Creating Successful Academic-Community Relationships

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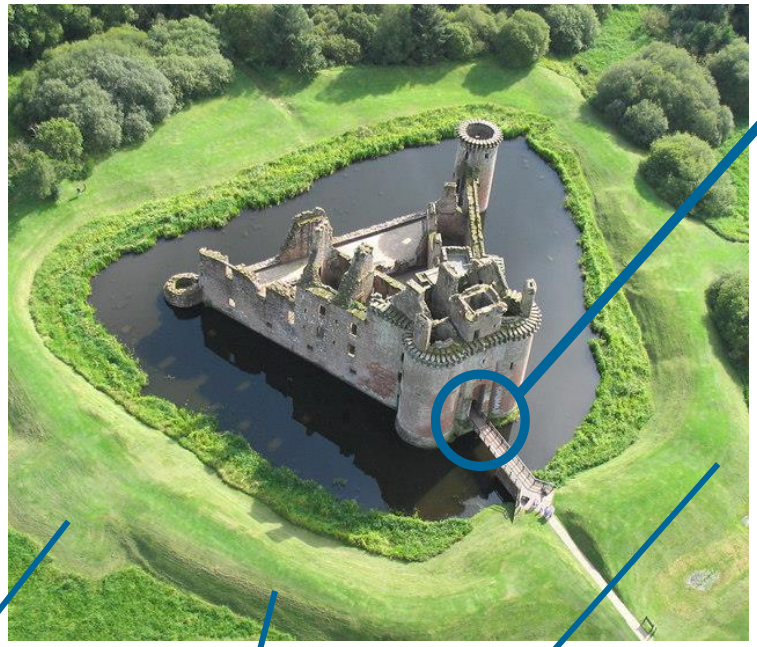
Agenda

- Academic – Community relationships (ACRs)
  - ➔ How have they changed?
  - ➔ Why have they changed?
- What types of ACRs are there?
  - ➔ What works?
  - ➔ And what does not work?
- For community hospitals (CHs), what does it mean to become academic?
- What are the implications for academic medical centers (AMCs)?
- What can we learn from history?
- Where are we headed?

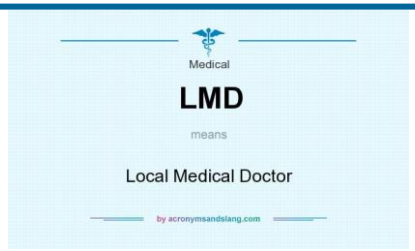
Traditional academic medicine lived in an ivory tower…

