



Keeping the  in Hometown

Key Community Hospital Partnership Considerations

Taking Your Board through a Process with a Practical Approach

Webinar: Wednesday, January 30, 2013,
12 Noon – 1:00 pm CST



Presenters

Mike Williams, president & CEO

Community Hospital Corporation, Plano, Texas

Glenn Robinson, CEO

Hillcrest Health System, Waco, Texas

Community Hospitals in Perspective

Total U.S. Hospitals	5,754
Community Hospitals	4,985
Rural Community Hospitals	1,987
Critical Access Hospitals	1,325
Urban Community Hospitals	2,998
Community Hospitals in a System	2,941
Community Hospitals in a Network	1,508

Source: American Hospital Association's Hospital Statistics, 2012 edition, data from 2010 annual survey.

Community Hospital Opportunities

- Community commitment
- Do what you do well
- Clinical integration
- Operational efficiency
- Advances in technology
- Meaningful use/financial improvement
- Strategic alternatives to preserve independence

Community Hospital Challenges

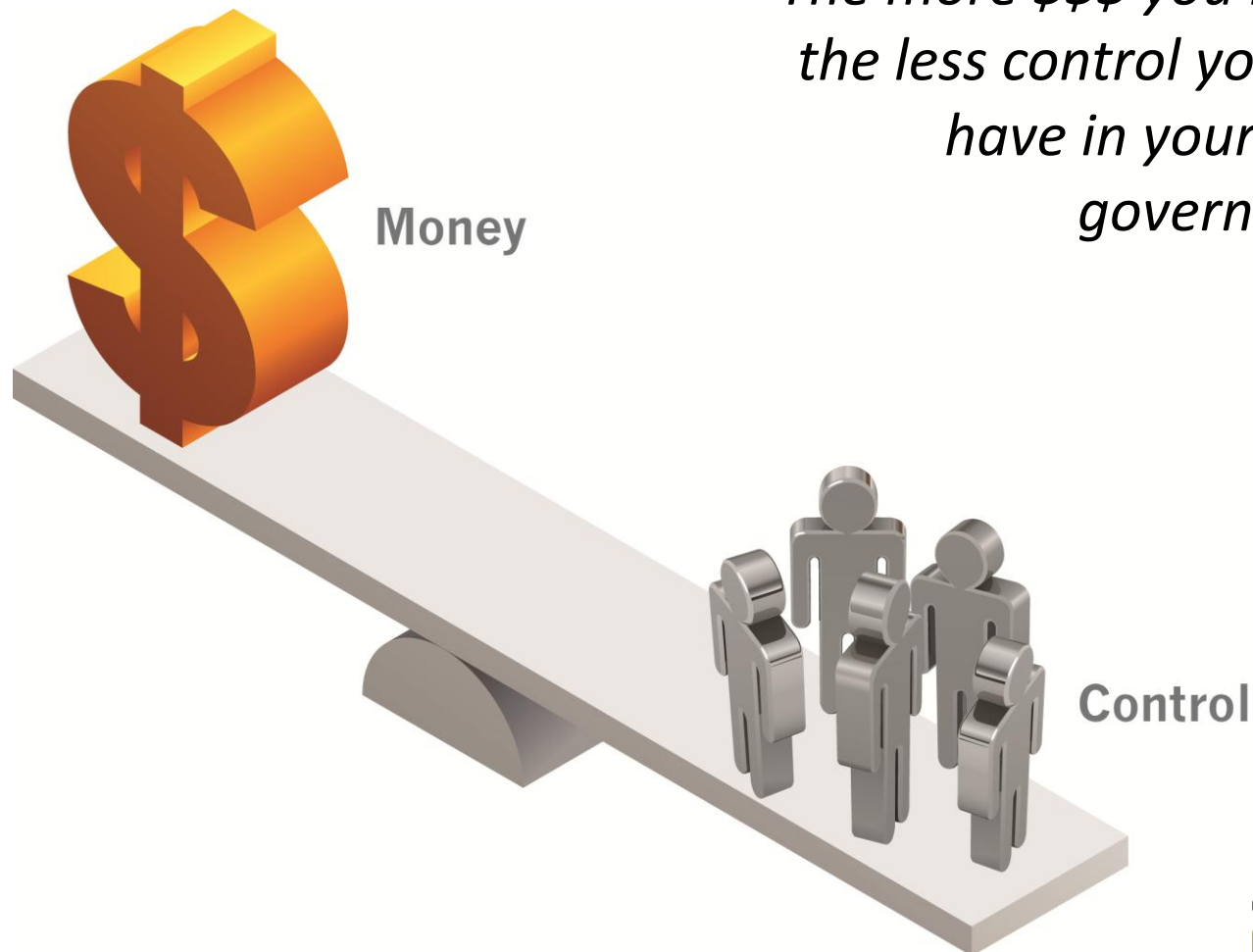
- Low patient volumes
- Recruitment of physicians/specialists
- Physician alignment
- Policy and market changes
- Medicare and Medicaid cuts
- Economic downturn pressures
- Access to capital

