

Partnerships: Positioning Hospitals for the Future



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Today's Presentation

- Brief review of Part One of the Partnerships Webinar
- Focus on how to move forward

About Stroudwater

Advisors to CEOs and Boards of Directors on affiliations, joint ventures, and transactions

Strategic planning, financial and operational improvement

Facilities planning, volume forecasting, space needs and financial sustainability

Rural focus with over 17 years of experience

Multi-disciplinary expertise and perspectives

Active projects in all regions

The Challenge: Crossing the Shaky Bridge

Fee for
Service
Payment
System



Population
Based
Payment
System

Build the Health System of the Future

Delivering efficient, safe, high-quality care

- Demonstrable quality measured in outcomes and customer experience
- Clinical protocols and connections “up” and “down” stream

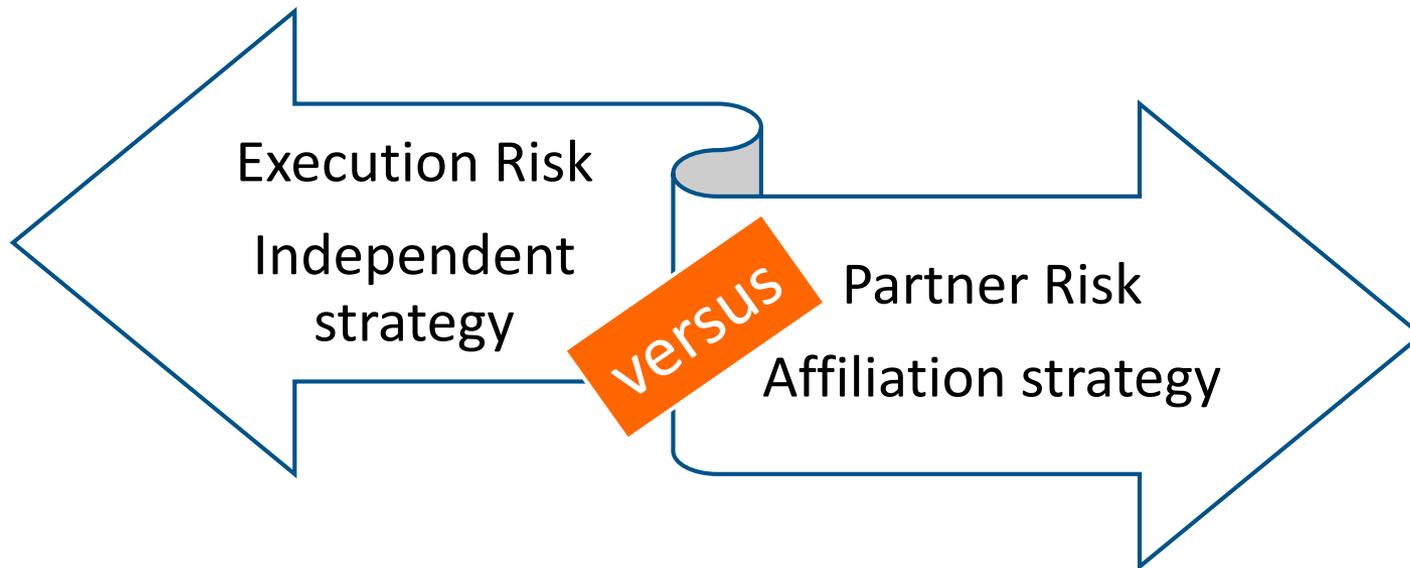
Extensive aligned primary care base to capture market

- Sharing in cost savings
- Alignment strategies for independent and employed providers
- Premium dollars via covered lives / population health approach

