



Proposed Greater Waterbury Health Network/ Tenet Healthcare Joint Venture

*Presented to the Offices of the Attorney
General and the Department of Public Health's
Office of Health Care Access
October 15, 2014*

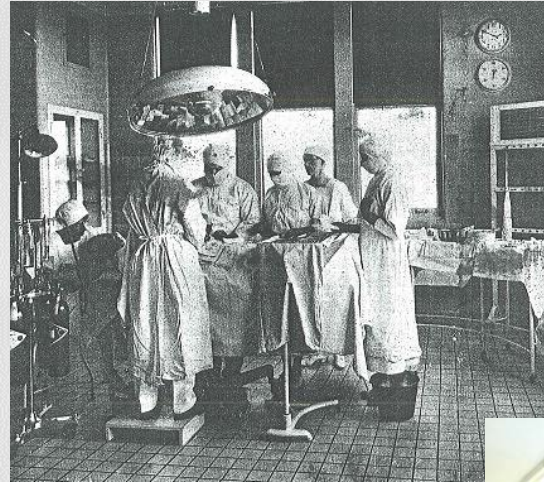
Overview

*Darlene Stromstad, FACHE, President/CEO,
Greater Waterbury Health Network & Waterbury
Hospital*



Serving our mission of healthcare since 1890

- This is all about patients
- Our purpose is to ensure Greater Waterbury has access to healthcare:
 - Sustainable
 - Accessible
 - Highest quality possible
- Today, in 2014 that requires dramatic change



GWHN/Waterbury Hospital today

- We have continually changed to meet the needs of the community
 - Comprehensive, high quality, full service acute care hospital
 - Serve an ethnically diverse population in a financially challenged community
 - Remain dedicated to education and providing our patients with a well trained staff



We're good at it

In spite of all distractions, we have remained focused on our patients:



Culmination of several dynamics and years of effort

- Several things going on:
 - Existing financial challenges
 - Healthcare reform is dramatically changing the industry
 - Federal and state reimbursement decreasing
- The stakes are higher
- There is no longer time for a do-over

This is the time for the Tenet partnership

Healthcare reform (ACA)

- Goals of healthcare reform
 - 1) increase quality
 - 2) improve accessibility
 - 3) decrease cost



Laudable goal, challenging process

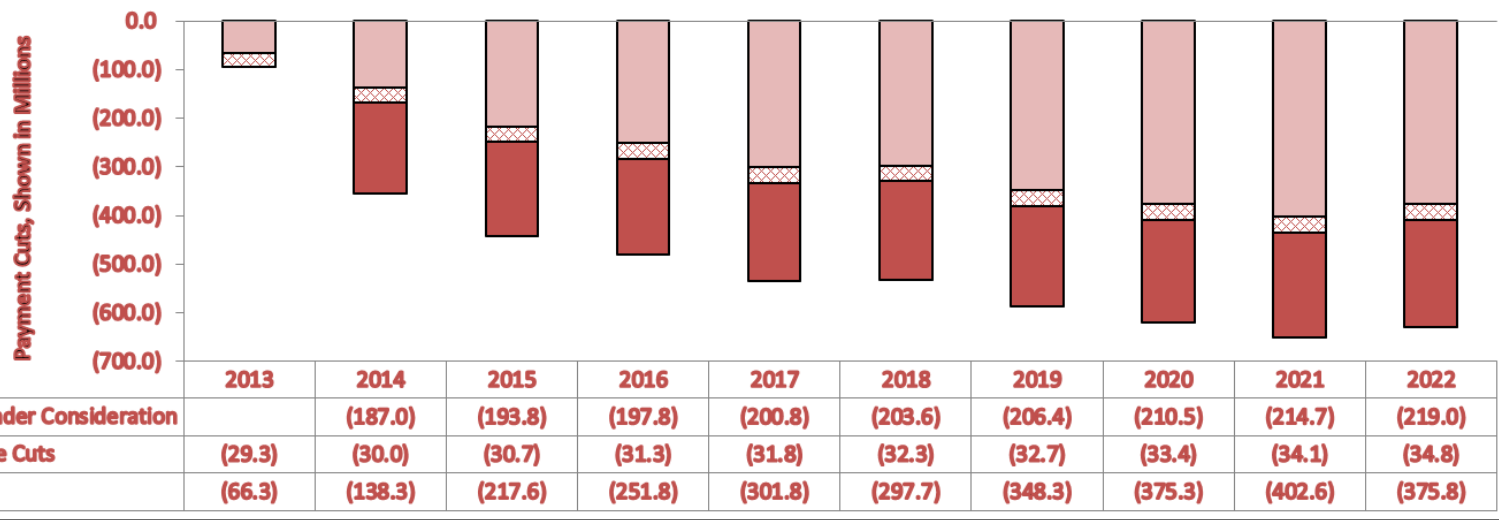
- Dramatic shift from inpatient to outpatient care
 - More complex patients require more resources
 - Growth of technology and medical advances
 - Expansion (and shortage) of primary care
 - Increased regulation and expense
 - Payment shift from fee for service to pay for performance (value based purchasing)
 - Dramatic reductions in reimbursement
- ***Current Healthcare Reform... “Most significant change in healthcare since passage of Medicare in 1965”***
 - ***Kaiser Family Foundation***