Partnership Conversations

- Community need
- Clinical service breadth
- Physician alignment and strength
- Revenue, sustainability
- Managed care leverage
- Compatibility of purpose
- Reputation

Partnership Considerations

*The more \$\$\$ you need,
the less control you will
have in your local
governance.*

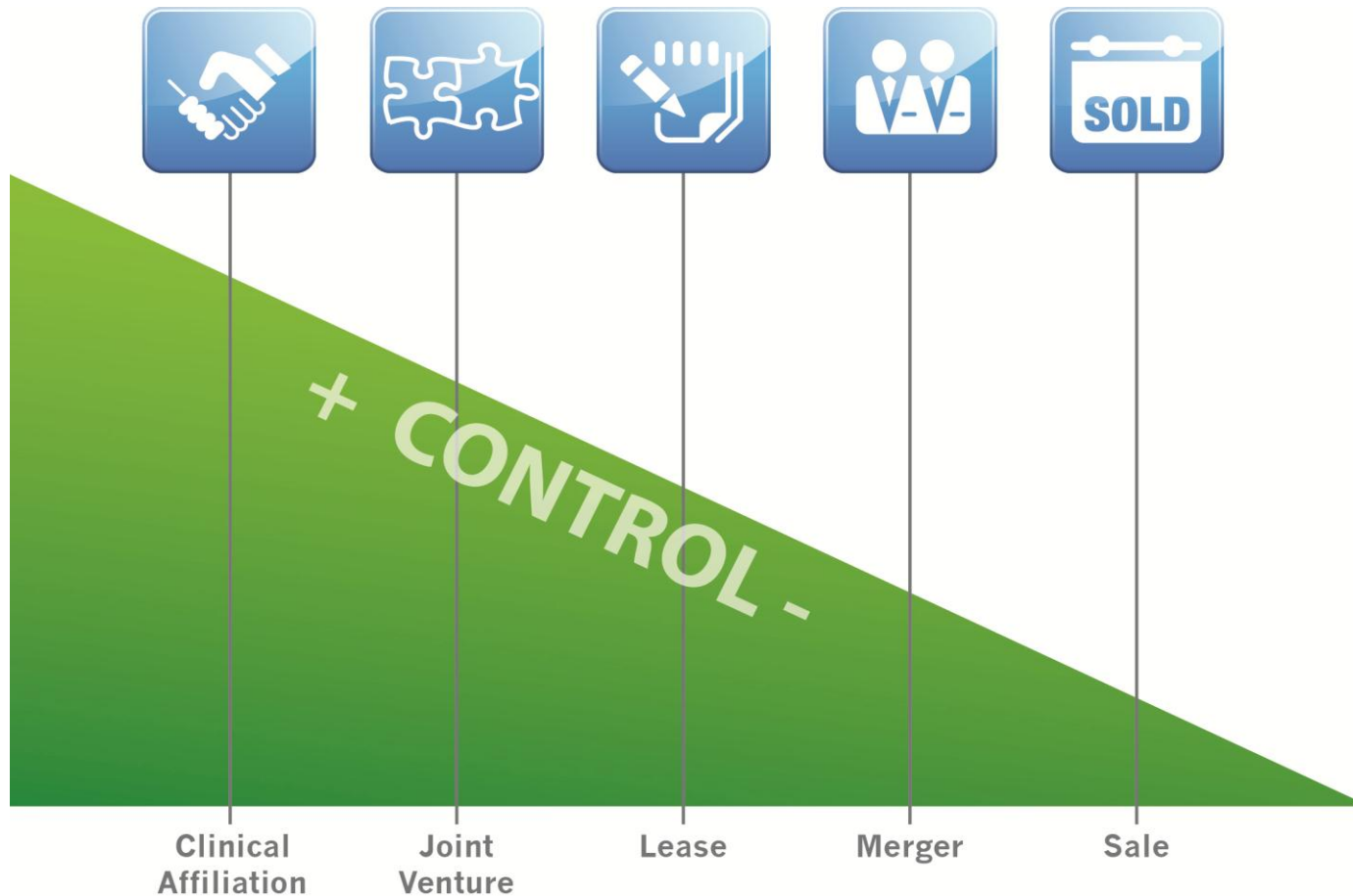


Partnership Considerations

Responsible action is more favorable than the last possible moment.