Rationalizing delivery system to reduce costs per capita

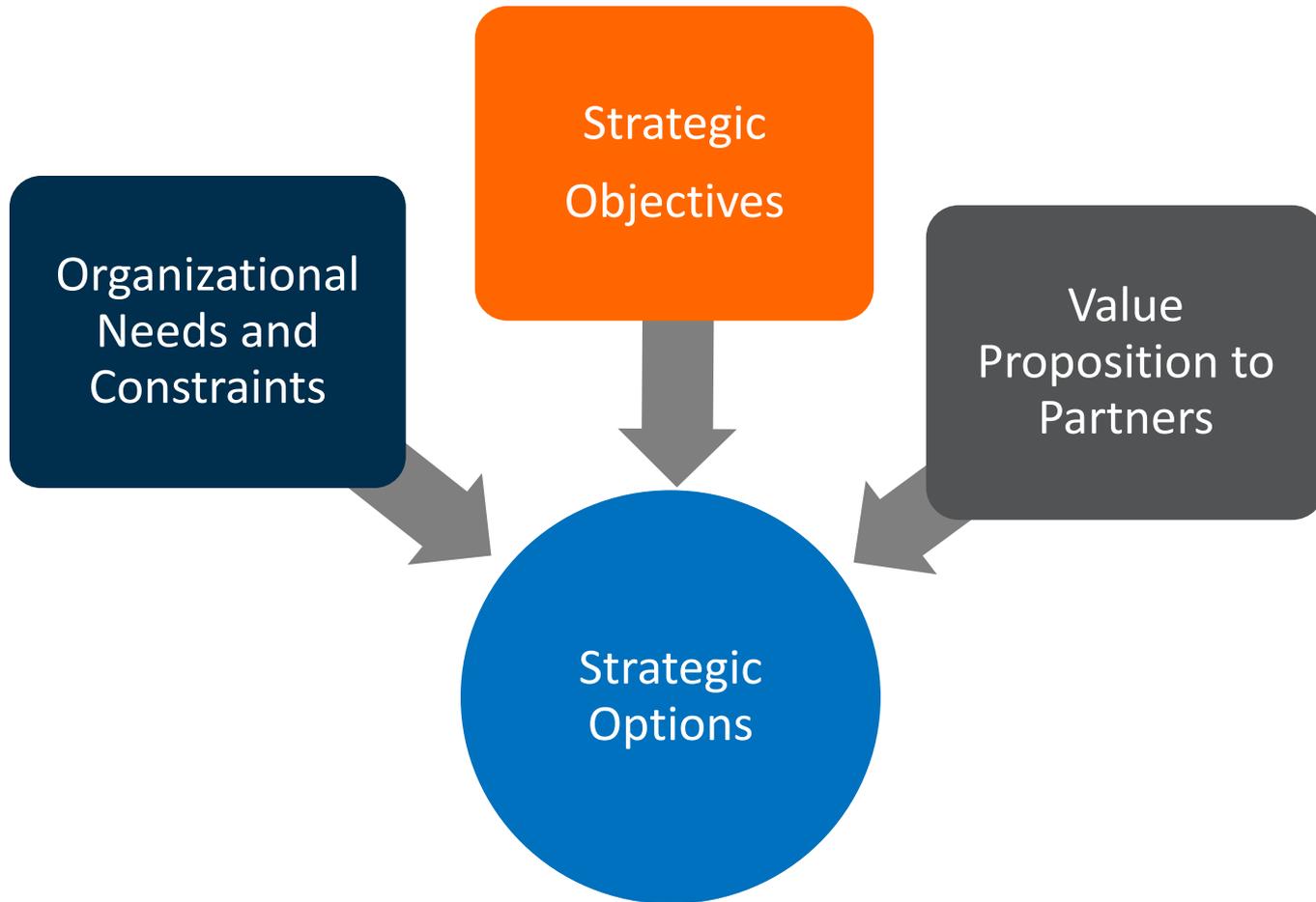
- Risk and cost stratification to manage costs
- Effective make vs. buy strategies to provide access / care coordination
- Treat inpatient as cost centers vs. revenue centers

