Kentucky Hospital Association

“Strengthening Kentucky Rural Hospital Performance”

June 6, 2014
Travis Ansel, Senior Manager

Travis helps healthcare organizations with strategic planning initiatives, including hospital/health system strategic planning, employed physician group strategic planning, physician alignment planning, clinical integration strategy development, and affiliation strategy.

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• “Our organization has decided that we’re going to look at affiliation strategy, rather than do a strategic plan for 2015-2017. With all that is going on, we just feel like we have to find a partner because we can’t survive as an independent hospital.”

- Board Member, Community Hospital, 04/2014
I agree:

– That reform and industry consolidation ("all that is going on") necessitates a strategy for evaluating partnership alternatives

– That they likely can’t develop all of the capabilities they need to survive as a truly “independent” hospital
I’d argue against:

– That affiliation strategy is an “alternative” to developing your organization’s strategic plan
– That affiliation means giving up control of your organization’s strategic vision or objectives
– That you can’t survive as an “independent” hospital – however, the definition of “independent” needs to evolve
• Your Strategic Plan should define:
  – **Your Vision** – what success specifically looks like
  – **Your Objectives** – how you’ll measure that success
  – **Your Strategies** – how you’ll achieve the objectives
  – **Your Tactics** – how you’ll execute your strategies
  – **Financial Projections** - What the next 3-5 years looks like based on execution of the strategic plan

Understand Your Vision and Objectives
Understand Strategic Needs
Determine Impact to Financial Performance

DETERMINE GAPS
• **Gaps:** What do we need to do - but can’t feasibly/expertly do with the resources available within the organization?

• Affiliation Strategy is not an alternative to strategic planning, but instead a *strategy for addressing the gaps* your plan.
• When it comes to affiliation strategy, if you don’t know what your gaps are, you don’t know:
  – What to ask for
  – Who to approach
  – How to evaluate success

• Which puts you in a stronger position?
  1. We need a partner to help us survive in the future.
  2. We need a partner who can...
    • Ensure physician availability for key service lines (Ortho, Surgery, Oncology) in order to stabilize volumes and revenue.
    • Provide the framework and IT infrastructure for building a Clinically Integrated Network which can be used to address population management or other payment-reform related initiatives.
Typical Gaps for Rural Hospitals

- Physician Access
- Capital Resources
- IT Infrastructure
- Clinical Resources/Strategy
- Management Depth/Expertise for Critical Functions
- Cost Efficiencies/Economies of Scale on Purchasing
- Managed Care Rates/Market Power

- “Type” and “Severity” of Gaps will determine the appropriate affiliation model to generate success
Typical Types of Affiliation Models

Section 2: Types of Affiliation Structures
# Affiliation Agreement

## Definition

Official agreement between two providers for shared clinical services, cost savings, transfers, research, or other services.

## Examples

Norton Healthcare & (Breckenridge Memorial Hospital, Spring View Hospital, Twin Lakes Regional Medical Center)

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| • Provides access to clinical services that community may not have in local hospital  
• Creates collaboration and sharing of clinical best practices for select specialties  
• Result in cost savings due to scale | • Fear of partner motivations, requires trust  
• Lack of managed care leverage |

Section 2: Types of Affiliation Structures

Defining the Ideal Relationship for Your Organization  
June 6, 2014
## Affiliation Agreement

### Management Agreement

**Definition**
Organization provides management services; may include: budget, financial oversight, contracting, purchasing, executive team leadership, others.

**Examples**
Baptist Health & (Hardin Memorial, Russell County Hospital)

### Pros
- Potential for significant cost savings with removal of duplicative administrative or overhead functions
- Provides needed expertise
- Boards remain separate
- Financial bottom lines remain separate

### Cons
- Does not necessarily facilitate clinical integration
- Often difficult to change behavior (i.e., vendors used, IT system selection, etc.)
- Physicians and clinical resources rarely shared
- No capital infusion

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Section 2: Types of Affiliation Structures
### Member Substitution

#### Definition
Most common for hospital deals and generally involves a non-profit buyer and seller. Non-cash deals where the larger hospital takes on the liabilities of the smaller hospital, and one of the parties becomes the corporate member of the other party.

