



Current Trends in Hospital Affiliations

Dixon Hughes Symposium

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What Will Be Covered

- Factors Driving Affiliation
- Examples of Affiliation Options
- Factors to Consider in Affiliation



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Factors Driving Affiliation

- Reduced Reimbursement
 - Reduced reimbursement from Medicare/Medicaid
 - Reduced reimbursement from managed care companies
 - Reduced inpatient volume

Factors Driving Affiliation

- Managed care leverage
 - Independent hospitals are at a disadvantage when negotiating rates
 - Major private payors have indicated an emphasis on dealing with the larger hospital systems
 - A sense of “If you can’t beat them, join them”

Factors Driving Affiliation

- Increase in Costs
 - Costs in general continue to rise
 - Technology expenses – equipment; EMR; training staff, etc.
 - Little leverage with which to contain costs
 - Need to find economies of scale

Factors Driving Affiliation

- Concerns about future of health care delivery system
 - Emphasis from government and private payors is on collaboration
 - Future reimbursement likely to be tied to COSTS and QUALITY
 - What will delivery system look like in the future?

Factors Driving Affiliation

- Local market dynamics
 - Patient mix
 - Ability to recruit physicians in needed specialties
 - Concern about encroachment of new systems into market

Factors Driving Affiliation

- Access to capital
 - Recent trends in economy have tightened capital markets
 - Financing increasingly more difficult to obtain
 - Bond market more restrictive

Factors Driving Affiliation

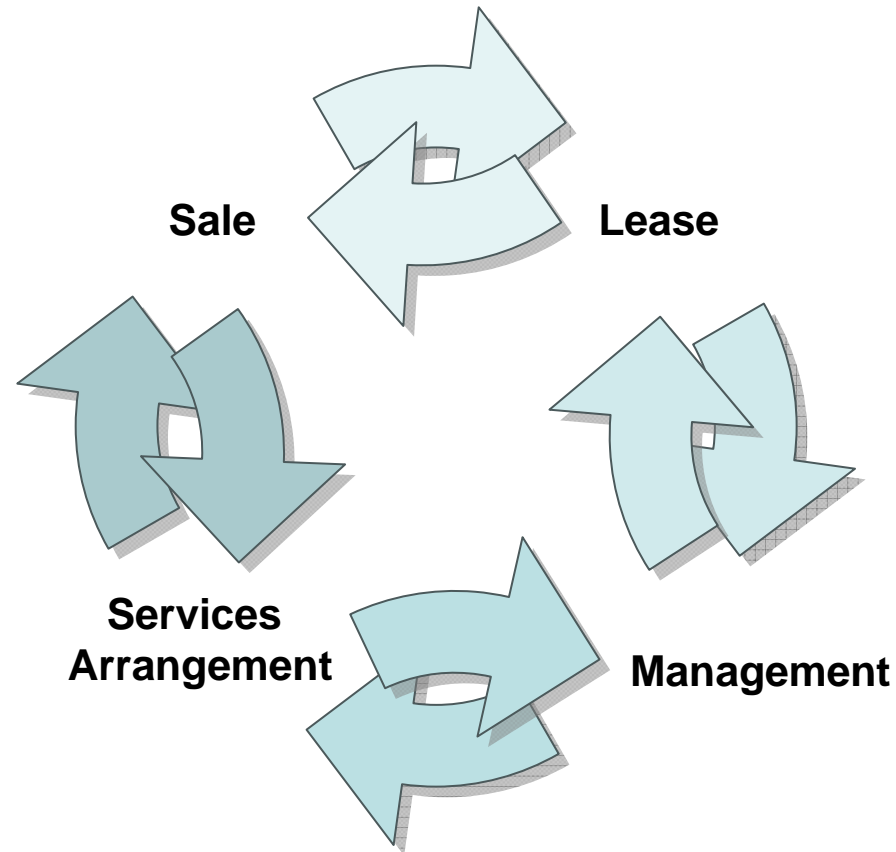
- Physician relationship
 - More physicians looking to be employed by or affiliated with hospitals
 - Pressures on sustaining physician-owned practices
 - Challenges related to successful physician recruitment



- Factors Driving Affiliation
- Examples of Affiliation Options
- Factors to Consider in Affiliation

Examples of Affiliation Options

- Spectrum:



Examples of Affiliation Options

- Sale/Acquisition
 - Outright Sale of the Hospital's assets
 - Complete transfer of Hospital operations

Examples of Affiliation Options

- Merger
 - Two or more hospitals combine to form new single entity
 - Each hospital contributes assets to new entity
 - New entity operates as a comprehensive system

Examples of Affiliation Options

- Joint Venture
 - Hospital contributes assets to new JV
 - Partner contributes cash to new JV
 - New JV operates Hospital
 - Options for ownership structure
 - Options for governance structure

