reflected in the basic grant and should be allocated or negotiated--simply--at the local institutional level. This, like other aspects of the proposal, is understood to free both school and hospital of much of the unnecessary complexity, rigidity, and accountability, of which we've complained.

Dr. Shannon first took the position that medical schools have such well-stated and vitally important goals as to take precedence over and rate a priority far above "outer space, etc." Our schools are fighting for their lives and will win or lose now. This group must become a political action group of some moment. It must decide what exactly is the order of matching funds needed to support the educational function and what terms and conditions are needed if funds are to be used effectively. Finally, difference between schools--their greater or lesser involvement in research and service --must be so handled as to contribute to the basic activities of each. Solutions to our problems can be found and are saleable to the Congress and the people, he maintained.

Later, Dr. Shannon distributed a mimeographed presentation of his own proposal. To provide the base for "a vigorous, innovative medical educational system" in place of the one "now seriously compromised by unstable, fragmented, and inadequate support"; a plan would need the following elements:

- 1) Basic support program providing up to \$2.5 million for each school producing 100 M.D.'s.  
On a 50-50 matching basis, a Federal subsidy of \$25,000 per M.D.
- 2) Program to expand faculty based on an "intellectual overhead" for each project.
- 3) Make research (external to core activity) fully reimbursable.
- 4) Provide a management fee for all research and service activities outside educational core.
- 5) Project grants for limited periods for the added costs of educational innovation.
- 6) A program to facilitate the planning and installation of modern program planning and modern accounting systems (to lay base for incentive payments).

The vigor with which Bennett-Lewis, on one side, and Shannon, on the other, expressed their views implied strong differences of opinion on matters that were not explicitly stated. Apparently, they relate to the proposed financing of each proposal in relation to the financing of other on-going federal programs.

Dr. Shannon also contended that a federal dollar granted for one purpose "always substitutes"; that simple basic grants will continue not only mediocrity but inadequacy; that some way must be found of drawing in or matching local funds to avoid government control; that matching funds will win AMA support but "maintenance of effort" won't.

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Our Federal guests left at 3:00 p.m.

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The group then discussed all parts of the proposal as it had been presented. There was agreement that we should react quickly and intelligently to it and be prepared to urge modifications if any seemed in the best interests of the public and our institutions.

There was agreement that the basic support grants were essential. There was inconclusive discussion as to whether they should be related to M.D. output, to medical students, or to all students enrolled.

There was discussion of the wisdom of service incentive grants and complete agreement that they should not be part of the basic grant. Discussion of the form such grants might take was inconclusive.

Discussion of the proposed institutional project grants was completely affirmative.

The meeting adjourned at 4:10 p.m.

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NOTE: A follow-up telephone conference call involving all committee members was made on December 28 and a special meeting was called for January 3 in Washington.

THE ADMINISTRATION'S PROPOSAL FOR INSTITUTIONAL GRANTS

Excerpt from Minutes of the December 19, 1967  
Meeting

Committee on Federal Health Programs

Three types of grants are contemplated:

I. Basic Grants

To provide stable funding for the educational care of a medical school (including such research and service as are essential to the educational process).

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The figure of \$25,000 per M.D. was mentioned.

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These would be grants to defray management costs of such other services valued by the federal government as an institution chooses to provide.

The conduct of research or the rendition of services over and above those essential to the production of M.D.s would be included.

The figure mentioned was a management grant equal to 15% of the total federal funding of such undertakings.

III Project Grants to Increase Output of M.D.s

These would be 3 to 5 year planning and developmental grants made to institutions which undertook to:

a) Reduce the educational time span,

and/or

b) Increase the number of M.D. students enrolled.

Presumably the additional costs to the school after the developmental period would be met by the automatic increase in its basic grant resulting from its increased M.D. output.

(end except)



## COMMENTS

Item II was originally proposed as a sub-part of Item I, the basic grant. Subsequent to the meeting, administration representatives agreed with our contention that it could not be considered "stable" and, perhaps, could be handled as a separate item.

Questions have been raised about the propriety or adequacy of a basic grant related to M.D. output alone and apparently non-responsive to other than M.D. training obligations of the school.

It is our understanding that the administration is well aware of the complex nature of our function. Political realism would seem to dictate a simplistic approach keyed to an assumed Congressional willingness, in 1968, to fund the production of M.D.s and a concurrent Congressional antipathy to getting involved in those complexities of financing higher education which will be thrust upon them (with equal validity) by a host of institutional forces other than our own.

Two things must be kept in mind:

- 1) When the administration says "X dollars per M.D. graduate", we can assume that the figure arrived at will reflect awareness of the fact that for each three or four M.D. enrollees the average school should and will enroll Y number of non-M.D. candidates.
- 2) Many schools will, of course, enroll a much higher percentage of non-M.D. students (just as many will render much more community service than will the average). These schools, under the proposal, will be regarded as rendering valuable service over and above their educational function. They will not only continue to receive research grants, training grants, OEO contracts, medicare and medicaid payments, etc., under separate legislation as they do now, but will also, as institutions, receive the management fee proposed under Item II above.

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We have queried the administration about the failure to mention teaching hospitals. We are advised that the M.D. educational costs to the teaching hospital will be reflected in the basic grant and should be allocated or negotiated - simply - at the local institutional level. This, like other aspects of the proposal, is understood to free both school and hospital of much of the unnecessary complexity, rigidity, and accountability, of which we've complained.

Minutes  
Special Meeting  
Committee on Federal Health Programs  
January 3, 1968 - Washington, D.C.

This special meeting to consider further and to firm up our response to the legislative proposal tentatively placed before us by Administration representatives on December 19 was the result of a telephone conference held on December 28. For summary conclusions see page 7.

The meeting began at 12:15 p.m. and ran through 5 p.m. In attendance were Doctors Berson, Deitrick, Hubbard, Parks; Messrs. Hixson, McNulty, Whigham, Christenson (ADA), Reidy and Miss Beirne.

Hubbard made a graphic outline of the Administration's tentative proposal in terms of three specific goals sought and three different mechanisms for their attainment. While discussion did overlap and range back and forth over the three, it was essentially focused on each of the three parts separately and conclusions were separately arrived at for each.

THE TENTATIVE PROPOSAL

<u>Goals</u>	<u>Mechanism</u>
I. Secure the Institutional Base (finance core programs for education of M.D.'s, D.D.S.', Nurses, etc.*)	I. Capitation Grants (based on number of M.D. graduates or students)
II. Increase Manpower	II. Project Grants (100% federal financing for planning, construction, and for initial operations)
III. Federal Programs (non-core research, service, regional medical, OEO, Medicare, Medicaid, etc.)	III. Institutional Grants "management fees" (?) "intellectual overhead" (?) "institutional overhead" (?) (terminology undecided)

\* The subject was discussed primarily in terms of M.D.'s. There seemed agreement that similar funding should be provided schools educating other essential health manpower. Whether in separate legislation or in separate titles of one bill will be an Administration decision.

The first proposal - to establish a stable financial base for the core functions of each medical school through a capitation grant - was discussed from many angles.

First, the possible desirability of a formula grant making separate provision for each of the many components of a school's basic undertaking and including other than medical students rather than a capitation grant was considered. The fact that such an approach might present the public and the Congress with a much more accurate picture of the many goals and the multiplexity of a medical school had considerable appeal and was discussed repeatedly. The generally accepted conclusion, however, was that to present a complex formula as the basis for institutional support is--at least, currently--highly undesirable. A complex formula would mean complexity in administration. It would mean, too, that each element would have to be justified separately (and, perhaps, for each institution). It might prove an invitation to Congress to approve only those elements in which it has an overweening interest (e.g. the production of M.D.'s) and to disallow other essential elements (e.g. the training of Ph.D.'s). It would be very difficult to sell.

The group concluded that the simplistic approach suggested by the Administration is acceptable. There was discussion as to whether the grant could be based on student enrollment but it was agreed that either the number of students or of M.D. graduates could be satisfactory only with the clear understanding that the grant was to support the total environment in which the M.D. is educated and the use of a capitation base merely reflects the fact that this is the one element common to all schools and, hence, can prove most useful--both as regards salability and subsequent administrative practicality and ease for both the government and the institutions involved. It was agreed also that it would be preferable if the grant included a lump sum to each medical school, plus an amount per student or per graduate with the lump sum being as large as can be arranged.