People's Greatest Hospital



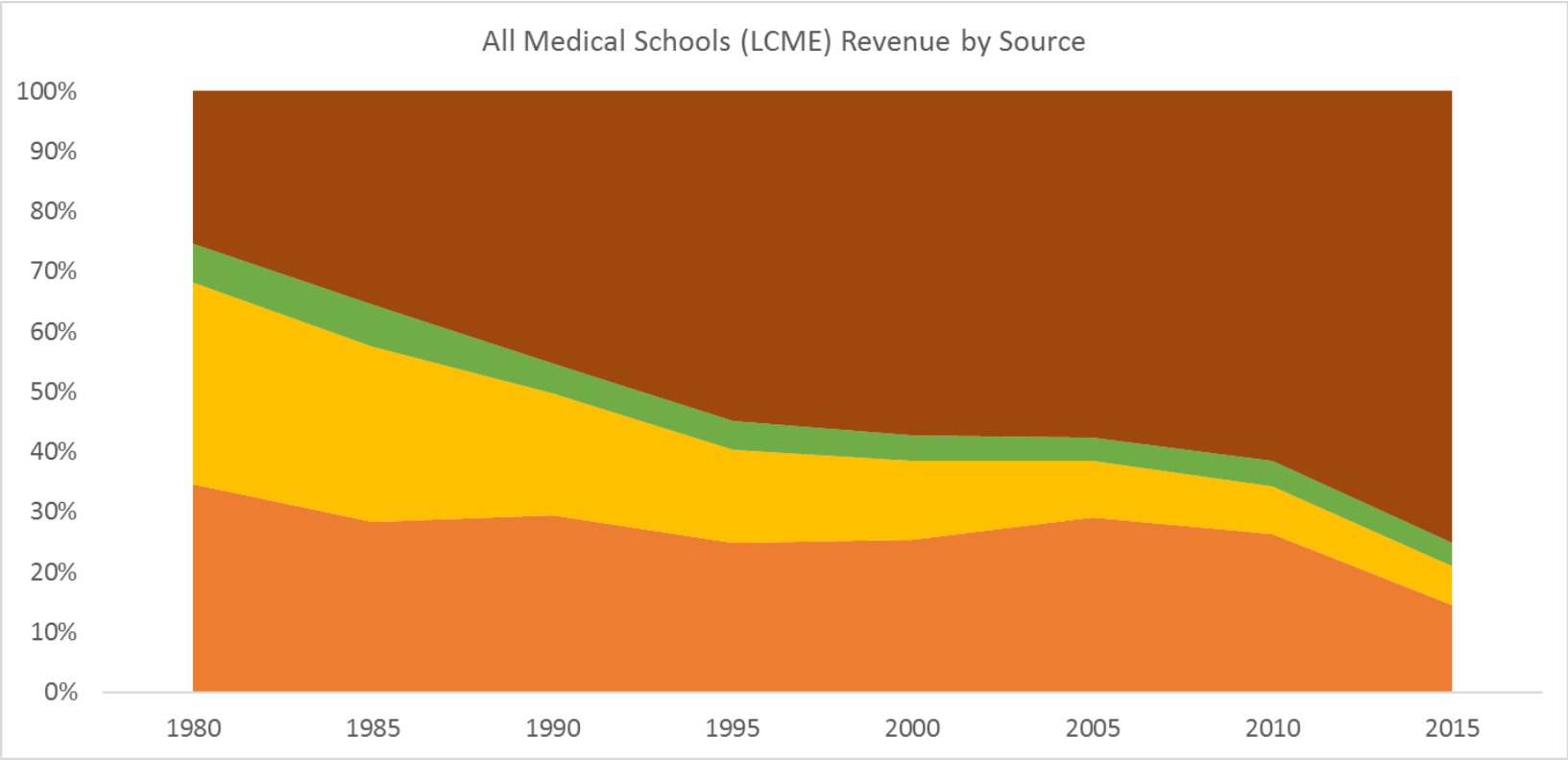
Chief Resident guarding the AMC gates

LMDs on the outside



…But the environment has changed

Follow the money …



Funding of Academic Medicine is increasingly reliant on their health systems

Source: AAMC; LCME annual financial questionnaire

IOM report spells out the imperative for AMCs…

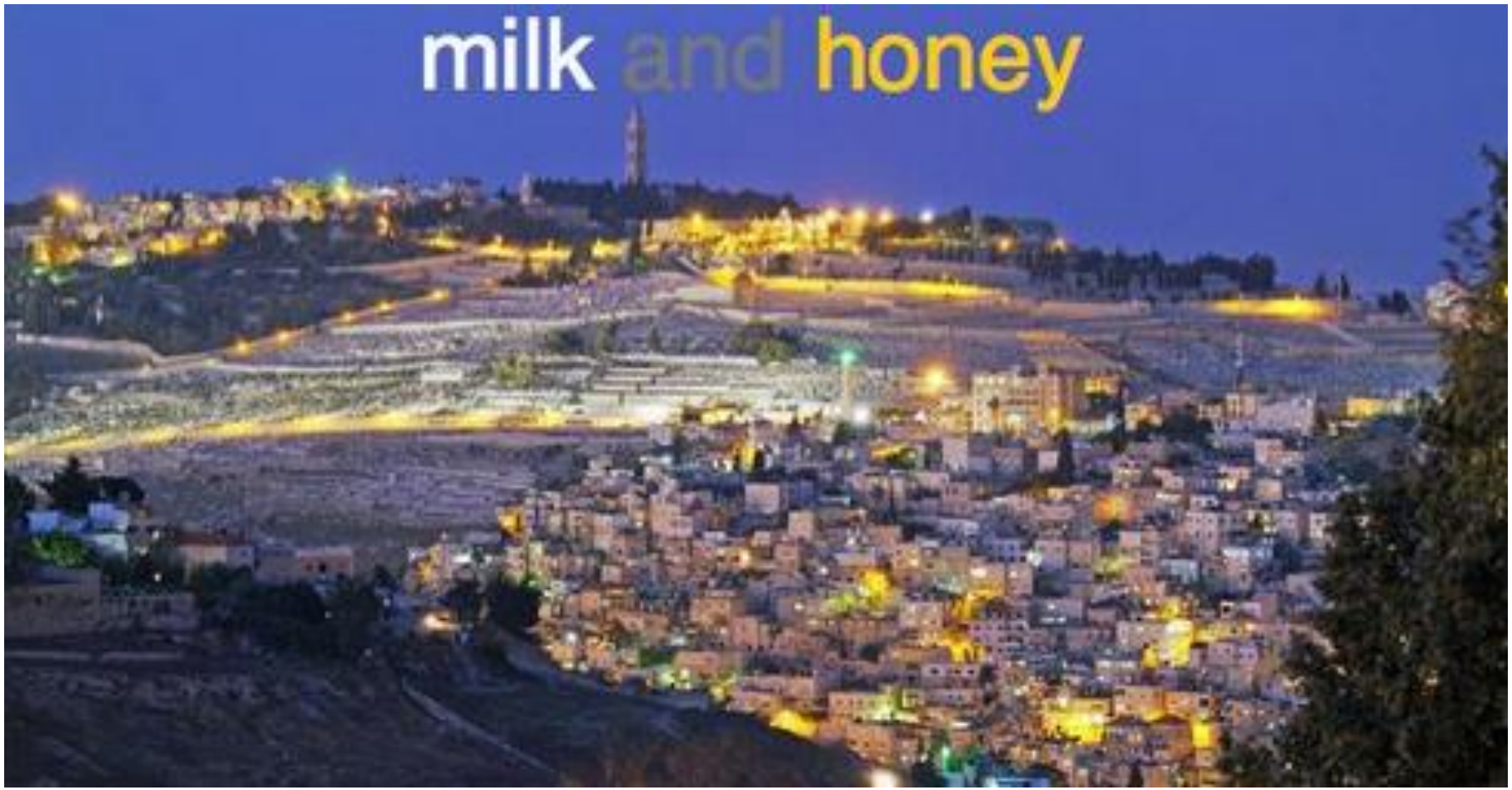
"Health systems can no longer function in silos…"