- Think proactively
- Board dynamic is critical
- Define your optimal terms

Unique Partnership Options



First, Get Your 'House' in Order

- Assess market position: know your market clout; it provides a position of strength during conversations with potential partners and physicians.
- Assess finances, profits: know operational areas of challenge and profitability.
- Industry transformation: educate the local board and hospital management about inevitable industry changes such as increased regulatory scrutiny and declining reimbursement rates.

Next, Understand Your Strategy

- Clinical services: understand the hospital's clinical strengths, areas that can be expanded, and what is lacking to appropriately serve area populations.
- Infrastructure: explore shared infrastructure and areas where the hospital needs guidance.
- Know what you are willing to give up.

Potential “For Sale”

Where’s the fruit? Characteristics of a targeted community hospital:

- Likely to target non-performing organizations
 - Room for quick fiscal improvement
 - Stable demographics (but not as significant a factor)
 - Physician recruitment opportunity
 - Limited available capital for improvements
- In addition, look for:
 - Minimal managed care
 - Niche player – sole community provider
 - Opportunity for higher margins
 - Control issues

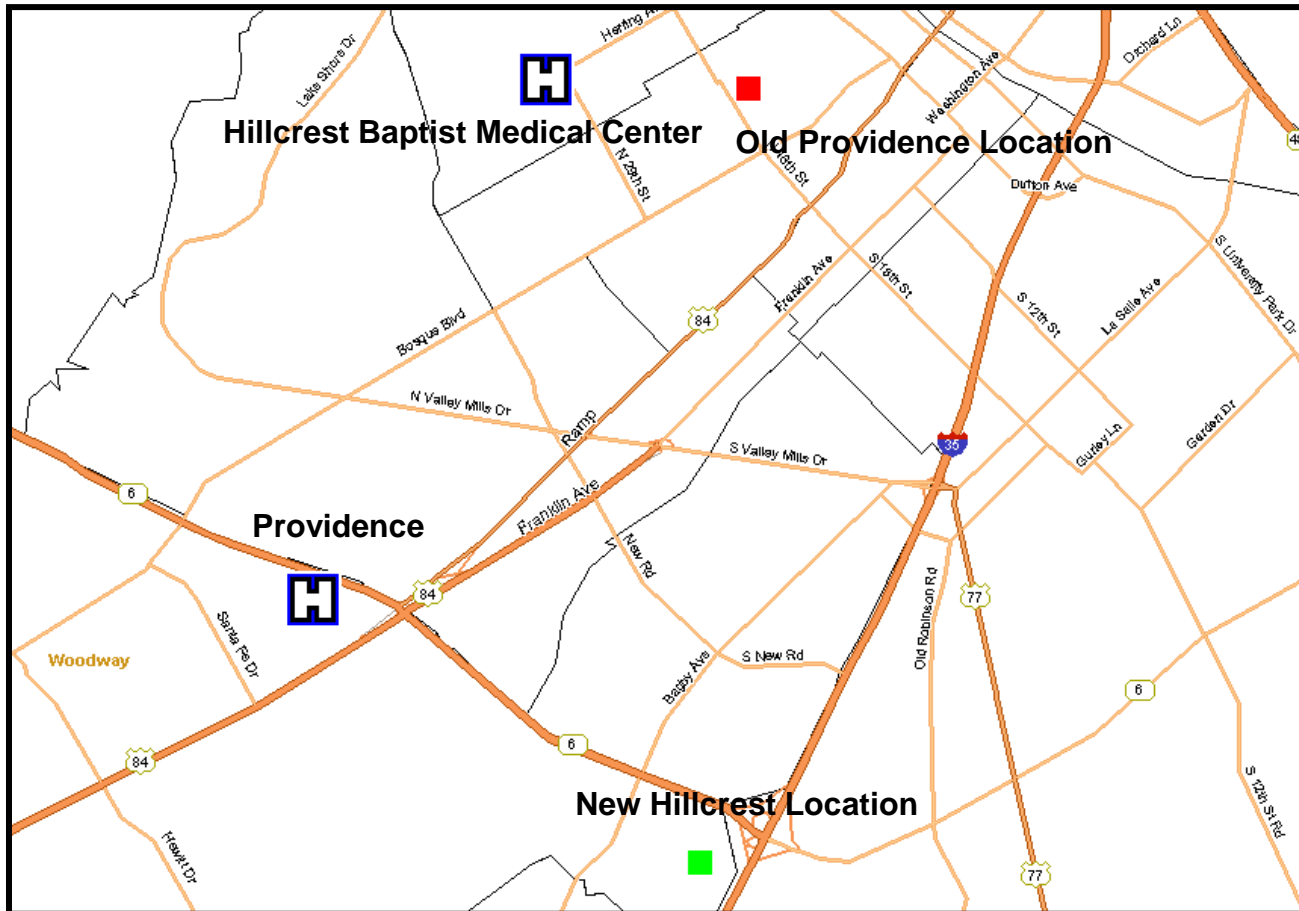
Tactics

- Target indirect stakeholders
 - Commissioners
 - Physicians
 - Former board members
- Promise of \$\$\$
 - Can be very “promising,” particularly to a city or county commissioner struggling with funding