In arriving at this conclusion, there was considerable discussion relative to the adequacy of the amount suggested; the impact of such basic grants on two-year schools and on "have not" schools as contrasted with "haves"; the desirability of requiring "matching" or "maintenance of effort" or not matching at all.

With the understanding that firm figures and the rationale therefor are being compiled by the Administration and should be firmed up also by AAMC, it seemed generally agreed that \$25,000 per M.D. was probably within the acceptable range. It was further agreed that such problems as might arise because of the varying impact such grants might have on different types of schools were manageable and would be far outweighed in value by the stable fiscal base such grants could provide each school. It was agreed that "matching" should not be required. "Maintenance of effort", it was felt, probably would be required by the Congress and would be acceptable, especially if the legislation provided for a waiver of such a requirement in any case where it could be shown to be impossible.

## II

The second goal sought is to increase professional manpower either by increasing student bodies or shortening the educational time-span or a combination of both.

The mechanism through which it was proposed that this be accomplished was a single, inclusive project grant calling for 100% Federal financing of planning, construction, and operating costs over an initial four or five year period. (Presumably, after this initial period, the ongoing increased costs would be met by the increase in the school's basic grant which would automatically attend its increased number of M.D. graduates.)

Here, too, thorough consideration was given to the possible feasibility and desirability of substituting a formula grant for the proposed project grant. It was decided that, in this connection, not only would a formula grant be of awesome complexity but probably impossible to work out because of the great differences in costs as between schools.

It was agreed that the simple, inclusive project grant, with each application therefor subject to peer group review, was the best mechanism available and was certainly acceptable.

Further discussion led to the conclusion that this approach was admirably fitted to the fiscal situation which will confront Congress and the Administration. Not only can the rate of expenditure be directly related to the degree to which Congress may call on us to increase production, but the fiscal impact will be in delayed and in calculable stages. Moreover, while this approach permits a prompt start on X number of expansion projects, other packages of similar projects can be staged for start-up over a period of years.

In this connection, too, there was discussion of the matching principle. It seemed generally agreed, however, that whereas we would not favor the principle generally, since increase in output is a national goal reflecting a national emergency need, it would, in this instance, be proper to accept 100% federal financing.

### III

The third goal is to help defray the costs to the institution entailed by its participation (directly or through its components) in federally desirable activities not a part of its core educational function. This would include federally financed research undertakings; service programs involving the poverty program, Medicaid, Medicare, or new departures in the organization and delivery of care; regional medical programs; and all other undertakings of sufficient national desirability as to involve federal financial support. The mechanism proposed is a simple override grant to the institution equal to approximately 15% of the total federal expenditures for such programs at the particular institution.

Following considerable discussion of the potentially damaging effects on a school's basic educational function should it overengage in these other activities it was decided that Item III, both in concept and mechanism, reflects exactly one major item in our own "White Paper" and a principle to which the AAMC has been committed for years.

It was agreed that some schools may become overly committed to service programs or overexpanded unwillingly or because of community or political pressures which might be brought to bear to force an institution into such undertakings either because of the availability of funding or because of the apparent availability of a medical center as the only resource capable to cope with a community need for greatly expanded medical services. It could also result from enthusiasm or from greed. The discussants seemed to feel that the problem is real and may prove serious unless some mechanism can be built in to protect the individual school from pressure or from itself. The possible role of our AMA - AAMC Liaison Committee was discussed. The writing into the legislation of peer group review by a Council or Councils was considered. The possible effectiveness of "letters of reasonable assurance" (as with grants for construction) was also discussed.

There seemed to be complete agreement that some provision must be made for some sort of peer group review. One specific suggestion that everyone seemed to think worthy of further thought was for a legislative provision making peer group review and prior approval mandatory whenever an institution undertook service programs involving federal funds equal to 20% or more of those spent on its core program.

The meeting adjourned at 5:00 pm.

## SUMMARY OF CONCLUSIONS

- I. The AAMC should support the principle of providing a stable financial base for the core program of each medical school through a federal grant of approximately \$25,000 for each M.D. graduated or \$6,500 per full time medical student: it being understood that these funds were to go for the support of the total environment necessary for the education of M.D.s including research, service, and the training of other than M.D. students and that the basing of a capitation payment on M.D. output alone is acceptable because it is effectively applicable to all schools and promises simplified administration.
- II. The principle of encouraging an increased M.D. output to meet a national need through 100% federal project grants for planning, construction, and operations through a four or five year start up period was considered desirable.
- III. The principle of further strengthening the institutional base through an annual grant equivalent to 15% of all federal funds expended through the institution for purposes other than educational core activities was approved.

M I N U T E S

LIAISON COMMITTEE  
OF AMERICAN HOSPITAL ASSOCIATION  
AND COUNCIL ON TEACHING HOSPITALS

Meeting of October 3, 1967

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MINUTES

LIAISON COMMITTEE  
OF AMERICAN HOSPITAL ASSOCIATION  
AND COUNCIL ON TEACHING HOSPITALS

AHA Headquarters Building, Chicago  
October 3, 1967

*Continue to  
Explore  
Problems  
of Relationship  
but not by  
the Liaison*

PRESENT

Representing American Hospital Association

David B. Wilson, acting chairman  
Howard R. Taylor  
Joseph H. McNinch, M.D., acting secretary

Representing Council on Teaching Hospitals

Lad F. Grapski  
Matthew F. McNulty Jr.  
Ernest C. Shortliffe, M.D.

ALSO PRESENT

Edwin L. Crosby, M.D.  
George Graham, M.D.

Fletcher H. Bingham, Ph.D.

ABSENT

Mark Berke, (AHA)  
Russell H. Miller, (COTH)

The meeting convened at 12:30 p.m.

APPROVAL OF MINUTES

1 VOTED

To approve the minutes of the February 24, 1967 meeting of the Liaison Committee of American Hospital Association and Council on Teaching Hospitals of the Association of American Medical Colleges.



## REPORT BY MR. McNULTY

Mr. McNulty introduced Fletcher H. Bingham, Ph.D., the new assistant Director, Council of Teaching Hospitals (COTH), to the members of the liaison committee.

Membership of COTH

Mr. McNulty, who is the director of COTH, reported that COTH currently had 331 members. He pointed out that when the organization of COTH was under discussion, it had been estimated that there were 350 potential members. This membership might have been achieved except that some eligible municipal hospitals were having difficulty in getting approval to pay the dues; this was also the case with Canadian hospitals.

Increased COTH Representation on American Association of Medical Colleges Executive Council

Mr. McNulty reported on actions that were anticipated at the next annual meeting of the American Association of Medical Colleges (AAMC). He said the number of COTH members on the AAMC Executive Council would increase from one to three. At the same time, it was anticipated that four representatives of the newly formed Council of Academic Societies would be named to the Executive Council. These changes were expected to be approved by the membership of AAMC at the annual meeting to be held later in October. Mr. McNulty explained the administrative process by which a nominating committee of COTH selects names of COTH members to be presented to the nominating committee of the AAMC, which in turn presents the names to the AAMC membership for approval.

Capital Funds for Teaching Hospitals

Mr. McNulty reported the formation of a subcommittee of COTH's Committee on Government Relations, which will be concerned with capital funds for construction and modernization of teaching hospitals. The formation of this subcommittee, he said, had been in part the result of a presentation from a group of Boston hospitals indicating the severe problems faced by teaching hospitals in replacing and modernizing their hospital plants. Doctor Wilson raised the question of whether COTH's concern would be primarily on behalf of the teaching hospitals that were university-operated, or would extend to all teaching hospitals. He expressed the point of view that it might be unnecessary for COTH to take in community hospitals with teaching programs, inasmuch as interests of these hospitals were adequately covered by AHA activities. He indicated that there the university-owned teaching hospitals have special problems because of their intimate relations, financial and otherwise, to medical schools.