"Rapid generation of knowledge, juxtaposed with dwindling access to necessary resources and funds, has created too heavy a burden for one institution to manage successfully in isolation."

-Institute of Medicine report, 2014

- Dr. Victor Dzau, former CEO of Duke University Health System, and now president of the IOM
- Dr. Gary Gottlieb, former CEO of Partners HealthCare, Boston
- Steven Lipstein, CEO of BJC HealthCare, St. Louis
- Nancy Schlichting, former CEO of Henry Ford Health System, Detroit
- Dr. Eugene Washington, CEO of Duke University Health System

How AMC faculty often view community hospital markets…



Source: Joseph Hedaya, "Images of the Promised Land."

What does an AMC need from a community hospital?

- Access to more referrals
- Lower-cost settings for care
- Population health network
- Avoid being excluded from narrow networks

How community physicians view AMC faculty…

Going from good to great requires an academic brand

2016–17 Best Hospitals Honor Roll

1. Mayo Clinic, Rochester, Minn.
2. Cleveland Clinic
3. Massachusetts General Hospital, Boston
4. Johns Hopkins Hospital, Baltimore
5. UCLA Medical Center
6. New York-Presbyterian University Hospital of Columbia and Cornell
7. UCSF Medical Center, San Francisco
8. Northwestern Memorial Hospital, Chicago
9. Hospitals of the University of Pennsylvania-Penn Presbyterian, Philadelphia
10. NYU Langone Medical Center
11. Barnes-Jewish Hospital/Washington University, St. Louis
12. UPMC Presbyterian Shadyside, Pittsburgh
13. Brigham and Women's Hospital, Boston
14. Stanford Health Care-Stanford Hospital, Stanford, Calif.
15. Mount Sinai Hospital, New York
16. Duke University Hospital, Durham, N.C.
17. Cedars-Sinai Medical Center, Los Angeles
18. University of Michigan Hospitals and Health Centers, Ann Arbor
19. Houston Methodist Hospital
20. University of Colorado Hospital, Aurora

Why turn a perfectly good CH into an AMC?

Striving to attain academic brand nirvana

- Consumerism driving brand sensitivity
- Patients want access to cutting edge care

- Ability to recruit best talent
- High end specialists…
  - ➔ Are expensive
  - ➔ Want to participate in research
  - ➔ Want others with whom to collaborate

- Population health
  - ➔ Control the high cost care setting too

AMCs and CHs now in bed together

But make strange bedfellows…

Proceed with caution

This is not a straight forward path for either AMCs or CHs

- Some paths are safer than others

- Easy to underestimate cultural differences
- CHs pride themselves on clinical care…
  - ➔ While in the tripartite mission hierarchy, clinical care is generally 3rd
- AMCs have high cost structure and decision-making is complex

Within our Millennium LI group, 79% of members have an academic-community relationship

Millennium Group
(19 members)

79% ***have ACRs***

63% ***entered ACRs in last five years***

13 ***teaching affiliations***

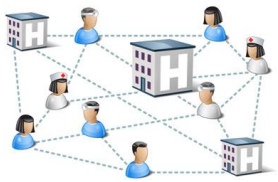
3 ***JVs***

2 ***DIY AMCs***

9 ***programmatic affiliations***

3 ***equity partners***

6 ***CINs***



Note: Some LI members have multiple partnerships (e.g. Houston Methodist with Weill Cornell / NYP and Texas A&M). These have been counted separately.
Source: Public press releases; BDC Advisors Analysis

A cautionary tale…

Hahnemann University HOSPITAL

tenet HEALTH

The University of Oklahoma Health Sciences Center

Tulane Medical Center

SAINT LOUIS UNIVERSITY EST. 1818

EMORY HEALTHCARE

HCA Hospital Corporation of America

PENNSTATE HERSHEY Milton S. Hershey Medical Center

Case Study

- Geisinger Health System and Hershey Medical Center(1997-1999)[2]
  - Penn State Geisinger Health System
  - Difficulty with understanding cultural differences between both organizations
  - "Business as usual" was persistent leading to separate and competing services- unable to realize economy of scale
  - Leaders unable to gain buy-in from middle managers and physicians

[2] Sidorov J. Case Study of a Failed Merger of Hospital Systems. *Managed Care: Nov 2003*

KentuckyOne agrees to dissolve JOA with the University of Louisville Hospital

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What types of ACRs are there, and how well do they work?