Case Study

Hillcrest Baptist Medical Center Waco, Texas

Hillcrest Health System



Hillcrest Health System



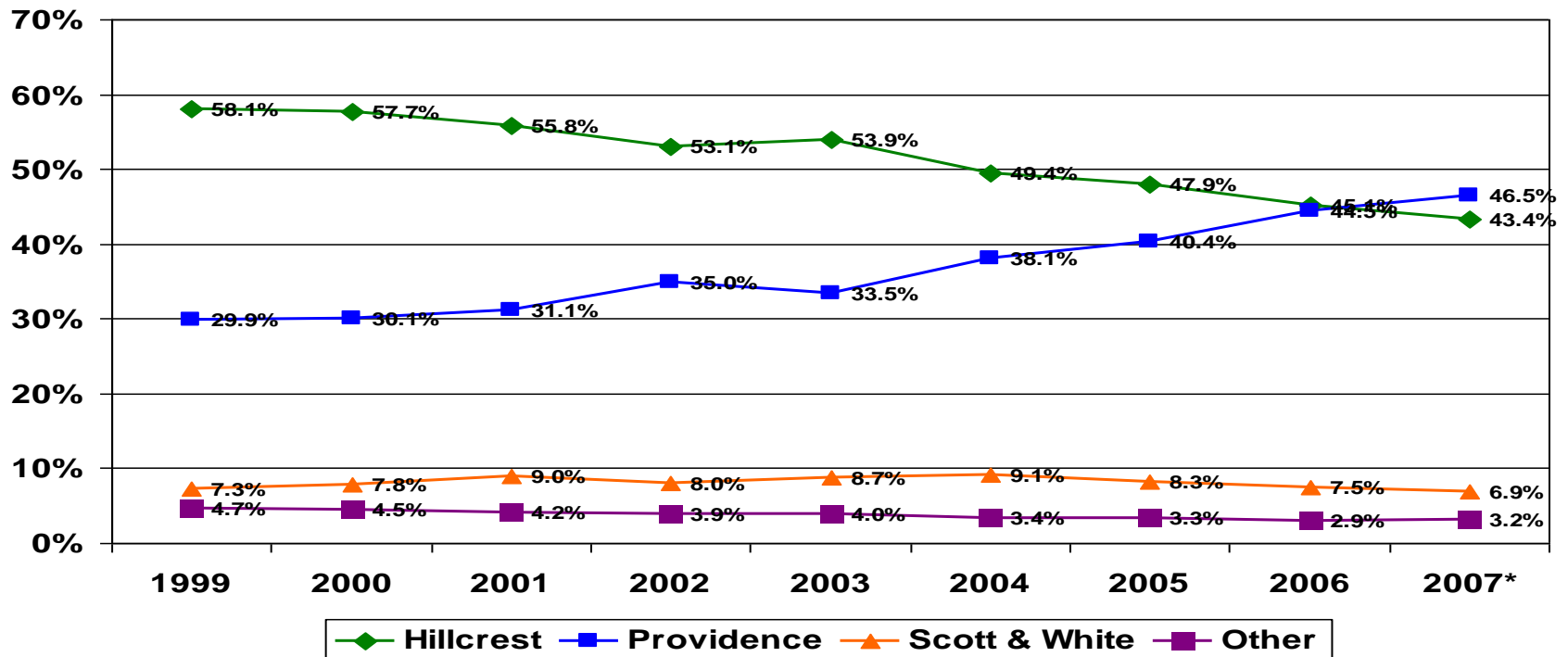
Hillcrest Baptist Medical Center



HHS – Market Share Trend

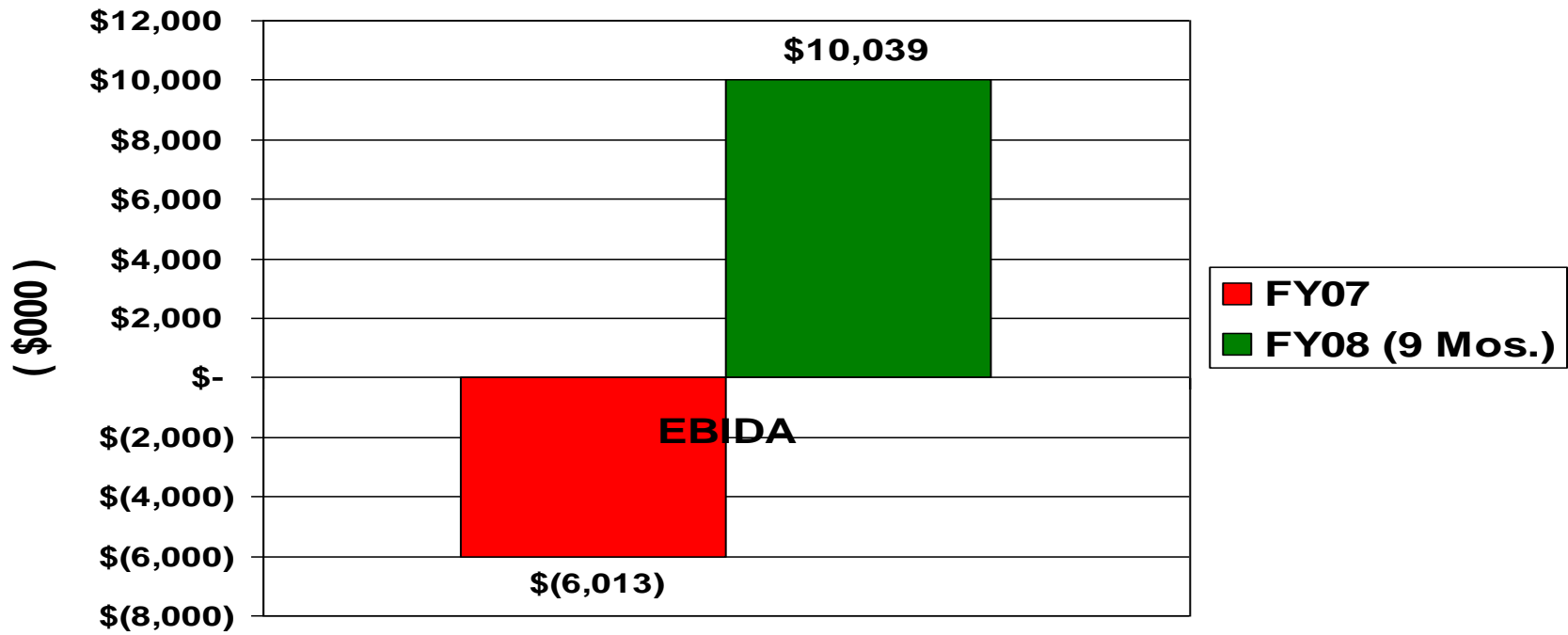
MARKET SHARE OF HOSPITALIZED MCLENNAN COUNTY RESIDENTS

(Actual Market Share Based on Texas Hospital Assn. Patient Data System Data)