Weighing Risk

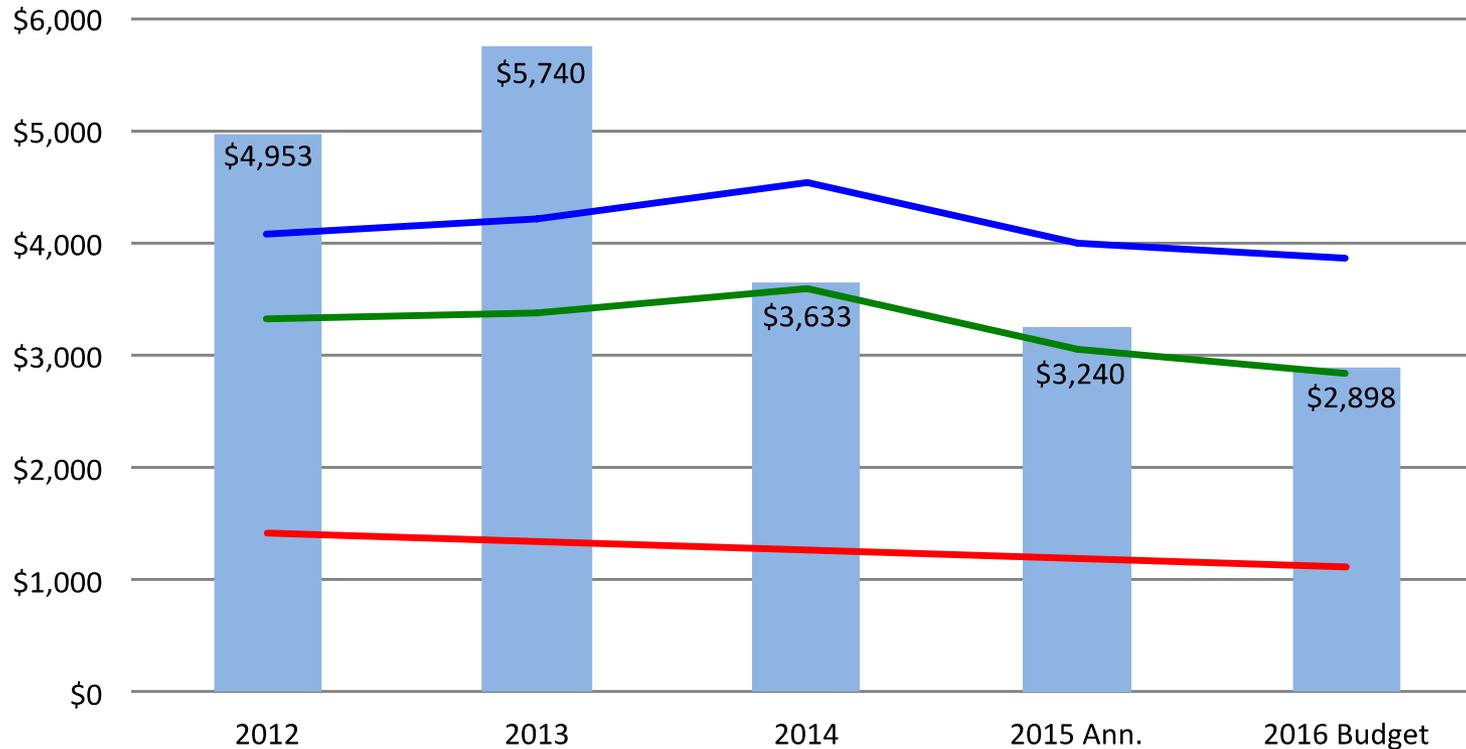


How do you minimize “risk”?

- Design a well-structured affiliation process with clear objectives
- Require local input or local membership on governing board
- Involve key stakeholders from the beginning and emphasize communication
- Codify partner commitments in an enforceable contract
- Make candidates earn the right to be your partner