LEADING CONSTRUCTIVE CHANGE

Pay for affiliation

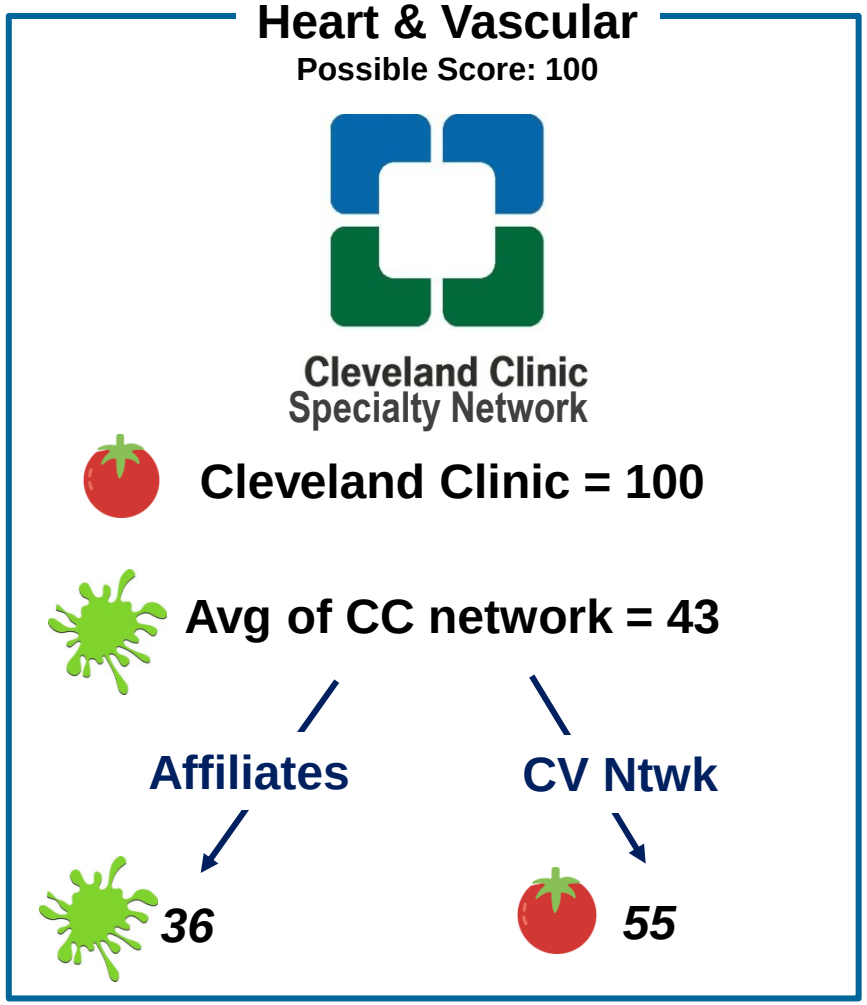
Leveraging their brand, AMCs sell access to expertise and quality to CHs

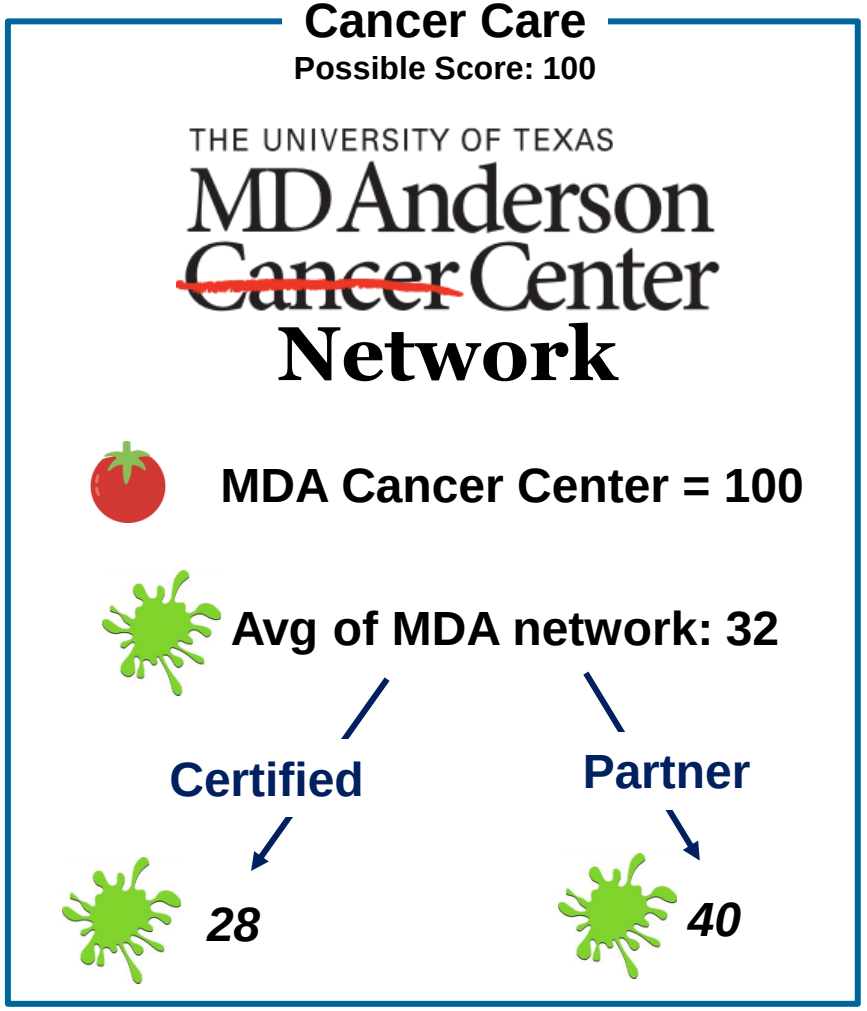
- Examples:
  - ➔ Mayo Clinic Care Network
  - ➔ MD Anderson Cancer Center Network
  - ➔ Cleveland Clinic Specialty Network