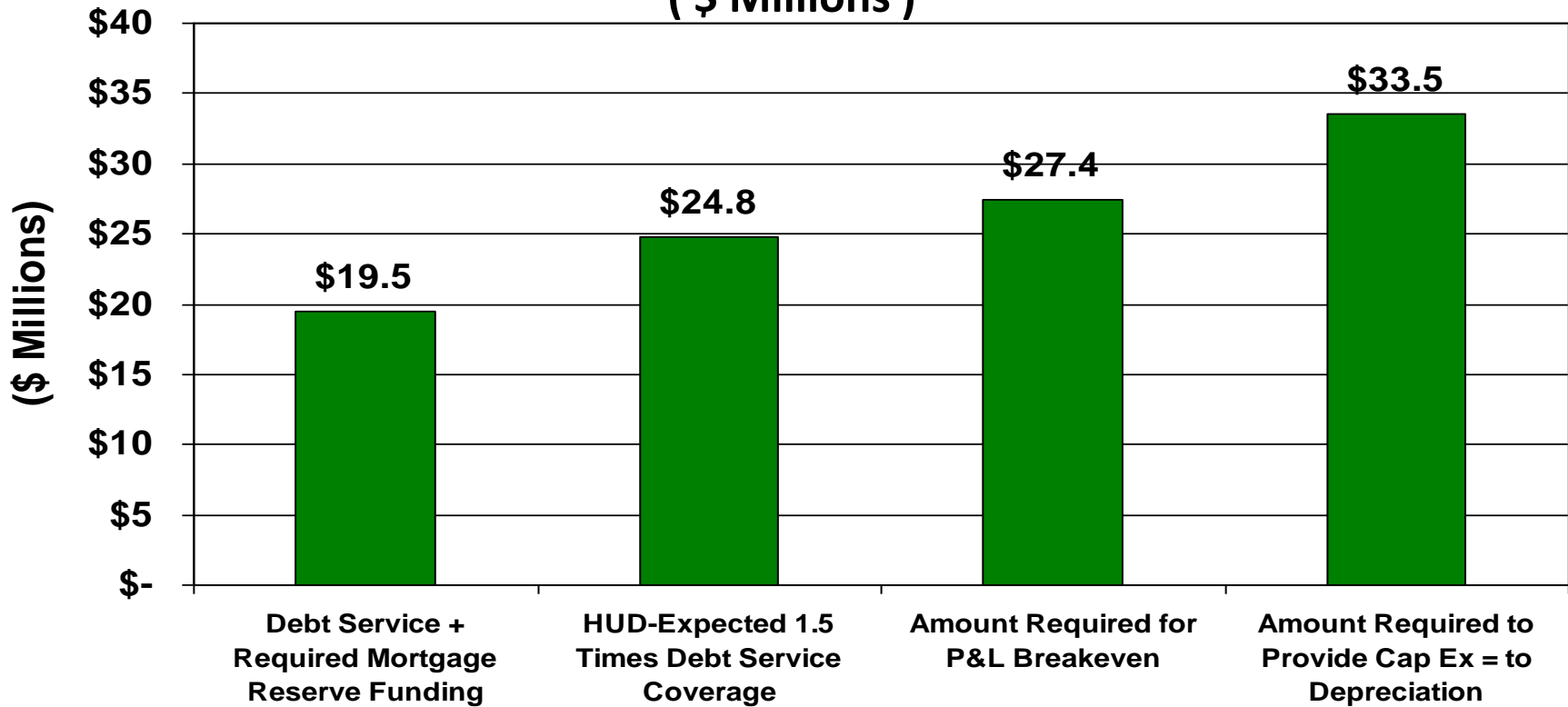
HHS – Financial Situation

HILLCREST HEALTH SYSTEM CONSOLIDATED EBIDA (\$000)



HHS – Projected EBIDA Necessary

HILLCREST HEALTH SYSTEM REQUIRED EBIDA BEGINNING IN FY2010 (\$ Millions)