Mr. McNulty said that COTH had considered the possibility of attempting as an organization to obtain passage of a Senate-House resolution opposing recovery of payments. However, it is considered that, at present, the chances of such a resolution are unfavorable, and no legislative lobbying action is planned.

HEW's Guide for Hospitals

Mr. McNulty reported that COTH had protested distribution by the Department of Health, Education, and Welfare of the publication, A Guide to Hospitals prior to review by COTH. Doctor Crosby indicated that AHA had not endorsed in the guide, and had in fact made recommendations for changes in it, which had not been made because of opposition from the Bureau of the Budget.

✱

HAS and Teaching Hospitals

Mr. McNulty and the other COTH representatives said that the Hospital Administrative Services program for teaching hospitals did not satisfy COTH's requirements. Doctor Crosby said that he had directed HAS staff to employ a specialist in the near future to work on this problem, and that this new staff member would work with COTH in the development of the HAS teaching hospitals program.

Annual Survey of Hospitals by AHA - Accumulation of Statistical Information by COTH

Mr. McNulty said that it would be necessary for COTH to collect and analyze statistical data pertaining to the operation and activities of teaching hospitals. He said the precise nature of the useful information that should be collected had not yet been determined, but that it appeared that the data collected from all hospitals by AHA in the annual survey of hospitals and other surveys were not now and would not be adequate for the needs of COTH. Doctor Crosby indicated the willingness of AHA to collaborate with COTH in the collection and analysis of data needed for the COTH program. He said that James P. Cooney, director of the Division of Research, was the AHA staff member who would be involved in this collaboration process.

AHA Booth at AAMC-Annual Meeting

Mr. McNulty requested information as to whether the booth planned for the 1967 AAMC annual meeting would be described as an HAS booth or an AHA booth. Doctor Crosby said it would be an AHA booth.

## NEW BUSINESS

Doctor Wilson suggested that it might be helpful to both organizations if the liaison committee were to meet twice a year in Chicago, rather than once a year as at present. He also suggested that the meetings might be

more productive if the preparation of the agenda and the arrangements for future meetings were a joint undertaking of the staff of the two organizations.

ADJOURNMENT

The meeting adjourned at 3:20 p.m.

Joseph H. McNinch, M.D.  
Acting Secretary

RECOMMENDATIONS FOR  
COTH  
NOMINATING COMMITTEE- 1967-68

Chairman:

Stanley A. Ferguson  
Director  
University Hospitals of Cleveland  
Cleveland, Ohio

Members:

Donald J. Caseley, M.D.  
Medical Director  
University of Illinois Research & Education Hospital  
Chicago, Illinois

Harold H. Hixson  
Administrator  
University of California Hospitals  
San Francisco, California

Russell A. Nelson, M.D.  
President  
Johns Hopkins Hospital  
Baltimore, Maryland

PROPOSED DEFINITION OF A TEACHING HOSPITAL (AHA)

Approved by Council on Government Relations  
October 1-3, 1967

Definition

A teaching hospital is one that allocates part of its resources to conduct, in its own name or in formal association with a college or university, formal educational programs or courses of instruction in the health disciplines that lead to the granting of ~~recognized~~ certificates, diplomas, or degrees, or that are required for professional certification or licensure.

Interpretation

1. The allocation of resources in facilities, personnel, and funds must be adequate to demonstrate the discharge of corporate responsibility for the support and high quality of the teaching programs.
2. Educational programs or courses of instruction are "formal" when based upon published or recorded curricula covering specified periods of study and have faculty qualification and student admission requirements established or agreed to by the hospital. They are not work-and-learn or on-the-job training arrangements that primarily augment the hospital's capability to provide services. Further, the hospital controls, or agrees to, the appointment of faculty and selection of students except during the term of agreements that give a college or medical school exclusive authority therefor.
3. Certificates, degrees, or diplomas must be recognized and accepted by national educational agencies, professional qualifying bodies, or state approving authorities. This implies that the courses or educational programs themselves meet standards generally recognized in the health field.

RECENT REPORTS AND STUDIES

RELEVANT TO

HEALTH FACILITIES

I. National Commission on Community Health Services

- Task Force on Comprehensive Personal Health Services
- Task Force on Health Care Facilities
- Task Force on Community Health Services & Facilities
- Task Force on Financing Community Health Services & Facilities
- Task Force on Organization of Community Health Services

Date: September 1962

Created by: American Public Health Association and the  
National Health Council

Reason for Creation: The demands of health professionals and other civic-minded individuals toward achieving a concerted effort that could cope effectively with new and changing hazards to health, reduce the waste of health service resources, and prepare for the health service demands of the future.

Date of Report: September 1965 (Health is a Community Affair)

2. Governor's Committee on Costs

Date: May 1964

Requested by: Governor Rockefeller

Charge: (1) Study the costs of general hospital care in the State and to make recommendations as to how hospitals may best provide high-quality care at the lowest possible cost and  
(2) To examine the present apportionment of responsibility among State agencies concerned with hospital care and to make recommendations as to how the responsibility of State government may be most effectively carried out.

Date of Report: December 15, 1965



3. Report on Regional Medical Programs to the President and the Congress

Date: Heart Disease, Cancer & Stroke Amendments of 1965

Requested by: Congress

Charge: Law said: On or before June 30, 1967, the Surgeon General, after consultation with the Council, shall submit to the Secretary for transmission to the President and then to the Congress, a report of the activities under this title together with (1) a statement of the relationship between Federal financing and financing from other sources of the activities undertaken pursuant to this title, (2) an appraisal of the activities assisted under this title in the light of their effectiveness in carrying out the purposes of this title, and (3) recommendations with respect to extension or modification of this title in the light thereof.

Report: Fall, 1967

4. National Advisory Commission on Health Manpower

Date: Summer, 1966

Requested by: President

Charge: Develop appropriate recommendations for action by government or by private institutions, organizations, or individuals for improving the availability and utilization of health manpower.

Interpretation of Charge

The problem uses more than one of numbers. Although adequate numbers are important, they are only one of the requirements for providing acceptable health care to all segments of our population. The adequacy of health services depends as much upon the organization of health personnel and their combination with other resources as it does upon their numbers alone.

Date of Report: November 1967

### 5. Report on Medical Care Prices

Date: August 1966

Requested by: President to Department of Health, Education, and Welfare

Charge: Study the reasons behind the rapid rise in the price of medical care and to offer recommendations for moderating the rise.

Date of Report: February 1967

### 6. Health Care Facilities Program Analysis

Date: March 1967

Requested by: Surgeon General

Charge:

1. Survey the current status of the Nation's health care facilities.
2. Assess the nature and impact of present Federal programs directed to health facilities.
3. Delineate reasonable objectives for future Federal support to health facilities.
4. Perform necessary data and other analyses which consider alternative ways of providing health services through facilities and of providing Federal support to facilities.

Date of Report: Final shortly; latest draft now available.

### 7. National Conference on Medical Care Costs

Date: June 1967

Requested by: Secretary Gardner

Charge: To discuss ways of reducing medical costs.

Date of Report: No proceedings yet.

8. Secretary's Advisory Committee on Hospital Effectiveness

Date: June 1967

Requested by: Secretary Gardner

Charge: To develop recommendations on incentives and methods for improving hospital effectiveness. Specifically:

1. Ways to improve the internal efficiency of the hospital as a functioning mechanism.
2. The extent to which the hospital should serve as the organizing focus of a new and more effective system for the delivery of health care.
3. Considerations of the community mix of health care facilities.
4. Review of the reimbursement formula.

Date of Report: Early 1968. Papers have been prepared for the Committee.

9. A National Conference on Group Practice

Date: October 1967

Requested by: Secretary Gardner

Charge: To identify the issues involved in improving the delivery of medical care to people by institutions and professionals and to develop feasible courses of action.

Date of Report: Not yet. A series of papers was prepared for this Conference.

10. A National Conference on Private Insurance

Date: Fall of 1967

Requested by: Secretary Gardner

Charge: Explore ways of broadening coverage of private health insurance plans to include more alternatives to hospital care and to suggest ideas for model State laws to encourage or require comprehensive health insurance coverage.