- Who could consider a pay-for-affiliation product?
  - ➔ AMCs with strong national brands
  - ➔ CHs who value their independence and are looking to distinguish themselves in competitive markets

While the access to specialists at top hospitals may be beneficial, the results from these affiliations are not clear.

US News and World Report Rankings (out of 100 possible points)





Note: Ratings adapted from Rotten Tomatoes

Source: US News and World rankings, BDC Advisors analysis

Alliances ('friends with benefits')

Alliances and affiliations (not mergers) between AMCs and CHs

- Examples:
  - ➔ University of Michigan Health System
  - ➔ University of Iowa Health Alliance

- Benefits
  - ➔ AMCs get referrals, teaching sites, broader geography for specialty care
  - ➔ CHs get access to specialists and programs
  - ➔ Easier for each entity to preserve its own identity
- Downsides
  - ➔ Alliances can be broken, can date other partners too

- Who could consider an alliance?
  - ➔ AMCs with strong institutions in geographically broad, less competitive markets
  - ➔ CHs who are financially strong enough to remain independent in more rural locations

Alliances appear to create modest benefits for friends

University of Iowa Hospitals & Clinics — University of Iowa Health Care

2012 GENESIS

2012 MERCY CEDAR RAPIDS

2013 Great River Health Systems

- **Three years following partnership, financial performance has remained stable or improved:**
  - ***U of IA*** **margin**
  - ***Genesis*** **and** ***Mercy-Cedars*** **margins**
- **Consistent quality performance:**
  - **U of IA and Genesis ranked #1 and #2 in Iowa**
  - **Most have 4-star Hospital Compare rating**

MICHIGAN MEDICINE
UNIVERSITY OF MICHIGAN

2013 MidMichigan Health
UNIVERSITY OF MICHIGAN HEALTH SYSTEM

- **MidMichigan continued positive operating margins**
  - ***U of MI*****: #1 in MI according to US News & World rankings**
  - ***MidMichigan*****: 4-stars on Hospital Compare**
- **Notable quality performance for both:**
  - **HCAHPS rating improved from 3 to 4**

Sources: Public financial statements, Moody's 2014 Bond Ratingl new articles; BDC Advisors analysis

Joint venture partnerships

AMCs enter into JVs with community health systems

- Examples:
  - ➔ Duke and LifePoint
    - Formed joint venture to acquire community hospitals
    - Duke provides quality improvement expertise; LIfePoint provides capital, management
  - ➔ Yale and Tenet
    - Partnership where Yale was to get minority ownership in acquired hospitals was abandoned
  - ➔ Emory and HCA

    - JV to run 2 hospitals, dismantled after 12 years citing cultural differences
  - ➔ Baylor and CHI St Lukes
    - NFP JV to run St Lukes with 50/50 governance share

- Who could consider a joint venture?
  - ➔ AMCs with strong national brands
  - ➔ Entrepreneurial CHs with strong financials

Do-it-yourself (DIY) AMCs

Community hospital seeks to develop academic stature by building a medical school

- Examples of CHs developing medical schools with universities:
  - ➔ Hackensack - Seton Hall
  - ➔ Inova - Shenendoah
  - ➔ Virginia Tech Carilion (VTC)
  - ➔ St Lukes University Health - Temple

INOVA HEALTH SYSTEM

HackensackUMC

VTC
Virginia Tech Carilion
School of Medicine

- Truly DIY:
  - ➔ Kaiser (opening 2019 with 50 students)

KAISER PERMANENTE®
SCHOOL OF MEDICINE

- Who could consider pursuing a DIY AMC?
  - ➔ Community health systems with very strong financials who hold a market leading position in their region

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Marriage of convenience

Strong community health systems acquire existing (typically struggling) AMC

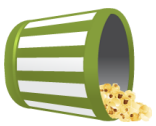
- Examples:
  - ➔ Banner health
    - Purchased U of AZ Health Network, Tucson for $1B in 2014
  - ➔ SSM bought St Louis U (from Tenet) in 2015
  - ➔ CHI (KentuckyOne Health)
    - Managed University of Louisville Hospital 2012-16
  - ➔ 1990s investor-owned purchases of AMCs
    - Out of 20, only 3 left

- Who could consider acquiring a AMC?
  - ➔ Community health system committed to academic medicine
- BEWARE
  - ➔ These are often financially weaker, less prominent academic brands

As a parallel to real life, 'marriages of convenience' often result in hardship, and sometimes end in divorce.