#### Examples
n/a

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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</thead>
<tbody>
<tr>
<td>• Increased access to clinical resources</td>
<td>• Lose local decision making power</td>
</tr>
<tr>
<td>• Potential for cost savings with removal of duplicative administrative or overhead functions</td>
<td>• May shift certain services to other regions</td>
</tr>
<tr>
<td>• May allow for managed care leverage</td>
<td>• Reduction in staffing</td>
</tr>
<tr>
<td>• Increased access to capital</td>
<td></td>
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</tbody>
</table>
## Merger

### Definition
Two or more hospitals combine to become one system.

### Examples
KentuckyOne Health (Jewish Hospital, St. Mary’s Healthcare & St. Joseph Health System)

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| • Allows for managed care leverage  
• Can share administrative and support functions (HR, IT, etc.)  
• Typically improves borrowing power  
• Quality control and patient satisfaction initiatives can become standardized  
• Often more autonomy than buyout in an integrated delivery network | • Individual hospitals lose *some* autonomy – typically one corporate Board and shared bottom line  
• Does not necessarily facilitate clinical integration  
• Potential culture clashes |
### Clinically Integrated Network Model

#### Definition
A group of hospitals that work to clinically integrate care over a broad spectrum of services.

#### Examples
- Eastern Kentucky Healthcare Coalition - Our Lady of Bellefonte; Highlands Regional; St. Claire; UK, St. Mary’s (WV)
- St. Elizabeth and Tri-Health (OH)

#### Pros
- Allow for managed care leverage
- Separate bottom lines
- Can share administrative and support functions (HR, IT, etc.)

#### Cons
- Complex and require legal hurdles
- Requires IT integration
- Requires physicians at the hospitals to work together to define best practices
## Joint Operating Agreement

### Definition
Local hospital Boards retain fiduciary responsibility for hospital (as opposed to System Board). Asset ownership and borrowing at the System level.

### Examples
Kentucky One Health & University of Louisville Hospital

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Local hospital retains autonomy</td>
<td>• Weak link to facility investment and borrowing power</td>
</tr>
<tr>
<td>• Allows for managed care leverage</td>
<td>• Culture clashes</td>
</tr>
<tr>
<td>• Can share administrative and support functions (HR, IT, etc.)</td>
<td>• Lack of clinical integration (depending on proximity of hospitals in corporation)</td>
</tr>
<tr>
<td>• Can build branding, image, and market share</td>
<td>• Risk of flight</td>
</tr>
<tr>
<td>• Quality control and patient satisfaction initiatives can become standardized</td>
<td>• Participants constantly evaluating payback to their facility</td>
</tr>
<tr>
<td>• Joint planning of services</td>
<td>• FTC may limit some activities</td>
</tr>
<tr>
<td>• Consolidated financing</td>
<td></td>
</tr>
</tbody>
</table>

Section 2: Types of Affiliation Structures
### Integrated Delivery Network

**Definition**
System buyout of independent hospitals and owns the assets; maintains fiduciary responsibility over all entities.

**Examples**
Baptist Health (Pattie A. Clay -> BH Richmond)

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Allows for managed care leverage</td>
<td>• Individual hospitals lose any autonomy – one corporate Board</td>
</tr>
<tr>
<td>• Can share administrative and support functions (HR, IT, etc.)</td>
<td>• Services can be plucked from community if System chooses to shut down or sell owned hospitals</td>
</tr>
<tr>
<td>• Builds branding, image, and market share</td>
<td>• Culture clashes</td>
</tr>
<tr>
<td>• Typically improves borrowing power</td>
<td>• Quality control and patient satisfaction initiatives become standardized</td>
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Section 2: Types of Affiliation Structures
• By now, we:
  – Understand how to define our gaps
  – Understand the potential affiliation structures

• To bring it all together, we need to:
  – Understand how to execute the affiliation strategy
  – Determine the best fit for your organization
Define the Basis for Planning

**ACTIVITY 1**

**Strategic Assessment**

**Step 1: Interviews**
- Board Executive Committee
- Affiliation Task Force Members

**Step 2: Education & Intelligence**
- Organizational strategies in place
- Future health care outlook
- Trends/considerations in hospital affiliation

**ACTIVITY 2**

**Corporate Structure Scenario Evaluation**

**ACTIVITY 3**

**Recommendations and Execution Plan**

**Step 3: Market Assessment/SWOT**
- Operations
- Infrastructure (Facilities, IT)
- Market situation/outlook
- Demographics & volume projections
- Financial outlook

**Step 4: Summary conclusions**
- Vision, Objectives, Strategies
- Performance projections
- Gap Assessment
**ACTIVITY 1**

**Strategic Assessment**

**ACTIVITY 2**

**Corporate Structure Scenario Evaluation**

**ACTIVITY 3**

**Recommendations and Execution Plan**

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### Vet Corporate Strategy Scenarios

#### Step 1: Objectives of Affiliation
- What gaps are we looking to address through affiliation?

#### Step 2: Corporate Strategy Scenarios
- What models best address our gaps?
- What will be impact to performance if we address gaps?