Date of Report: Not yet

11. National Academy of Engineering Conference on "Costs of Health Care Facilities"

Date: December 5, 6, 1967

Requested by: Secretary Gardner

Charge: The conference will look for ways to reduce the costs of health care facilities--a major contributing factor in the overall increase in medical care costs.

The goal is to develop recommendations for reducing the construction and operating costs of hospitals, nursing homes, and extended care facilities while maintaining and, if possible, improving the quality of health services. Attention will be directed not only to the construction of new facilities, but to the modernization of existing ones.

## CONFERENCE ON COSTS OF HEALTH CARE FACILITIES

### PURPOSE AND SCOPE

Secretary of Health, Education, and Welfare John W. Gardner, in a Report to the President on Medical Care Prices, examined the reasons underlying the rapid increase in health care costs and made a number of recommendations to moderate this rise. The report identified the cost of hospital care as one of the major factors contributing to overall increased costs of medical care.

The Conference on Costs of Health Care Facilities will develop recommendations for the reduction of health care costs as they may be affected by facilities while at the same time maintaining and improving a high quality of health care. The Conference will bring together experts concerned with the many aspects of health care facilities to:

1. Examine the broad policies and conditions that control the provision of health care facilities, and propose appropriate modifications.
2. Review current planning, design, construction, and equipping practices, and identify opportunities to control overall construction costs.
3. Determine the potential for application of innovations in planning methodology and in facilities design to improve health care while concurrently reducing capital and operating costs.
4. Develop proposals for the application of new methods and equipment to increase the operating efficiency of health care facilities.

The Conference will direct attention not only to new health care facilities such as hospitals, nursing homes, and extended care structures, but also to the vital problem of modernization of existing facilities and their interrelationship to efficient provision of services. The problems will be examined from the standpoint of (a) programming of services vis-à-vis facilities, (b) planning and design of facilities, (c) regulations and requirements related to building, plumbing, and electrical codes, construction practice, and site selection, (d) construction scheduling, materials, and practices, and (e) operation and maintenance of the facility.

OCTOBER 6, 1967

Office of the White House Press Secretary  
.....THE WHITE HOUSESTATEMENT BY THE PRESIDENT ON  
NATIONAL ADVISORY COMMISSION ON  
HEALTH FACILITIES

Our hospitals have been, and they remain, the core of the Nation's health care system. Thanks to the public-private partnership fostered by the Hill-Burton Program virtually every American is within reach of a good hospital today.

Under the Hill-Burton partnership we have accomplished much:

- More than 3,500 communities have built hospitals, nursing homes, public health centers and rehabilitation facilities with Federal help;
- Nearly 400,000 beds have been provided in hospitals and nursing homes;
- 1,283 health centers and 421 rehabilitation facilities have been established.

It is time to build upon that progress. But in building, we must do more than expand and continue existing programs. We must reshape them to fit the changing needs of today and tomorrow.

The demand for health care is expanding sharply in our land. There are more Americans to care for, every day. Medical miracles have raised the expectations of all Americans. Many economic barriers to health care have been lowered through such programs as Medicare and Medicaid.

We cannot look at hospital facilities alone. They must be examined in relation to community and regional health needs and resources. The whole structure of health care delivery must be considered as we design the buildings and facilities of tomorrow. This task requires planning for the long and the short range. It requires imagination, energy and broad cooperation. It is a difficult and complex job.

For these reasons I am today appointing a National Advisory Commission on Health Facilities to undertake a thorough study and to make recommendations.

The Commission will be under the chairmanship of Mr. Boisfeuillet Jones of Atlanta. Mr. Jones, President of the Emily and Ernest Woodruff Foundation, has long brought his skills to the field of health, as a consultant to the Congress and the Executive Branch, as a university vice president and as the former Special Assistant for Health and Medical Affairs in the Department of Health, Education, and Welfare.

The Commission will submit its report to me in approximately one year. It will make interim reports and recommendations as appropriate.

Areas to be explored by the Commission include:

- The economics of hospital construction and remodeling.
- Present health facilities planning.
- Current methods of financing the construction of health facilities to determine effectiveness and adequacy for meeting current and future requirements.

(OVER)

- The design and structural factors which affect the cost of health facilities.
- Needs for the total system of health facilities: hospitals, extended care facilities, nursing homes, long-term care institutions, group practice facilities, and neighborhood health centers.

Serving under the Chairmanship of Mr. Jones will be:

Dr. Samuel L. Andelman, Commissioner of Health, Chicago Board of Health.

Dr. James Z. Appel, Lancaster, Pennsylvania, Past President, American Medical Association.

Mrs. Angie E. Ballif, Provo, Utah, Director, Utah Division of Public Health and Welfare.

George E. Cartmill, Jr., Director, Harper Hospital, Detroit, Michigan, Past President, American Hospital Association.

Dr. Leonides G. Cigarroa, Laredo, Texas.

Charles E. DeAngelis, Mountainside, New Jersey, Vice President, Walter Kidde Constructors, Inc., New York City.

Dr. James L. Dennis, Vice President for Medical Affairs and Dean, School of Medicine, University of Oklahoma, Oklahoma City.

Honorable Conrad M. Fowler, Probate Judge and Chairman, Shelby County Board of Revenue, Columbiana, Alabama.

Honorable William L. Guy, Governor of North Dakota.

Very Reverend Monsignor Harrold A. Murray, Director, Bureau of Health and Hospitals, United States Catholic Conference, Washington, D. C.

Howard N. Nemerovski, Attorney, San Francisco, California.

Dr. David E. Rosengard, Medical Director, The Rosengard Clinic, South Boston, Massachusetts.

David Sullivan, General President, Building Service Employees International Union, New York City.

Mrs. Fay O. Wilson, Professor and Chairman, Nursing Department, Los Angeles City College, Los Angeles, California.



ABSTRACTED FROM  
"THE WEEK FOR HOSPITALS"

Vol. 3, No. 5 December 29, 1967

OUTPATIENT DRUG SALES RULED TAX EXEMPT

Income from nonprofit hospital drug sales to outpatients and inpatients is not subject to federal taxes, U.S. Treasury officials said. "The interpretation was received at a meeting requested by the American Hospital Association to find answers to questions raised by the recent Internal Revenue Service ruling on taxing unrelated business income of nonprofit organizations. (THE WEEK, Dec. 15) AHA will submit its definition of "outpatient" to the Treasury officials along with additional pertinent statements concerning the IRS ruling. These will be considered at future meetings with the Treasury officials. Still unresolved is the tax status of income from drugs sold to (1) affiliated extended care institutions, (2) patients in a hospital home care program, (3) persons unable to buy drugs at a community pharmacy because the drug is not stocked or the pharmacy is not open, (4) individuals needing special administration of a drug or professional observation after taking medication, (5) physicians for use in private practice, (6) employees as a fringe benefit, (7) members of a prepaid comprehensive health care plan.

## Title 26—INTERNAL REVENUE

Chapter I—Internal Revenue Service,  
Department of the Treasury

SUBCHAPTER A—INCOME TAX

(T.D. 6030)

### PART 1—INCOME TAX; TAXABLE YEARS BEGINNING AFTER DE- CEMBER 31, 1953

#### Treatment of Income From Unre- lated Trade or Business

On April 14, 1967, a notice of proposed rule making with respect to the amendment of the Income Tax Regulations (26 CFR Part 1) under sections 513 and 512 of the Internal Revenue Code of 1954, relating to the treatment of income from unrelated trade or business, was published in the Federal Register (32 F.R. 5993). After consideration of all the relevant matter presented by interested persons regarding the rules proposed, the following amendments to the regulations are hereby adopted:

PARAGRAPH 1. Section 1.513-1 is redesignated as § 1.513-2 and, as so redesignated, is amended by revising the title of the section and by adding a new paragraph (d) thereto. Such revised and added provisions read as follows:

§ 1.513-2 Definition of unrelated trade or business applicable to taxable years beginning before December 13, 1967.

(d) *Effective date.* Except as provided in paragraph (g) of § 1.513-1, this section is applicable with respect to taxable years beginning before December 13, 1967.

PAR. 2. There is inserted immediately following § 1.513 the following new section:

§ 1.513-1 Definition of unrelated trade or business.