2015 — SSM Health / Saint Louis University Hospital

- Depressed SSM **financial performance**:
  - Operating margin drop from 4% in 2015 to 0% in 2016
  - In 2016, expenses related to SLU exceeded revenue by $38M[1]
- Potential **quality** concerns:
  - SLU CMS hospital rating of 1-star
  - Falling HCAHPS scores



2014 — Banner Health / The University of Arizona

- Deteriorating **operating margin** following partnership:
  - *U of AZ*: 0% in 2013 to -12% in 2015
  - *Banner*: 5% in 2013 to 2% in 2015
- Concerns over **quality** at Tucson campus:
  - CMS hospital rating of 1-star
  - Falling HCAHPS scores

2012 — KentuckyOne Health / University of Louisville

- **JOA terminated**[2] 12/16 following disputes over:
  - Insufficient academic support payments
- U of L **investigated for critical staff** cuts mid-2016
- Lower operating margins at KOne and U of L two years after acquisition

[1] Modern Healthcare "SSM Health's results sink on St. Louis hospital acquisition," March 30, 2017; [2]Academic affiliation agreements will stay in place; KOne will continue to execute on other joint investment commitments of ~45M

Other Sources: Public financial statements, new articles; BDC Advisors analysis

AMC arithmetic

- Direct graduate medical education (DME) cost: $100,000/physician
  - ➔ Medicare DME funding: $40,000 per physician
- Indirect graduate medical education (IME) cost: $27b (estimate)
  - ➔ “Opportunity cost” of education
  - ➔ Medicare IME funding: ~$6.5b and capped since 1997
- Medical school enrollment increasing
  - ➔ Federal support for residency slots frozen since 1996
  - ➔ Hospitals self-fund ~10,000 residency slots per year
- Cost of research
  - ➔ ~$1.25 to conduct each $1 of funded research

<u>BDC experience</u>
health system financial support to the medical school:
~8% to 13% of Hospital Net Patient Revenue (NPR)

Source: AAMC as cited in Becker's hospital review 1/15/14

Best friends forever (BFF)

CHs' strong, long-lasting relationships with AMCs through affiliation

- Examples:
  - ➔ Washington U and BJC
  - ➔ Wake Forest and Baptist

- Hallmarks of BFFs
  - ➔ University/medical school and health system remain separate entities
    - ACR is through affiliation
  - ➔ Hospitals with community roots make long-term commitments to academic mission
    - Significant ongoing funding

Best Friends Forever maintain their own identity but are linked through strong and long lasting affiliations

Washington University in St. Louis School of Medicine

Barnes-Jewish Hospital

BJC HealthCare

- US News rankings
  - Med school: #7 for research and #24 for primary care
  - Hospital: #1 in the state
- 2016 CMS rating gave BJH only 2-star rating

Wake Forest® Baptist Medical Center

- US News rankings
  - Medical school: #53 for research
  - Hospital: #3 in the state (behind Duke and UNC)
- 2016 hospital CMS rating of 3-stars
- Medical center operating profit in 2015 after more than 3 years of losses

http://health.usnews.com/best-hospitals/area/mo/barnes-jewish-hospitalwashington-university-6630930

https://www.usnews.com/best-graduate-schools/top-medical-schools/washington-university-in-st-louis-04060

AMC Aggregator

AMC aggregates community hospitals

- Examples:
  - ➔ Penn Medicine
    - Acquired Pennsylvania Hospital, Lancaster General Hospital, Princeton Health System (in process)
  - ➔ Partners
  - ➔ Yale
  - ➔ NYP
  - ➔ Stanford
  - ➔ UNC

- Hallmarks of AMC aggregators
  - ➔ Strong brand, solid financial position
- Hallmarks of community hospitals joining AMC systems
  - ➔ Exist in competitive markets
  - ➔ Financial position increasingly challenged

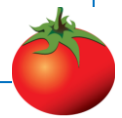
AMC Aggregators: Confident in brand and financial position…

But seeking to secure new referral networks and lower costs

Penn Medicine
University of Pennsylvania Health System

- Pennsylvania Hospital (1997)
- Lancaster General Hospital (2015)

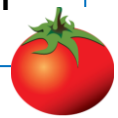
Since their merger, Lancaster General's CMS rating has improved from 3 star to 4



Stanford HEALTH CARE

- ValleyCare Health System (2015)