The scope of reform

- Shifts federal spending away from hospitals to other healthcare priorities
- Nationally, \$155 billion reduction in hospital Medicare reimbursement over 10 years
 - For Connecticut more than \$3 billion
 - For Waterbury Hospital more than \$95 million

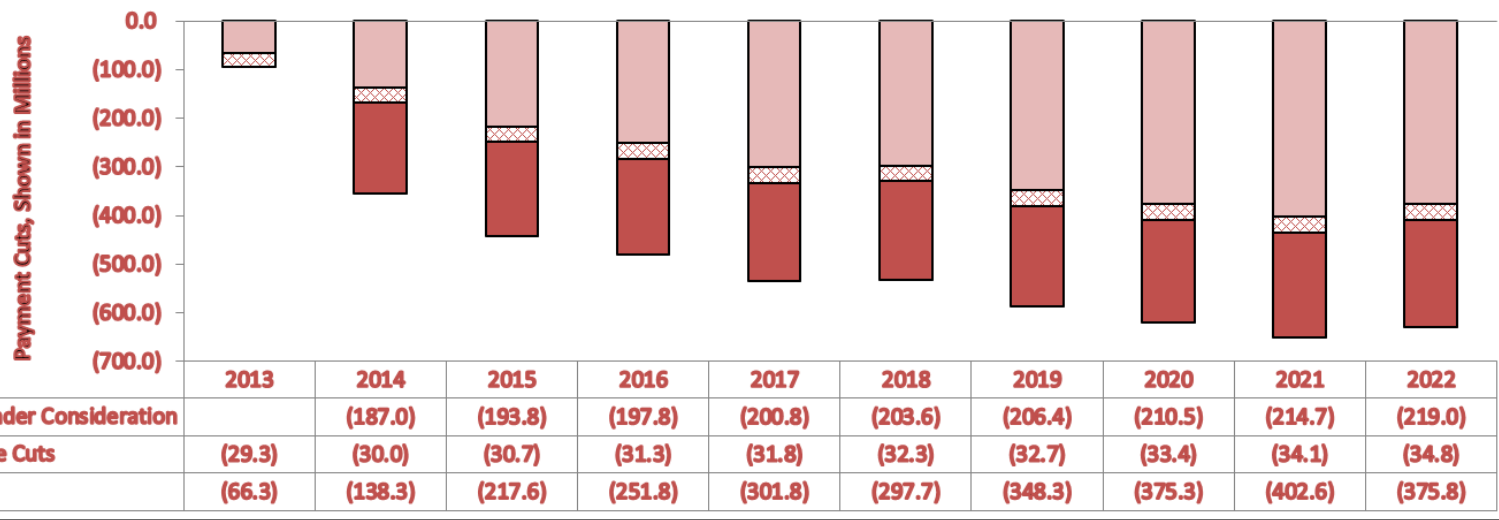
(Source: Connecticut Hospital Association)

Impact of Existing Medicare Provider Payment Cuts and Additional Cuts Under Consideration: Connecticut