Case Study: EBIDA vs. Survive / Sustain / Thrive



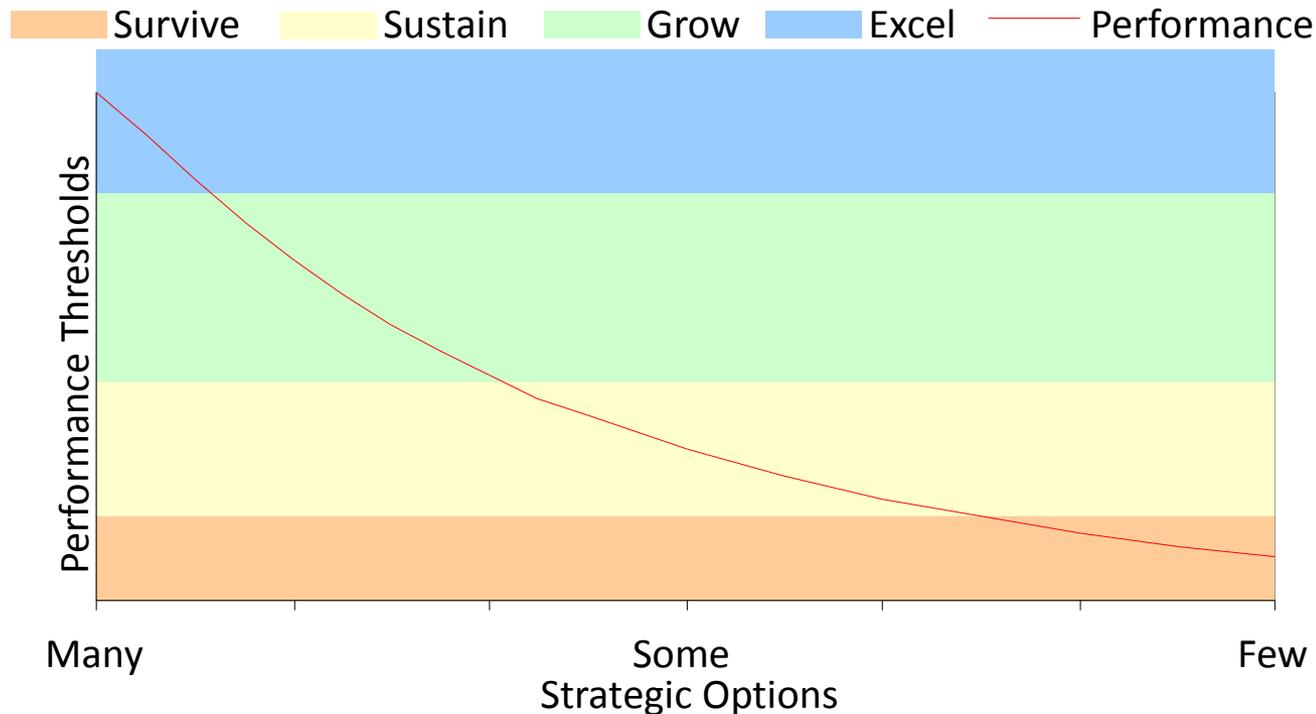
Key

- EBIDA - Thrive: 4.0% of operating expenses + 120% of depreciation expense + debt service
- EBIDA - Sustain: 120% of depreciation expense + debt service
- EBIDA - Survive: debt service

*2015 results are unaudited.

Options and Performance Decline Together

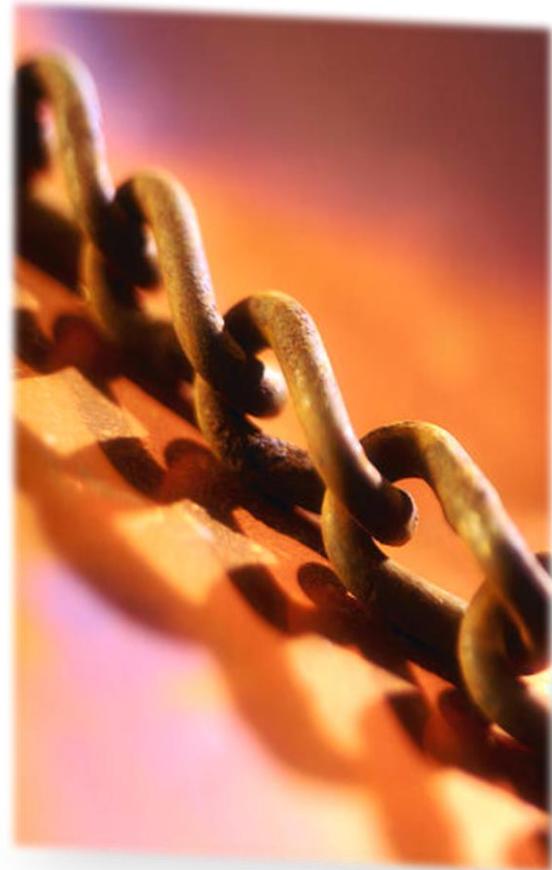
Organizational Performance and Strategic Options Financial Performance Example



- Too often, decisions to evaluate affiliation options are made too late

Goal: Creating Interdependence

- Triple Aim Vision
- Expected results are:
 - Measurable improvement
 - Tighter connections
 - Clinical care
 - Reduction of costs
 - Common infrastructure
 - Capture value in payments and/or shared savings



Potential Partners

- **Networks/Alliances** – Consolidation of equals to create the scale for cost savings, contracting, and physician alignment
 - Regional PHOs, CCOs, etc.
- **Multi-Hospital Not-for-Profit Systems** – Traditional potential partners for local hospitals
 - Many are now seeking hospitals outside their normal markets for scale and diversity
- **For-Profit Health Systems** – Many are aggressively seeking to buy or partner, with older companies re-entering the field and newer companies with significant equity funding

Other options, such as equity partners, are available to larger hospitals.