One year after the merger, Stanford's operating margin improved from 0% to 4%

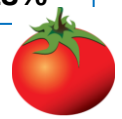


UNC HEALTH CARE

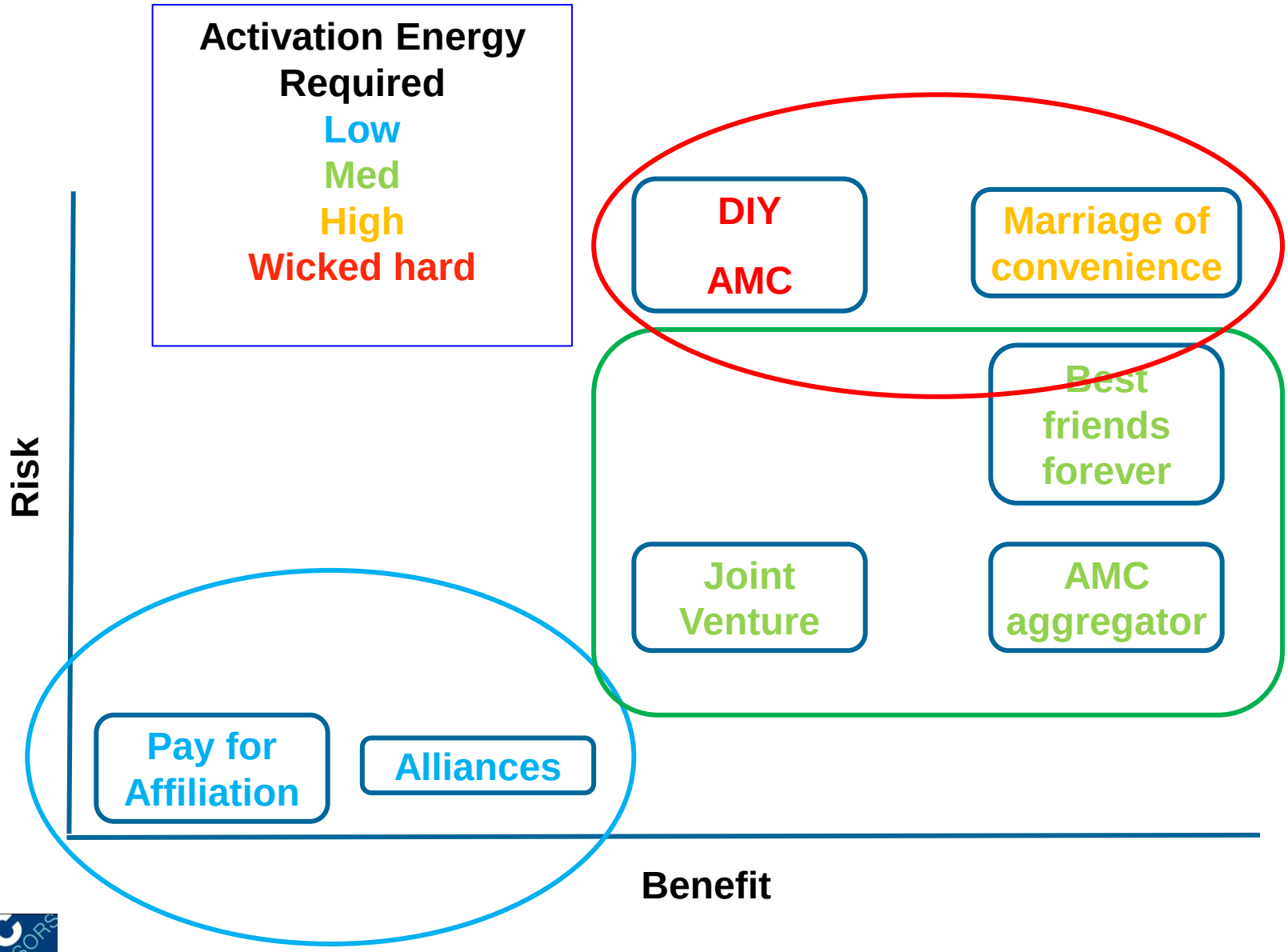
- Rex HealthCare (2000)
- Chatham Hospital (2008)
- Caldwell Memorial Hospital (2013)
- High Point Regional Health System (2013)

Operating margin for UNC following the mergers in 2013

- **2011/2012 average was -3%**
- **2014 and 2015: 6% and 13%**



What ACR is right for your organization?



What factors are associated with successful ACRs?