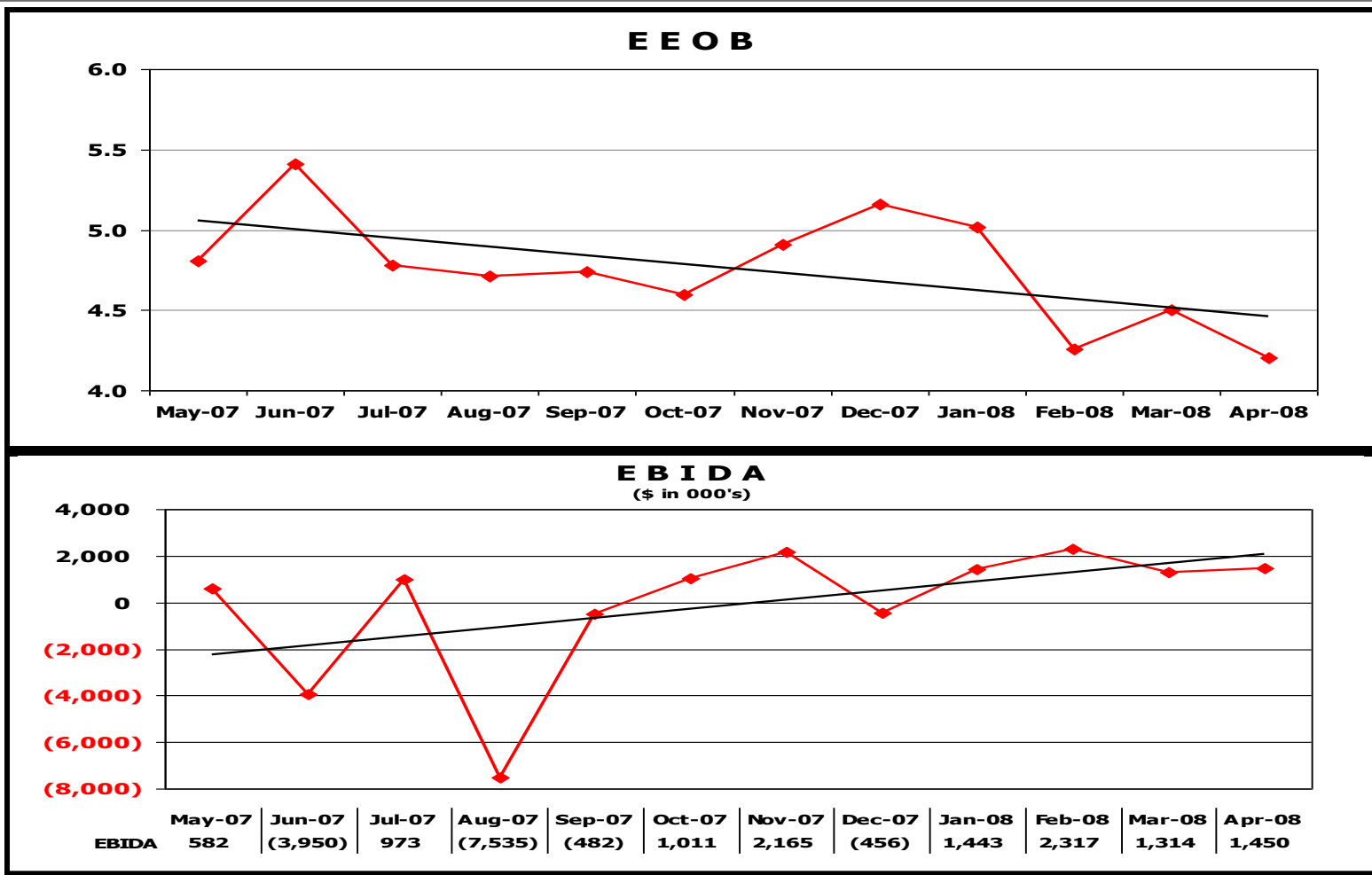
HHS – Turnaround Strategies

- Strained Physician Relationships
 - Trust
 - Communication
- 1-on-1 Visits
 - >200 physician visits in 1st 120-days
- Development of Physician Leadership Group
- Focus on Operational Excellence

Physician Leadership Group

- 15 Member Physician Panel
- Physician Lead
- Selected by CEO
- Meets Monthly
- Other Attendees:
 - Admin ops staff
 - Board chairman
- Main Focus:
 - Clinical issues
 - Process issues

HHS – Operational Improvements



Hillcrest – Protecting our Future

- Strong, Immediate Operational Improvement
- Replacement Hospital Under Construction
- Strong Primary Care Network - HFHC
- Open Medical Staff
 - High quality
 - Committed to remaining independent
- Future of Healthcare Uncertain
 - Continued decline in reimbursement
 - Growing uninsured/underinsured
- Long Term, Sustained Growth???

Ideal “Must Haves”

- Continued Choice in our Community
- Protect Name and Brand
 - Hillcrest Baptist Medical Center
 - 80 year history in community
- Fair and Balanced Board
 - Community/Hillcrest interest protected
- Hillcrest Family Health Centers would remain a separate entity of the partnership
 - 38 primary care physicians and 7 clinics
- Continue with our major expansion project
- Protect our Faith-Based Heritage
 - Retain our affiliation with the Baptist General Convention of Texas

Ideal Partner

- Culture
- Physician-oriented
- Financial strength
- An added strength - existing presence in the marketplace

Scott & White Healthcare

- Non-profit integrated healthcare delivery system based in Temple, Texas
- Physician-founded and physician-led
 - Employs more than 1,000 physicians and scientists