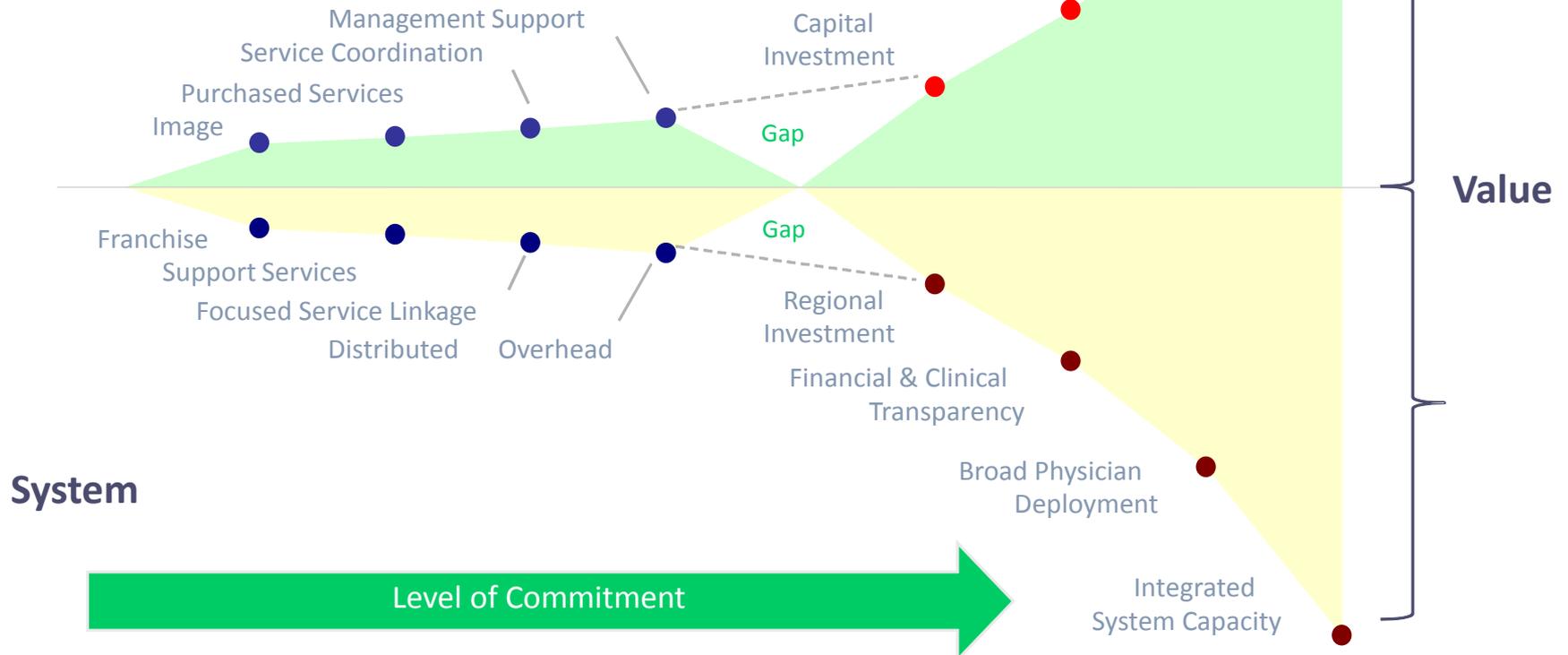
Action Step: Affiliation Criteria

1. An opportunity to develop a shared set of goals that reflect the perspectives of key stakeholders: Board, physicians, staff and the community
2. A communication tool for sharing with stakeholders the objectives / criteria that will guide board decision-making
3. Parameters for working with potential partners
4. The basis for evaluating affiliation options on an apples-to-apples basis
5. Consistency for Board decision-making and a guidepost to ensure the process stays on track