Examples of Affiliation Options

- Long Term Lease
 - Hospital leases assets and operating rights to another hospital/system
 - Hospital Board continues to own assets and provide oversight of lease
 - Options for reimbursement; length of lease; control

Examples of Affiliation Options

- Management Agreement
 - Hospital engages another entity (hospital/system/management company) to manage hospital
 - Hospital usually retains ownership of assets, operating license, A/R

Examples of Affiliation Options

- Other contractual relationships
 - Group purchasing arrangements
 - Service line arrangements
 - Physician recruitment services
 - Billing/collection services

Examples of Affiliation Options

- Recent Examples of Affiliations in the Area
 - Acquisition/Merger
 - Community Health Systems acquires Marion Regional Health System (SC)
 - Novant Health (NC) merges with Prince William Health System (VA)
 - Joint Ventures
 - Duke Health (NC) – LifePoint Hospitals – Maria Parham (NC)
 - Greenville Hospital System (SC) – Palmetto Health (SC) – Baptist Easley (SC)

Examples of Affiliation Options

- Recent Examples of Affiliations in the Area (cont.)
 - Long-Term Lease
 - UHSEC (NC) leases Duplin General (NC)
 - Carolinas Healthcare System – Lincoln County Hospital (NC)

Examples of Affiliation Options

- Recent Examples of Affiliations in the Area (cont.)
 - Management Affiliations
 - Carolinas Healthcare System → AnMed (SC)
 - Wake Forest Baptist Health (NC) → Lexington Memorial (NC)
 - Duke University Health (NC) → Lexington Medical Center (SC) → cardio program
 - Roper St. Francis Healthcare (SC) → Hampton Regional (SC)



- Factors Driving Affiliation
- Examples of Affiliation Options
- Factors to Consider in Affiliation

Factors to Consider in Affiliation

- Mission and Purpose
 - Is affiliation consistent with Mission and Purpose?
 - Are potential partners compatible with Mission and Purpose?

Factors to Consider in Affiliation

- Is Affiliation consistent with your public/governmental or tax exempt purpose?

Factors to Consider in Affiliation

- Approval requirements
 - Governing Boards
 - Regulatory Agencies

Factors to Consider in Affiliation

- Local control
 - How important is it to maintain local governance of Hospital?
 - What form does this local governance need to take?
 - How will local governance be implemented?

Factors to Consider in Affiliation

- Culture
 - Are the cultures of the two entities consistent and compatible?
 - Impact on culture
 - Consider current and future leadership and succession planning

Factors to Consider in Affiliation

- Request for Proposal Process
 - Attempt to elicit multiple bids
 - Balance specific requests with general solicitation
 - Confidentiality agreements
 - Negotiations of Letter of Intent with potential partner

Factors to Consider in Affiliation

- Determination of compensation
 - Upfront cash compensation
 - Debt assumption
 - Lock-up fees
 - How will A/R and liabilities be treated?
 - Management/Service fees

Factors to Consider in Affiliation

- Due Diligence
 - Prepare management and staff
 - Potential for uncovering additional liabilities

Factors to Consider in Affiliation

- Public perception
 - Maintain patient confidence
 - Maintain staff/physician confidence
 - Local elected officials
 - Manage message

HOSPITAL

Speakers

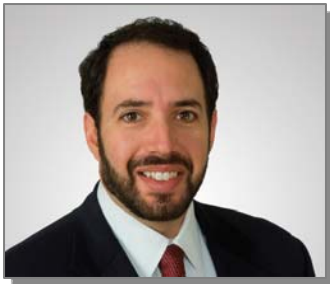


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Matthew Roberts, a healthcare attorney with Nexsen Pruet, represents hospitals, physicians and other healthcare providers. He frequently advises hospitals regarding relationships with physicians ranging from single service agreements to development of integrated physician networks and other collaborative arrangements. He also has experience with strategic planning and implementation for hospitals and other healthcare clients. He advises on issues related to Board governance matters including executive compensation, conflict of interest policies and Board involvement in compliance and quality related issues.



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Joe Kahn, a healthcare attorney with Nexsen Pruet, focuses on assisting clients with their strategic development and implementation of their goals within the regulatory framework applicable to healthcare entities and practitioners. Joe is a member of the Advisory Opinion Task Force for the American Health Lawyers Association's Fraud and Abuse Practice Group. He is also a council member of the Health Law section of the North Carolina Bar Association and serves as secretary / treasurer on the Board of the North Carolina Society of Health Care Attorneys. Additionally, Mr. Kahn serves as Chair of the Board for the Make-a-Wish Foundation's Central and Western North Carolina chapter.



Questions?