- Primary teaching affiliate
 - Texas A&M College of Medicine
- Financial Strength
 - Joint AA-, Aa3, stable credit rating
 - Highest A.M. Best rating (A-) issued & affirmed to S&W Health Plan (2007)
- Quick Stats
 - Over 14,000 employees
 - Over 1,000 licensed beds
 - Serving more than 1.5 million patients annually
 - 240,000-member health plan

Hillcrest Baptist Medical Center

- Governance:
 - A new 12-person Board of Directors
 - HHS will appoint 6 Directors
 - A majority of whom would reside in Waco
 - S&W will appoint 5 Directors
 - A majority of whom would reside in Waco

Hillcrest Baptist Medical Center

- Due to a weaker financial position, other negotiation points gained increased value:
 - Board Composition (50/50)
 - Reserved Powers – Certain actions would require the approval of both HHS and S&W boards – i.e.:
 - Amendment of Articles of Inc. or Bylaws
 - Change in tax-exempt status or mission and purpose
 - Admission of any new corporate member

Hillcrest Baptist Medical Center

- Operations:
 - Employees – Hillcrest would employ all personnel (except CEO – who would be employed by CHC)
 - Clinical Matters – The Board would delegate authority to the PLG – comprised of physicians and representatives of HHS and S&W

Potential Downsides

- Lose our full independence
- Risk relationship with medical staff
- Risk relationship with HFHC
- Risk relationship with certain community stakeholders

Potential Upsides

- Mitigation of financial threats
- Stable beginning at our new location
- S&W health plan access
- Perceived “halo effect” by many
 - S&W Healthcare = high quality
- Further expansion of training programs
- Synergies in key service lines
 - Trauma, post-acute, oncology, etc.