(a) *In general.* As used in section 512 the term "unrelated business taxable income" means the gross income derived by an organization from any unrelated trade or business regularly carried on by it, less the deductions and subject to the exceptions, additions and limitations provided in section 512. Section 513 specifies with certain exceptions that the

phrase "unrelated trade or business" means, in the case of an organization subject to the tax imposed by section 511, any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational or other purpose or function constituting the basis for its exemption under section 501 (or, in the case of an organization described in section 511(a) (2) (3), to the exercise or performance of any purpose or function described in section 501(c) (3)). (For certain exceptions from this definition, and a special rule for certain publishing businesses, see paragraphs (c) and (f) of this section. For a special definition of "unrelated trade or business" applicable to certain trusts, see section 513(b).) Therefore, unless one of the specific exceptions of section 512 or 513 is applicable, gross income of an exempt organization subject to the tax imposed by section 511 is includible in the computation of unrelated business taxable income if (1) it is income from trade or business, (2) such trade or business is regularly carried on by the organization, and (3) the conduct of such trade or business is not substantially related (other than through the production of funds) to the organization's performance of its exempt functions.

(b) *Trade or business.* The primary objective of adoption of the unrelated business income tax was to eliminate a source of unfair competition by placing the unrelated business activities of certain exempt organizations upon the same tax basis as the nonexempt business endeavors with which they compete. In general, any activity of a section 511 organization which is carried on for the production of income and which otherwise possesses the characteristics required to constitute "trade or business" within the meaning of section 162—and which, in addition, is not substantially related to the performance of exempt functions—presents sufficient likelihood of unfair competition to be within the policy of the tax. Accordingly, for the purposes of section 513 the term "trade or business" has the same meaning it has in section 162, and generally includes any activity carried on for the production of income from the sale of goods or performance of services. Thus, the term "trade or business" in section 513 is not limited to integrated aggregates of assets, activities and good will which comprise businesses for the purposes of certain other provisions of the Internal Revenue Code. Activities of producing or distributing goods or performing services from which a particular amount of gross income is derived do not lose identity as trade or business merely because they are carried on within a larger aggregate of similar activities or within a larger complex of other endeavors which may, or may not, be related to the exempt purposes of the organization. Thus, for example, the regular sale of pharmaceutical supplies to the general public by a

hospital pharmacy does not lose identity as trade or business merely because the pharmacy also furnishes supplies to the hospital and patients of the hospital in accordance with its exempt purposes or in compliance with the terms of section 513(a) (2). Similarly, activities of collecting, selling, and publishing commercial advertising do not lose identity as trade or business even though the advertising is published in an exempt organization periodical which contains editorial matter related to the exempt purposes of the organization.

(c) *Regularly carried on.* (1) *General principles.* In determining whether trade or business from which a particular amount of gross income derives is "regularly carried on," within the meaning of section 512, regard must be had to the frequency and continuity with which the activities productive of the income are conducted and the manner in which they are pursued. This requirement must be applied in light of the purpose of the unrelated business income tax to place exempt organization business activities upon the same tax basis as the nonexempt business endeavors with which they compete. Hence, for example, specific business activities of an exempt organization will ordinarily be deemed to be "regularly carried on" if they manifest a frequency and continuity, and are pursued in a manner, generally similar to comparable commercial activities of nonexempt organizations.

(2) *Application of principles in certain cases.* (i) *Normal time span of activities.* Where income producing activities are of a kind normally conducted by nonexempt commercial organizations on a year-round basis, the conduct of such activities by an exempt organization over a period of only a few weeks does not constitute the regular carrying on of trade or business. For example, the operation of a sandwich stand by a hospital auxiliary for only 2 weeks at a state fair would not be the regular conduct of trade or business. However, the conduct of year-round business activities for one day each week would constitute the regular carrying on of trade or business. Thus, the operation of a commercial parking lot on Saturday of each week would be the regular conduct of trade or business. Where income producing activities are of a kind normally undertaken by nonexempt commercial organizations only on a seasonal basis, the conduct of such activities by an exempt organization during a significant portion of the season ordinarily constitutes the regular conduct of trade or business. For example, the operation of a track for horse racing for several weeks of a year would be considered the regular conduct of trade or business because it is usual to carry on such trade or business only during a particular season.

(ii) *Intermittent activities; in general.* In determining whether or not intermittently conducted activities are regularly carried on, the manner of conduct of the activities must be compared with the

manner in which commercial activities are actually pursued by non-exempt organizations. In general, exempt organization business activities which are carried on only discontinuously or periodically will not be considered regularly carried on if they are conducted without the competitive and promotional efforts typical of commercial endeavors. For example, the publication of advertising in programs for sports events or music or drama performances will not ordinarily be deemed to be the regular carrying on of business. Similarly, where an organization sells certain types of goods or services to a particular class of persons in pursuance of its exempt functions "primarily for the convenience" of such persons within the meaning of section 513(a)(2) (as, for example, the sale of books by a college bookstore to students or the sale of pharmaceutical supplies by a hospital pharmacy to patients of the hospital), casual sales in the course of such activity which do not qualify as related to the exempt function involved or as described in section 513(a)(2) will not be treated as regular. On the other hand, where the nonqualifying sales are not merely casual, but are systematically and consistently promoted and carried on by the organization, they meet the section 512 requirement of regularity.

(ii) *Intermittent activities; special rule in certain cases of infrequent conduct.* Certain intermittent income-producing activities occur so infrequently that neither their recurrence nor the manner of their conduct will cause them to be regarded as trade or business regularly carried on. For example, income producing or fund raising activities lasting only a short period of time will not ordinarily be treated as regularly carried on if they recur only occasionally or sporadically. Furthermore, such activities will not be regarded as regularly carried on merely because they are conducted on an annually recurrent basis. Accordingly, income derived from the conduct of an annual dance or similar fund raising event for charity would not be income from trade or business regularly carried on.

(i) *Substantially related.*—(1) *In general.* Gross income derives from "unrelated trade or business" within the meaning of section 513(a), if the conduct of the trade or business which produces the income is not substantially related (other than through the production of funds) to the purposes for which exemption is granted. The presence of this requirement necessitates an examination of the relationship between the business activities which generate the particular income in question—the activities, that is, of producing or distributing the goods or performing the services involved—and the accomplishment of the organization's exempt purposes.

(2) *Type of relationship required.* Trade or business is "related" to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income);

and it is "substantially related," for purposes of section 513, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes. Where the production or distribution of the goods or the performance of the services does not contribute importantly to the accomplishment of the exempt purposes of an organization, the income from the sale of the goods or the performance of the services does not derive from the conduct of related trade or business. Whether activities productive of gross income contribute importantly to the accomplishment of any purpose for which an organization is granted exemption depends in each case upon the facts and circumstances involved.

(3) *Size and extent of activities.* In determining whether activities contribute importantly to the accomplishment of an exempt purpose, the size and extent of the activities involved must be considered in relation to the nature and extent of the exempt function which they purport to serve. Thus, where income is realized by an exempt organization from activities which are in part related to the performance of its exempt functions, but which are conducted on a larger scale than is reasonably necessary for performance of such functions, the gross income attributable to that portion of the activities in excess of the needs of exempt functions constitutes gross income from the conduct of unrelated trade or business. Such income is not derived from the production or distribution of goods or the performance of services which contribute importantly to the accomplishment of any exempt purpose of the organization.

(4) *Application of principles.*—(1) *Income from performance of exempt functions.* Gross income derived from charges for the performance of exempt functions does not constitute gross income from the conduct of unrelated trade or business. The following examples illustrate the application of this principle:

*Example (1).* M, an organization described in section 501(c)(3), operates a school for training children in the performing arts, such as acting, singing, and dancing. It presents performances by its students and derives gross income from admission charges for the performances. The students' participation in performances before audiences is an essential part of their training. Since the income realized from the performances derives from activities which contribute importantly to the accomplishment of M's exempt purposes, it does not constitute gross income from unrelated trade or business. (For specific exclusion applicable in certain cases of contributed services, see section 513(a)(1) and paragraph (e)(1) of this section.)