Affiliation Value Curve

- Successful partnerships require alignment

Affiliate



Affiliation Example: JOINT CAPITAL INVESTMENT

Access to credit for working and investment capital beyond internal capabilities

Improved cash flow, operating capital, and long-term strategic investments

Improved access to capital

Diversifying investments over network

Strategic dispersing of capital and leveraging of system assets through direct, loaned, or guaranteed capital

Development of new markets for increased volumes and asset diversification

JOINT CAPITAL INVESTMENT: Case Studies

Rural hospital finances don't support independent capital investments for facility and information technology

- Partner hospital provides capital or guarantees debt
- Improved rural facility linked with system hospital increases system inpatient market share
- Primary care and ancillary services historically lost by the system to competitors are grown through physician recruitment and quality improvement

Urban hospital guarantees the debt while keeping the liability off the balance sheet

- Utilizes federal mortgage guarantees
- Diversifies investment in markets important strategically or in mission
- CAH status offers some mitigation of risk; major step in establishing substantial control for home office overhead allocations

AVOID

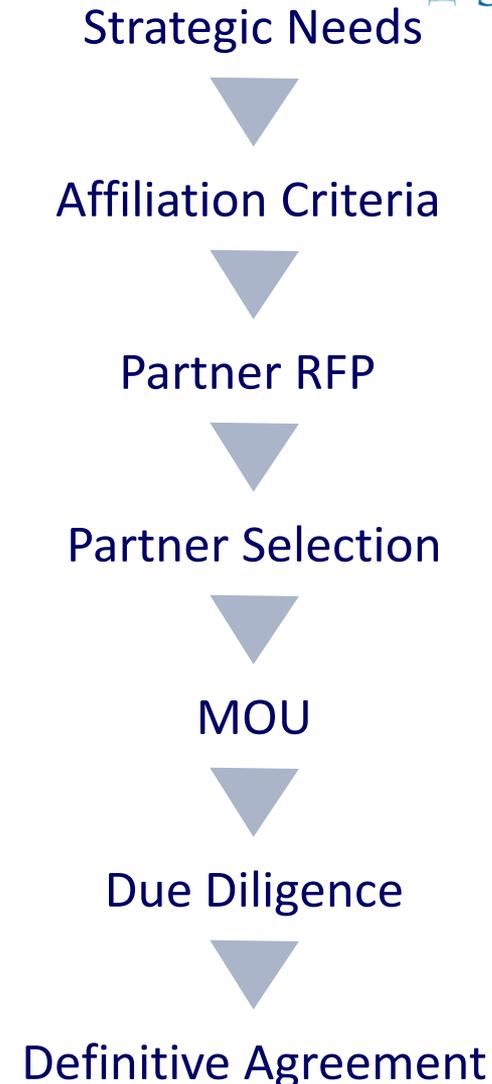
- Capital provided is not adequate to build appropriate facility resulting in continued out-migration
- Underinvestment in rural facilities driven by fear of losses to system hospital

Recommended Approach



Success of the affiliation depends on:

1. Alignment of goals
2. Selection approach
3. Communication



Communicate Your Strategy

- Communications should be positive and proactive, not equivocal and apologetic
- Continually communicate the reasons for the affiliation and the benefits
- Maintain involvement in communications from the Board Chair and, possibly, the Chief of Staff
- Communications early will create a consensus and eliminate or mute criticism
- Deal with rumors quickly and directly
- Most people hear only what affects them, so be sure to cover the concerns of key stakeholders in communications

Success Factors

- **Objectivity** – No agenda or preconceived outcome
- **Knowledge of Affiliations** – What is going on in the market, what are others doing, etc.
- **Expert Advice** – Understanding of the process and how to address problems that arise
- **Facilitation** – Discussions with Boards, physicians, and other stakeholders
- **Negotiation** – With potential partners
- **Process Management** – Ability to manage the entire process to a successful conclusion

Your Path Forward...

1. Education
 - Affiliation trends
 - Using tools for documenting rural value
2. Risk assessment
 - Financial status
 - Determining operating and partnering risks
3. Stakeholder engagement
 - Using Affiliation criteria
 - “Must haves” and “Cannot give ups”
4. Communication
 - Being proactive and positive

Thank you.



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