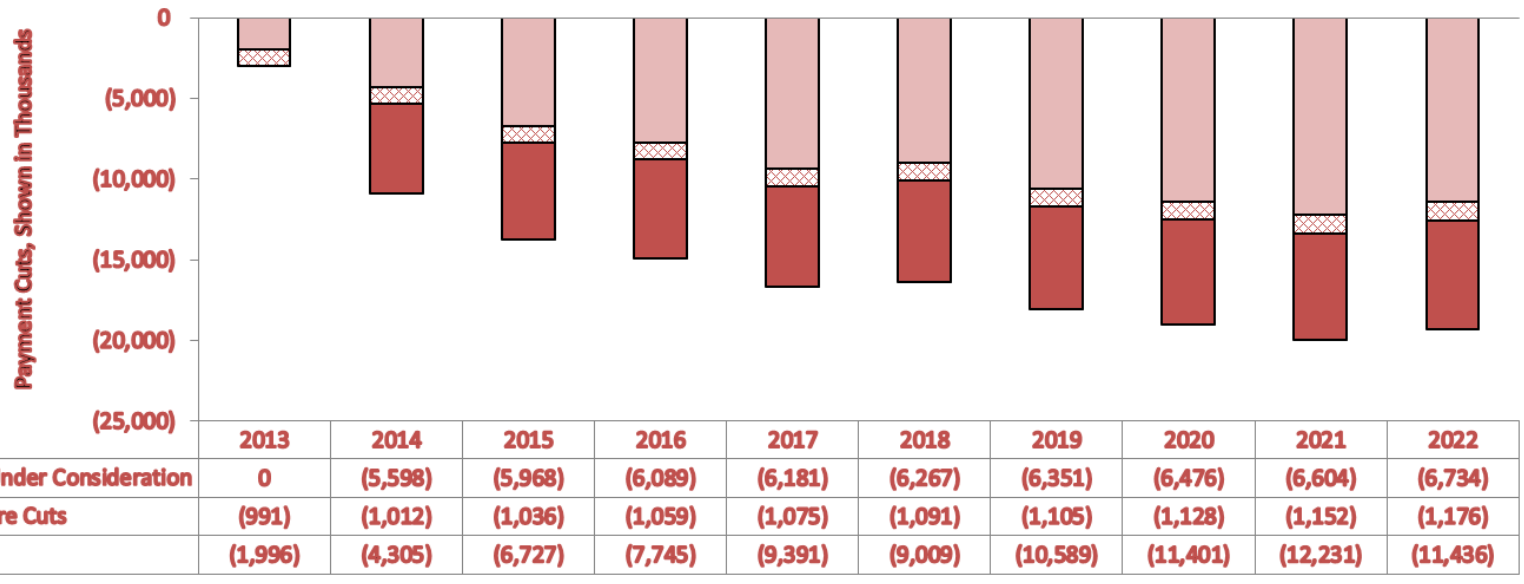
Source: CHA

Impact of Existing Medicare Provider Payment Cuts and Additional Cuts Under Consideration: Connecticut



Source: CHA

Impact of Existing Medicare Provider Payment Cuts and Additional Cuts Under Consideration: Waterbury Hospital



Source: CHA

Waterbury Hospital: FY2015

Medicare increases / (decreases):

	<u>FY 15 v FY 14</u>	
Market basket update (includes Budget Neutrality)	\$1,211,600	
Mandated market basket reductions	(\$315,300)	
Mandated coding adjustment reduction	(\$358,300)	
Wage – Index reduction	(\$3,348,900)	
MS- DRG changes	\$1,100	
Quality based payment adjustments	(\$569,300)	
Disproportionate Share of Hospitals (DSH) payment changes	(\$1,058,100)	
Outpatient Prospective Payment System (PPS) changes	(\$409,100)	
	<hr/>	
Sub-total		(\$4,486,300)

Medicaid increases / (decreases):

Medicaid Provider Tax -Per Year \$8,287,740 payment to DSS	\$0	
Medicaid DSH / UPL Pool-Per year \$2,911,598 income from DSS	(\$3,575,813)	
	<hr/>	
Sub-total		(\$3,575,813)

Meaningful Use increases / (decreases):

Medicare	(\$646,433)	
Medicaid	(\$322,653)	
GWHN Entities	(\$386,250)	
	<hr/>	
Sub-total		(\$1,355,336)

Total Unfavorable Reduction to Net Revenues for Fiscal Year 2015 **(\$9,777,449)**

Status quo is not an option: Strategic partner necessary

- Strengthen & grow outpatient services
- Invest in equipment & state-of-the-art technology
- Attract & retain physicians
- Bolster focus on quality & safety
- Prepare for new era of reform & population management

Goal:

“Build a comprehensive community-centered healthcare strategy to meet the needs of the Greater Waterbury region”

– GWHN Board

Dare to be more

- We can be part of the change that transitions healthcare
 - Bring care to the neighborhoods, to where the people are
 - Build on collaborative networks that provide the right service at the right time in the right environment
 - Learn from best practices and deploy locally
 - We can shift from simply treating what ails you to building healthier populations
 - Do the right thing for the patients and communities we serve

Why Tenet Healthcare?