- Be clear on objectives for the ACR

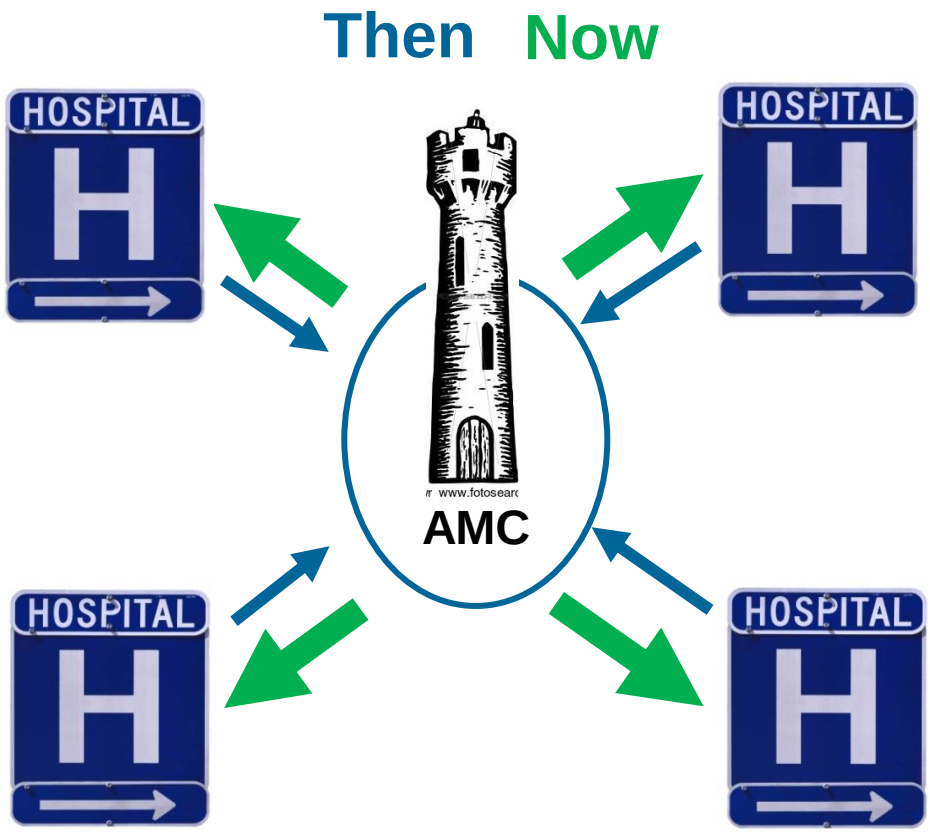
- Mission alignment

- Recognize that academic medicine is not for the “faint of wallet”
  - ➔ Investor-owned health systems and AMCs make strange bedfellows

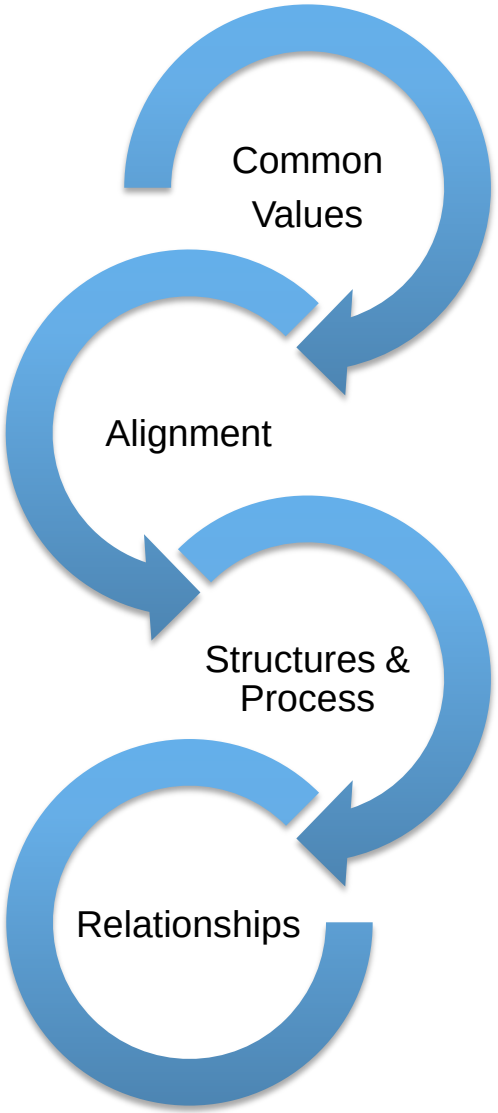
ACADEMIC MEDICINE

Success factor: establish the ‘give’ and the ‘get’

- Follow the patient: as clinical care moves to the community setting, so must…
  - ➔ Teaching
  - ➔ Clinical research
- Academic medical center can no longer suck in all revenues
  - ➔ AMCs must invest in their community providers and facilities



Success factor: Establish management and governance structures to build mutual respect and strengthen relationships



Great patient care

Mutual respect

Strategic goals

Incentive plans

Joint governance

Transparency

New colleagues

Build trust

Grow together

The new AMC: in your community and (literally) in your pocket

No longer the ivory tower

- Needs community
  - ➔ Cost effective clinical care
  - ➔ Teaching
  - ➔ Clinical research

The new CH: academic ties are front and center

- No longer can exist in isolation
- Needs the connections and access that come with academic medicine
  - ➔ Best talent
  - ➔ Cutting edge therapies

Future state prediction: systems that have the most integrated ACRs will be the most successful

- Vertical integration from ICU to home care
- Regional and national presence
- Much of high end academic specialist care will be delivered into CH setting via virtual medicine
- AMCs will shrink in bed size and focus on quaternary care

AMCs and CHs that are not part of a strong functional ACR, will lose patient share as national brand systems become more adept at delivering care to patients where they live

Thank You

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