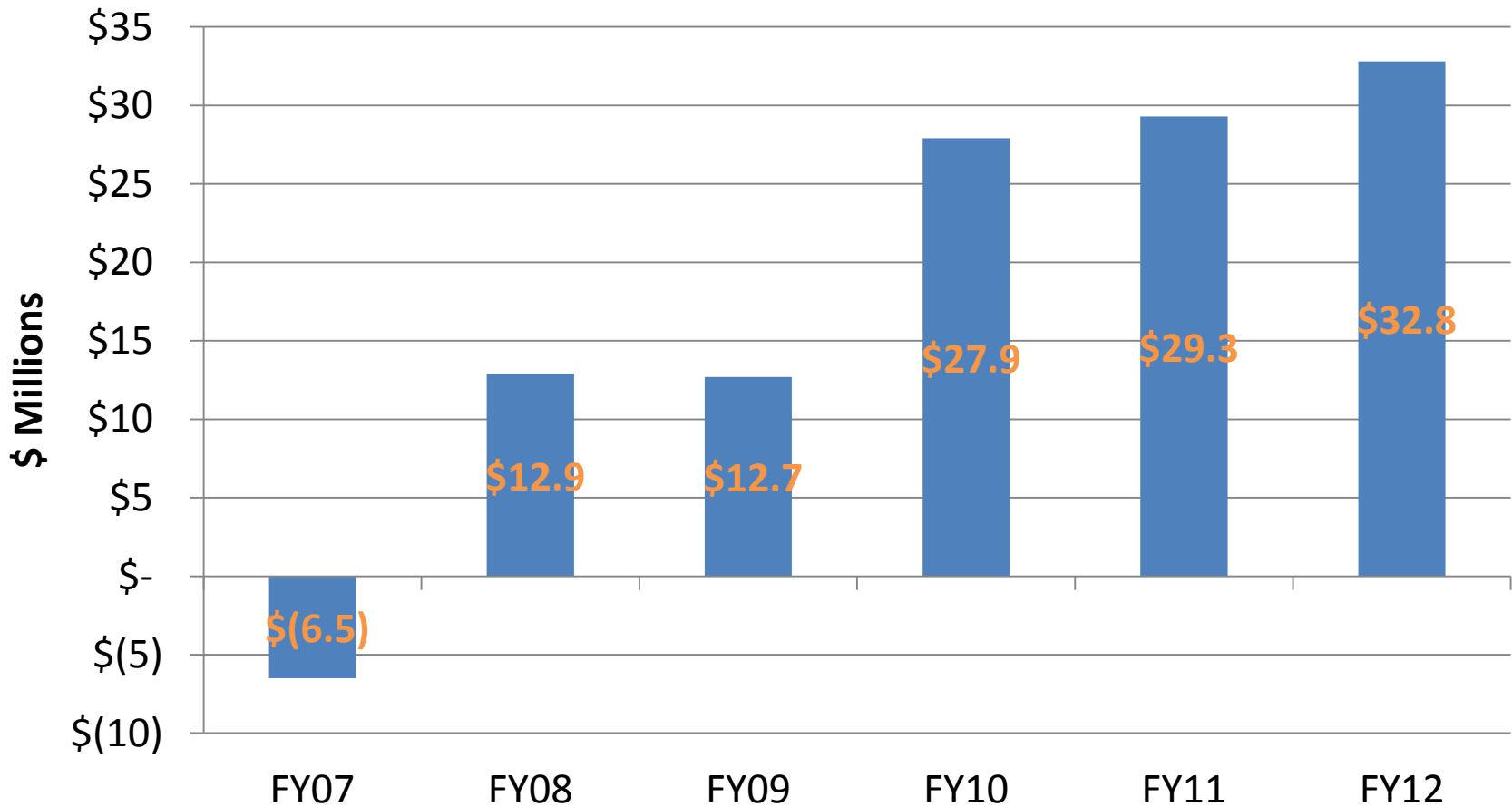
Creation of HBMC

- Memorandum of understanding approved by both HHS and S&W
 - Announced 1 year prior to merger
- Conducted due diligence
- Definitive agreement – April 1, 2009

Successes

- Sustained operational and financial improvement
 - FY12 was our strongest financial year in over 16 years
- Strengthened physician relationships
- Strengthened community relationships
- Sustained positive market share trend
- Addition of new services
 - S&W Center for Rehabilitative Medicine
 - S&W Regional Cancer Center – Hillcrest
 - Hillcrest Surgery Center
 - Additional surgical specialty growth

Operating EBIDA



Future

- Part of Integrated Healthcare System positioned for the future
 - Local, State and National Presence
 - Baylor Scott & White Health Announcement
- Continued commitment to local community and the delivery of high quality, affordable healthcare to our region
 - Adoption of Best Clinical Practices
 - Synergistic relationship that creates value



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Questions & Answers

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Thank You!

Community Hospital Corporation

5801 Tennyson Parkway, Suite 550

Plano, Texas 75024

972.943.6400

www.communityhospitalcorp.com