- Culture of maintaining local healthcare
- Ability to invest: technology, facilities and outpatient growth
- Record of strong strategic academic and physician relationships
- Company focus on quality, safety and best practices
- Experience in population health management



This is our promise



The patient remains at the center of everything we do



The Journey

*Carl Contadini, Chairman of the Board,
Greater Waterbury Health Network &
Waterbury Hospital*

The Journey: Long and frustrating

- Waterbury Hospital has long engaged in strategic planning that has included some type of collaboration with other hospitals, most recently with Saint Mary's
- Leever Center (1999), Heart Center (2003)

Numerous studies & efforts

- **2005** - Kaufman Hall studies possible consolidation of WH and SMH
- **2006-2007** - Discussions between SMH and WH
- **2007** - Draft OHCA report recommends consolidation of the two hospitals among other things
- **2008** - Unable to reach an agreement or find funding, discussions conclude

Financial issues urged expediency

- **2009** - Default of CHEFA bond covenants
 - Entered into a forbearance agreement
- **2010**- Board engaged consultants (PwC and Kaufman Hall) to assess operational issues, determine capital need for future; anticipated that cash would be depleted in 2015
- **2010** - **Refinanced CHEFA bonds**
- **2011**- Board formed a task force to chart course for hospital

This time ingredients were there for a transaction

- Task force comprising independent directors, the Chief of Medical Staff, was formed to redirect hospital
- Recommendations: interim CEO, operational changes, permanent CEO and search for capital partner
- Interim CEO undertook financial reductions in expenses
- Task force engaged healthcare industry specialist Cain Brothers to find a capital partner
- Board hires current CEO recommended by Task Force to implement capital partner strategy

Clear goals and strategic direction

Task force identified goals, which included:

- Access to capital
- Local availability of **all services**; high quality – **a must**
- Continued charity care
- Voice in governance
- Ambulatory service strategy
- Develop regional tertiary care relationships
- Enhance medical staff
- Tools & services to improve community's health

Vigorous process continues

- **2011** - Cain contacted 14 parties, 4 responded with proposals
 - Local nonprofits either declined to participate or did not respond to RFP
 - Hub and spoke model not in best interest of the community
- **2011** - Two were chosen
 - Waterbury Hospital found Vanguard to be clinically stronger; chose LHP which promised to build a new hospital to strengthen Waterbury's economic position
 - Valuation expert retained after RFP, fairness opinion given
- **2011-2012** - Vigorous efforts to complete LHP/Waterbury Hospital/SMH transaction
- **August 2012** - LHP terminated the deal

Process continues: Resilience is part of our character

Fall 2012

- Board understood the need to continue forward with strategy
- Cain Brothers again solicited potential partners
 - Only 2 were interested enough to submit a proposal, neither non-profits
- Candidates came to hospital and were thoroughly interviewed by the Task Force
- Proposals negotiated by Cain Brothers
- Task force adopted a recommendation to move forward with Vanguard
- Presented to Board: Cain Brothers and counsel were present to answer questions

We can see the future

- Board chose an 80/20 joint venture; Board wanted a meaningful voice in the governance of the hospital
- Diligence period commenced
- GWHN and Vanguard responded to **each other's** requests for information
- Re-engaged Principle Valuation for a fairness opinion
- Counsel conducted diligence, presented a summary to board
- Definitive agreements were negotiated by counsel and task force

New partnerships and collaboration

- **August 2013 - Vanguard announces strategic alliance with Yale New Haven Health System.**
 - Management and medical staff discuss current relationships with YNHH at Board meeting.
- **October 2013 - Tenet Healthcare purchases Vanguard**
 - Cain Brothers presents diligence on Tenet to WH Board
 - Members of Task Force and Board visited Tenet Hospitals: Saint Mary's (Florida) & Good Samaritan (Florida)

Long journey, promising destination

- Board diligence: extensive and never stopped
- Transaction: discussed at every Board meeting in executive session to allow for full and frank discussion
- Special board meetings called as necessary
- Formal task force meetings
- Countless informal interactions with Board members and advisors
- Management, bankers and counsel continue to update and field questions from task force and board during executive sessions
- Multiple forums held with legislators, business leaders, community members, employees, medical staff and labor unions

The Journey: Proposed Joint Venture

- **80/20 Joint Venture**

- Form a Limited Liability Company, Tenet has 80% ownership and GWHN 20% ownership

- **\$45M purchase for 80% interest**

- GWHN will pay off liabilities

- **\$55M capital investment**

- Capital equipment, outpatient strategy, physician recruitment

- **Post-conversion foundation will oversee charitable assets and retained liabilities**

- Board comprised of GWHN-appointed community members
- Community advisory group that represents Greater Waterbury's neighborhood

The Journey: Proposed Joint Venture

- JV governance

- 12-member board of directors; six appointed by Tenet, six appointed by GWHN
- First board chair, appointed for three years, will be the board chair of GWHN at time of closing
- A 12-member local board of trustees of which six are members of the Waterbury Hospital medical staff; remainder are community members
 - Credentialing of medical staff
 - Quality reporting standards
 - Accreditation
 - Community relations and outreach

Looking ahead to a brighter future

The Waterbury Hospital Board continues to support the joint venture today and is even more optimistic about what Tenet can bring to our community.