*Example (2).* N is a trade union qualified for exemption under section 501(c)(6). To improve the trade skills of its members, N conducts refresher training courses and supplies handbooks and technical manuals. N

receives payments from its members for tuition and materials. However, the development and improvement of the skills of its members is one of the purposes for which exemption is granted N; and the activities described contribute importantly to that purpose. Therefore, the income derived from these activities does not constitute gross income from unrelated trade or business.

*Example (3).* O is an industry trade association qualified for exemption under section 501(c)(6). It presents a trade show in which members of its industry join in the exhibition of industry products. O derives income from charges made to exhibitors for exhibit space and admission fees charged patrons or viewers of the show. The show is not a sales facility for individual exhibitors; its purpose is the promotion and stimulation of interest in, and demand for, the industry's products in general, and it is conducted in a manner reasonably calculated to achieve that purpose. The stimulation of demand for the industry's products in general is one of the purposes for which exemption is granted O. Consequently, the activities productive of O's gross income from the show—that is, the promotion, organization, and conduct of the exhibition—contribute importantly to the achievement of an exempt purpose, and the income does not constitute gross income from unrelated trade or business.

(ii) *Disposition of product of exempt functions.* Ordinarily, gross income from the sale of products which from result the performance of exempt functions does not constitute gross income from the conduct of unrelated trade or business if the product is sold in substantially the same state it is in on completion of the exempt functions. Thus, in the case of an organization described in section 501(c)(3) and engaged in a program of rehabilitation of handicapped persons, income from sale of articles made by such persons as a part of their rehabilitation training would not be gross income from conduct of unrelated trade or business. The income in such case would be from sale of products, the production of which contributed importantly to the accomplishment of purposes for which exemption is granted the organization—namely, rehabilitation of the handicapped. On the other hand, if a product resulting from an exempt function is utilized or exploited in further business endeavor beyond that reasonably appropriate or necessary for disposition in the state it is in upon completion of exempt functions, the gross income derived therefrom would be from conduct of unrelated trade or business. Thus, in the case of an experimental dairy herd maintained for scientific purposes by a research organization described in section 501(c)(3), income from sale of milk and cream produced in the ordinary course of operation of the project would not be gross income from conduct of unrelated trade or business. On the other hand, if the organization were to utilize the milk and cream in the further manufacture of food items such as ice cream, pastries, etc., the gross income from the sale of such products would be from the conduct of unrelated trade or business unless the manufacturing activities themselves contribute importantly to the accomplishment of an exempt purpose of the organization.

(iii) *Use of assets or facilities.* In certain cases, an asset or facility necessary to the conduct of exempt functions may also be employed in a commercial endeavor. In such cases, the mere fact of the use of the asset or facility in exempt functions does not, by itself, make the income from the commercial endeavor gross income from related trade or business. The test, instead, is whether the activities productive of the income in question contribute importantly to the accomplishment of exempt purposes. Assume, for example, that a museum exempt under section 501(c)(3) has a theater auditorium which is specially designed and equipped for showing of educational films in connection with its program of public education in the arts and sciences. The theater is a principal feature of the museum and is in continuous operation during the hours the museum is open to the public. If the organization were to operate the theater as an ordinary motion picture theater for public entertainment during the evening hours when the museum was closed, gross income from such operation would be gross income from conduct of unrelated trade or business.

(iv) *Exploitation of exempt functions.* In certain cases, activities carried on by an organization in the performance of exempt functions may generate good will or other intangibles which are capable of being exploited in commercial endeavors. Where an organization exploits such an intangible in commercial activities, the mere fact that the resultant income depends in part upon an exempt function of the organization does not make it gross income from related trade or business. In such cases, unless the commercial activities themselves contribute importantly to the accomplishment of an exempt purpose, the income which they produce is gross income from the conduct of unrelated trade or business. The application of this subdivision is illustrated in the following examples:

*Example (1).* U, an exempt scientific organization, enjoys an excellent reputation in the field of biological research. It exploits this reputation regularly by selling endorsements of various items of laboratory equipment to manufacturers. The endorsing of laboratory equipment does not contribute importantly to the accomplishment of any purpose for which exemption is granted U. Accordingly, the income derived from the sale of endorsements is gross income from unrelated trade or business.

*Example (2).* V, an exempt university, has a regular faculty and a regularly enrolled student body. During the school year, V sponsors the appearance of professional theater companies and symphony orchestras which present drama and musical performances for the students and faculty members. Members of the general public are also admitted. V advertises these performances and services advance ticket sales at various places, including such university facilities as the cafeteria and the university bookstore. V derives gross income from the conduct of the performances. However, while the presentation of the performances make use of an intangible generated by V's exempt educational functions—the presence of the student body and faculty—the presentation of such drama and music events contributes importantly to the overall educational and

cultural function of the university. Therefore, the income which V receives does not constitute gross income from the conduct of unrelated trade or business.

*Example (3).* W is an exempt business league with a large membership. Under an arrangement with an advertising agency, W regularly mails brochures, pamphlets and other commercial advertising materials to its members, for which service W charges the agency an agreed amount per enclosure. The distribution of the advertising materials does not contribute importantly to the accomplishment of any purpose for which W is granted exemption. Accordingly, the payments made to W by the advertising agency constitute gross income from unrelated trade or business.

*Example (4).* X, an exempt organization for the advancement of public interest in classical music, owns a radio station and operates it in a manner which contributes importantly to the accomplishment of the purposes for which the organization is granted exemption. However, in the course of the operation of the station the organization derives gross income from the regular sale of advertising time and services to commercial advertisers in the manner of an ordinary commercial station. Neither the sale of such time nor the performance of such services contributes importantly to the accomplishment of any purpose for which the organization is granted exemption. Notwithstanding the fact that the production of the advertising income depends upon the existence of the listening audience resulting from performance of exempt functions, such income is gross income from unrelated trade or business.

*Example (5).* Y, an exempt university, provides facilities, instruction and faculty supervision for a campus newspaper operated by its students. In addition to news items and editorial commentary, the newspaper publishes paid advertising. The solicitation, sale, and publication of the advertising are conducted by students, under the supervision and instruction of the university. Although the services rendered to advertisers are of a commercial character, the advertising business contributes importantly to the university's educational program through the training of the students involved. Hence, none of the income derived from publication of the newspaper constitutes gross income from unrelated trade or business. The same results would follow even though the newspaper is published by a separately incorporated section 501(c)(3) organization, qualified under the university rules for recognition of student activities, and even though such organization utilizes its own facilities and is independent of faculty supervision, but carries out its educational purposes by means of student instruction of other students in the editorial and advertising activities and student participation in those activities.

*Example (6).* Z is an association exempt under section 501(c)(6), formed to advance the interests of a particular profession and drawing its membership from the members of that profession. Z publishes a monthly journal containing articles and other editorial material which contribute importantly to the accomplishment of purposes for which exemption is granted the organization. Income from the sale of subscriptions to members and others in accordance with the organization's exempt purposes, therefore, does not constitute gross income from unrelated trade or business. In connection with the publication of the journal, Z also derives income from the regular sale of space and services for general consumer advertising, including advertising of such products as soft drinks, automobiles, articles of apparel, and home appliances. Neither the publication

of such advertisements nor the performance of services for such commercial advertisers contributes importantly to the accomplishment of any purpose for which exemption is granted. Therefore, notwithstanding the fact that the production of income from advertising utilizes the circulation developed and maintained in performance of exempt functions, such income is gross income from unrelated trade or business.

*Example (7).* The facts are as described in the preceding example, except that the advertising in Z's journal promotes only products which are within the general area of professional interest of its members. Following a practice common among taxable magazines which publish advertising, Z requires its advertising to comply with certain general standards of taste, fairness, and accuracy; but within those limits the form, content, and manner of presentation of the advertising messages are governed by the basic objective of the advertisers to promote the sale of the advertised products. While the advertisements contain certain information, the informational function of the advertising is incidental to the controlling aim of stimulating demand for the advertised products and differs in no essential respect from the informational function of any commercial advertising. Like taxable publishers of advertising, Z accepts advertising only from those who are willing to pay its prescribed rates. Although continuing education of its members in matters pertaining to their profession is one of the purposes for which Z is granted exemption, the publication of advertising designed and selected in the manner of ordinary commercial advertising is not an educational activity of the kind contemplated by the exemption statute; it differs fundamentally from such an activity both in its governing objective and in its method. Accordingly, Z's publication of advertising does not contribute importantly to the accomplishment of its exempt purposes; and the income which it derives from advertising constitutes gross income from unrelated trade or business.