#### Step 3: Affiliation Model Evaluation
- Governance and control
- Operational implications
- Finance implications
- Other Deal-breakers/non-starters

#### Step 4: Vet Potential Partner Options
- Establish criteria and prioritize potential partners
ACTIVITY 1
Strategic Assessment

ACTIVITY 2
Corporate Structure Scenario Evaluation

ACTIVITY 3
Recommendations and Execution Plan

Finalize Corporate Strategy

**Step 1:** Develop approach for negotiating relationship with potential partners
- Direct approach
- RFP/RFI (Broad or targeted)
- Respond to an organization approaching us

**Step 2:**
- Select preferred partner(s)
- Define points of negotiation
- Define process/timetable

**Step 2: continued...**
- Letter of Intent
- Anti-trust considerations *(if necessary)*
- Due diligence *(if necessary)*

**Step 3:**
- Advance strategy/plan
Recap

• Make affiliation part of your strategic plan, not a substitute for a strategic plan
• Identify what your organization needs to accomplish its strategy and pursue relationships that meet those needs
• Identify the ideal structure for a relationship
• Pursue agreement with appropriate partner to meet strategic need
APPENDIX
1. Norton Healthcare
   a) Affiliations w/ hospitals in 14 counties in Kentucky & Indiana
   b) Prior agreements with:
      i. Carroll County Memorial Hospital (Carrollton, KY)
      ii. Harrison County Hospital (Corydon, IN)
   c) New agreements with:
      i. Breckenridge Memorial Hospital (Hardinsburg, KY)
      ii. Spring View Hospital (Lebanon, KY)
      iii. Twin Lakes Regional Medical Center (Leitchfield, KY)
   d) Agreements to enhance quality of care to patients in home communities
      i. Access to training, education, and management services for medical providers. Additionally, use of services provided by Norton University and Norton Healthcare Institute for Nursing
      ii. Development of new and existing clinical programs and services including the establishment of new subspecialty clinics
      iii. Coordination of continuity of care for patients who require specialized or tertiary care
      v. Norton Healthcare Affiliations
1. Baptist Health & Norton Healthcare
   a) Baptist Healthcare & Norton Healthcare form Joint Purchasing Agreement with Medline
      i. 5 – Year joint purchasing agreement with Medline (Mundelein, Illinois)
      ii. Medline will be primary provider of medical and surgical supplies
      iii. Joint venture expected to save $15 million over 5 years
      iv. Healthcare systems will maintain separate operations
      v. Baptist - Norton Joint Purchasing Agreement

2. KentuckyOne Health & University of Louisville Hospital
   a) Joint-Operating Agreement
   b) Day-to-day operations of U of L Hospital ceded to KentuckyOne Health
      i. Operations of U of L Center for Women and Infants remain with U of L Hospital
      ii. KentuckyOne Health & University of Louisville Hospital JOA
1. Eastern Kentucky Healthcare Coalition
   
a) UK Healthcare & St. Mary’s Medical Center (Huntington, WV) join Eastern Kentucky Healthcare Coalition

b) Original Members:
   
a) Highlands Regional Medical Center (Prestonsburg, KY)
   b) Our Lady of Bellefonte Hospital (Ashland, KY)
   c) St. Claire Regional Medical Center (Morehead, KY)

c) Mission: “Develop a clinically-integrated network of healthcare providers to enhance the health status of our communities in an accountable and responsible manner.”

d) Each facility maintains autonomy while working together on select projects that provide collective efficiencies (i.e., vendor contracts, improved patient access, healthcare reform initiatives)

e) Eastern Kentucky Healthcare Coalition
1. St. Elizabeth Healthcare & TriHealth
   a) St. Elizabeth & TriHealth signed letter of intent to establish Healthcare Solutions Network in Dec. 2013
   b) Healthcare Solutions Network (jointly owned) will accomplish the following:
      a) Collaborative venture to enable organizations to quickly achieve “Triple Aim” of better health, better patient experience, and lower costs.
      b) “…arrange high quality, individually tailored and coordinated care to patients in Ohio, Kentucky, and Indiana.”
      c) “…partner with employers and payers for innovative solutions and superior clinical outcomes to manage total cost of care and create a clinically integrated network…”
      d) Bring the physicians and hospitals of both organizations together
      e) Will house new capabilities and support services for healthcare reformation changes
   c) Not a merger; each organization will operate individually and maintain own management and governing board.
   d) St. Elizabeth & TriHealth Collaborative Venture
1. UK Healthcare, Appalachian Regional Healthcare (ARH), & Appalachian Heart Center (AHC)
   a) New partnership to deliver highest quality and state-of-the-art cardiovascular care
   b) Organizations will jointly administer and manager cardiovascular services at the following locations
      i. Hazard ARH Regional Medical Center
      ii. Harlan ARH Hospital
      iii. Whitesburg ARH Hospital
      iv. McDowell ARH Hospital
      v. Mary Breckinridge ARH Hospital
      vi. Williamson ARH Hospital
   c) **UK Healthcare, ARH, & AHC Partnership**
1. Muhlenberg Community Hospital (Greenville, KY) & Owensboro Health Affiliation
   a) The affiliation is part of a three-year agreement; effective May 1, 2014.
   b) MCH & Owensboro Health Affiliation

2. Central Baptist Hospital (Lexington, KY) agreement to manage Russell County Hospital (Russell Springs, KY)
   a) Central Baptist to Manage Russell County Hospital