(c) *Exceptions.* Section 513(a) specifically states that the term "unrelated trade or business" does not include—

(1) Any trade or business in which substantially all the work in carrying on such trade or business is performed for the organization without compensation; or

(2) Any trade or business carried on by an organization described in section 501(c)(3) or by a governmental college or university described in section 511(a)(2)(B), primarily for the convenience of its members, students, patients, officers, or employees; or

(3) Any trade or business which consists of selling merchandise, substantially all of which has been received by the organization as gifts or contributions.

An example of the operation of the first of the exceptions mentioned above would be an exempt orphanage operating a retail store and selling to the general public, where substantially all the work in carrying on such business is performed for the organization by volunteers without compensation. An example of the second exception would be a laundry operated by a college for the purpose of laundering dormitory linens and the clothing of students. The third exception applies to so-called "thrift shops" operated by a tax-exempt organization where

these amounts to benefit such organization contribute old clothes, books, furniture, etc., to be sold to the general public with the proceeds going to the exempt organization.

(f) *Special rule respecting publishing businesses.* For a special rule with respect to publishing businesses carried on by an organization, see section 513(c).

(g) *Effective date.* This section is applicable with respect to taxable years beginning after December 13, 1967. However, if a taxpayer wishes to rely on the rules stated in this section for taxable years beginning before December 13, 1967, it may do so.

PAR. 3. Section 1.512(a)-1 is redesignated, as 1.512(a)-2 and, as so redesignated, is amended by revising the title of the section, by designating the existing provision as paragraph (a), and by adding a new paragraph (b) thereto. Such revised and added provisions read as follows:

§ 1.512(a)-2 Definition applicable to taxable years beginning before December 13, 1967.

(a) *In general.* . . .

(b) *Effective date.* Except as provided in paragraph (f) of 1.512(a)-1, this section is applicable with respect to taxable years beginning before December 13, 1967.

PAR. 4. There is inserted immediately after § 1.512(a) the following new section:

§ 1.512(a)-1 Definition.

(a) *In general.* Section 512 defines "unrelated business taxable income" as the gross income derived from any unrelated trade or business regularly carried on, less those deductions allowed by chapter 1 of the Code which are directly connected with the carrying on of such trade or business, subject to certain exceptions, additions and limitations referred to in § 1.512(b)-1. To be deductible in computing unrelated business taxable income, therefore, expenses, depreciation, and similar items not only must qualify as deductions allowed by chapter 1 of the Code, but also must be directly connected with the carrying on of unrelated trade or business. Except as provided in paragraph (d) (2) of this section, to be "directly connected with" the conduct of unrelated business, for purposes of section 512, an item of deduction must have proximate and primary relationship to the carrying on of that business. In the case of an organization which derives gross income from the regular conduct of two or more unrelated business activities, unrelated business taxable income is the aggregate of gross income from all such unrelated business activities less the aggregate of the deductions allowed with respect to all such unrelated business activities.

(b) *Expenses attributable solely to unrelated business.* Expenses, depreciation, and similar items attributable solely to the conduct of unrelated business are proximately and primarily related to that business and therefore qualify for deduction to the extent that they meet

the requirements of section 162, section 167, or other relevant provisions of the Internal Revenue Code. Thus, for example, salaries of personnel employed full-time in carrying on unrelated business are directly connected with the conduct of the unrelated business and are deductible in computing unrelated business taxable income if they otherwise qualify for deduction under the requirements of section 162. Similarly, depreciation of a building used entirely in the conduct of unrelated business would be an allowable deduction to the extent otherwise permitted by section 167.

(c) *Dual use of facilities or personnel.* Where facilities or personnel are used both to carry on exempt functions and to conduct unrelated trade or business, expenses, depreciation, and similar items attributable to such facilities or personnel (as, for example, items of overhead) shall be allocated between the two uses on a reasonable basis. The portion of any such item so allocated to the unrelated trade or business is proximately and primarily related to that business, and shall be allowable as a deduction in computing unrelated business taxable income in the manner and to the extent permitted by section 162, section 167, or other relevant sections of the Internal Revenue Code. Thus, for example, assume that X, an exempt organization subject to the provisions of section 511, pays its president a salary of \$20,000 a year. X derives gross income from the conduct of unrelated trade or business. The president devotes approximately 10 percent of his time during the year to the unrelated business. For purposes of computing X's unrelated business taxable income, a deduction of \$2,000 (\$20,000 times 10 percent) would be allowable for the salary paid to its president.

(d) *Exploitation of exempt functions.* (1) *In general.* In certain cases, gross income is derived from unrelated trade or business which exploits an exempt function. Except as specified in subparagraph (2) of this paragraph, in such cases expenses, depreciation and similar items attributable to the conduct of the exempt function are not deductible in computing unrelated business taxable income. Since such items are incident to a function of the type which it is the chief purpose of the organization to conduct, they do not possess proximate and primary relationship to the unrelated trade or business. Therefore, they do not qualify as directly connected with that business.

(2) *Allowable deductions.* Where unrelated trade or business is of a kind carried on for profit by taxable organizations and where the exempt activity exploited by the business is a type of activity normally conducted by taxable organizations in pursuance of such business, the expenses, depreciation and similar items which are attributable to the exempt activity qualify as directly connected with the carrying on of the unrelated trade or business to the extent that:

(i) The aggregate of such items exceeds the income (if any) derived from

or attributable to the exempt activity, and

(ii) The allocation of such excess to the unrelated trade or business does not result in a loss from such unrelated trade or business.

Under the rule of the preceding sentence, expenses, depreciation and similar items paid or incurred in the performance of an exempt function must be allocated first to the exempt function to the extent of the income derived from or attributable to the performance of that function. Furthermore, such items are in a event allocable to the unrelated trade or business to the extent that their deduction would result in a loss carryover or carryback with respect to that trade or business. Similarly, they may not be taken into account in computing unrelated business taxable income attributable to unrelated trade or business not exploiting the same exempt function.

(e) *Examples.* The provisions of this section are illustrated by the following examples:

(3) *Examples.* The provisions of this paragraph are illustrated by the following examples:

*Example (1).* W is an exempt business league with a large membership. Under an arrangement with an advertising agency W regularly mails brochures, pamphlets and other commercial advertising materials to its members, charging the agency an agreed amount per enclosure. The distribution of the advertising materials does not contribute importantly to the accomplishment of the purpose for which W is granted exemption. Accordingly, the payments made to W by the advertising agency constitute gross income from unrelated trade or business. In computing W's unrelated business taxable income, the expenses attributable solely to the conduct of the business, or allocable to such business under the rule of paragraph (c) of this section, are allowable as deductions in accordance with the provisions of section 162. Such deductions include the costs of handling and mailing, the salaries of personnel used full-time in the unrelated business and an allocable portion of the salaries of personnel used both to carry on exempt functions and to conduct the unrelated business. However, costs of developing W's membership and carrying on its exempt activities are not deductible. Those costs are necessary to the maintenance of the intangible asset exploited in the unrelated business—W's membership—but are incurred primarily in connection with W's fundamental status and functioning as an exempt organization. As a consequence, they do not have proximate and primary relationship to the conduct of the unrelated business, and do not qualify as directly connected with it.

*Example (2).* Z, an exempt business league, publishes a monthly journal which it sells by subscription to members and others. The articles and other editorial content contribute importantly to the accomplishment of Z's exempt purposes. Therefore, the income attributable to journal subscriptions does not constitute gross income from unrelated trade or business. In connection with the publication of the journal, Z derives income from the regular sale of advertising space and services to commercial advertisers, and the provision of commercial advertising space and services does not contribute importantly to the accomplishment of Z's exempt purposes. Z's income from advertising constitutes gross income from unrelated trade or

business. In computing Z's unrelated business taxable income, allowable deductions would (subject to the rules provided in section 162 and other relevant sections of the Internal Revenue Code) include the specific costs of the advertising business, such as advertising copy and mechanical costs, advertising sales commissions and similar expenses. Also allowable would be items of deduction (such as general overhead expenses and depreciation) allocable to the advertising business in accordance with the rule of paragraph (c) of this section. In addition, since expenses, depreciation and similar items related to the production and publication of the editorial content of the journal are costs generally incurred by taxable organizations publishing journals with advertising, such items would, subject to the limitations of subdivisions (1) and (2) of paragraph (d) (2) of this section, be treated as directly connected with the conduct of the advertising business and be allowable as deductions in computing Z's unrelated business taxable income to the extent provided in section 162, section 167, and other relevant sections of the Internal Revenue Code. The limitation of subdivision (1) of paragraph (d) (2) of this section would require reduction of the total of the items of editorial cost by the amount of the income attributable to subscriptions before deduction of such cost from the advertising income. The general effect of these rules would be to result in taxation of the advertising income only if the journal produced an overall net profit for the year and to confine the base upon which any tax would be computed to the amount of such net profit. The limitation of subdivision (2) of paragraph (d) (2) of this section would preclude deduction of the items of editorial cost from any other unrelated business income of Z for the same taxable year or use of such items in computing a net operating loss carryover or carryback of the organization.

(f) *Effective date.* This section is applicable with respect to taxable years beginning after December 13, 1957. However, if a taxpayer wishes to rely on the rules stated in this section for taxable years beginning before December 13, 1957, it may do so.

PAR. 5. Paragraph (f) (4) of § 1.512(b)-1 is amended to read as follows:

§ 1.512(b)-1. Exceptions, additions, and limitations.

(f) *Research.* . . .

(4) For the purpose of §§ 1.512(a)-1, 1.512(a)-2, and this section, the term "research" does not include activities of a type ordinarily carried on as an incident to commercial or industrial operations, for example, the ordinary testing or inspection of materials or products or the designing or construction of equipment, buildings, etc. The term "fundamental research" does not include research carried on for the primary purpose of commercial or industrial application.

PAR. 6. Paragraph (d) (5) (v) of § 1.501(c)(3)-1 is amended to read as follows:

§ 1.501(c)(3)-1. Organizations organized and operated for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals.

(d) *Exempt purposes.* . . .

(5) *Scientific defined.* . . .

(v) The fact that any organization (including a college, university, or hospital) carries on research which is not in furtherance of an exempt purpose described in section 501(c)(3) will not preclude such organization from meeting the requirements of section 501(c)(3) so long as the organization meets the organizational test and is not operated for the primary purpose of carrying on such research (see paragraph (c) of this section, relating to organizations carrying on a trade or business). See paragraph (a) (5) of § 1.513-2, with respect to research which constitutes an unrelated trade or business, and section 312(b) (7), (8), and (9), with respect to income derived from research which is excludable from the tax on unrelated business income.

(Sec. 7805, Internal Revenue Code of 1954; 68A Stat. 917; 26 U.S.C. 7805)

Approved: December 8, 1957.

[SEAL] SHELDON S. COHEN,  
Commissioner of Internal Revenue.

STANLEY S. SURREY,  
Assistant Secretary  
of the Treasury.

[F.R. Doc. 67-14463; Filed, Dec. 11, 1957;  
8:51 a.m.]

EXISTING HEALTH LEGISLATION FOR REVIEW  
EXPIRING IN 1968 or 1969

a)	P.L. 88-443	Hospital and Medical Facilities Amendments of 1964 (Hill-Burton)	Expires 1969
b)	P.L. 88-497	Graduate Public Health Training Amendments of 1964 (Project Grants)	Expires 1969
c)	P.L. 88-581	Nurse Training Act of 1964	Expires 1969
d)	P.L. 89-109	Community Health Services Extension Amendments of 1965 Includes: 1) Vaccination Assistance Act of 1962 2) Migrant Health Projects Grants	Expires 1968
e)	P.L. 89-115	Health Research Facilities Amendments of 1965	Expires 1969
f)	P.L. 89-239	Heart Disease, Cancer and Stroke Amendments of 1965	Expires 1968
g)	P.L. 89-290	Health Professions Educational Assistance Amendments of 1965	Expires 1969
h)	P.L. 89-751	Allied Health Professions Personnel Training Act	Expires 1969

December 26, 1967

Paul Q. Peterson, M.D.  
Assistant Surgeon General  
Deputy Director  
Bureau of Health Services  
U. S. Public Health Services  
Department of Health, Education, and Welfare  
7915 Eastern Avenue  
Silver Spring, Maryland 20910

Dear Doctor Peterson:

It was thoughtful of you, through your letter of December 21, to indicate the temporarily delayed status of our project proposal for a Teaching Hospital Information Center.

Since the initial submission of our project proposal, we have had more opportunity, by discussion with administrators from the leading teaching hospitals nationally, to evaluate the merits of the proposal and the many opportunities for a meaningful and effective information center activity. The response has been rewarding and the demonstration of need stressed very emphatically.

As a result of the concrete evidence of need arising from the foregoing discussions and the concurrent potential of contribution in the national interest, we have been reviewing the credentials of competent individuals for the leadership role in this undertaking. Our search has been narrowed. At this time we are close to having finalized the selection of an experienced, well-trained individual. Of course, we cannot and shall not proceed further until there is available more definitive information concerning the proposed program. Thus, we are interested in continued information from you office, at the earliest opportunity of any significant change in the status of this project. As I am sure you know, individuals with competent research and data-accumulation methodology capability, as well as an intimate knowledge of teaching hospital administration and the medical education system are not easily identified or recruited. We are anxious to capitalize on the recruitment and screening efforts of the last several months, although we do understand the recent change in the basis of support for projects of the type proposed.



Paul Q. Peterson, M.D.

-2-

December 26, 1967

All of my staff colleagues with the Council of Teaching Hospitals, as well as my other AAMC Washington associates, join me in expressing to you the best wishes of the holiday season and the blessings of the New Year.

Cordially yours,

MATTHEW F. McNULTY, JR.  
Director, COTH  
Associate Director, AAMC

MM: eab

bcc: Thomas McCarthy, Ph.D.  
Chief, Project Review Branch  
USPHS  
Tower Bldg. Arlington, Va.

Gilbert Barnhart, M.D.  
Assistant Director  
Office of Research and Development  
USPHS; BHS  
Tower Building

Robert C. Berson, M.D.  
Executive Director, AAMC  
Mr. McNulty (2)--for Retreat Folder and Exec Comm Meeting Folder.

All above with copy of 12/21 letter from Dr. Peterson.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
PUBLIC HEALTH SERVICE  
7915 EASTERN AVENUE  
SILVER SPRING, MD. 20910

BUREAU OF HEALTH SERVICES

REFER TO:

December 21, 1967

Mr. Matthew McNulty  
Association of American Medical Colleges  
Council of Teaching Hospitals  
1346 Connecticut Avenue N.W.  
Washington, D.C.

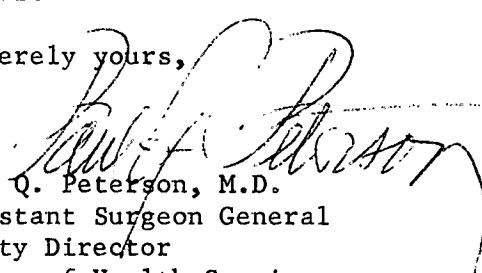
Dear Mr. McNulty:

Your project proposal for a teaching hospital information center is being held in my office. The reason for this action is that with the passage of PL90-174 (amendments and extension of the comprehensive health planning and services act) the basis for supporting such projects was completely changed. Therefore, an entirely new set of delegations will have to be made by the Secretary. Such action has not been taken as yet but we are hopeful that the delay will not cause too much inconvenience.

We will advise you when we are in a position to discuss the proposed program with you.

May I take this opportunity to convey my best wishes for the Holiday Season and New Year.

Sincerely yours,

  
Paul Q. Peterson, M.D.  
Assistant Surgeon General  
Deputy Director  
Bureau of Health Services