



Healthcare Venture Professionals, LLC

*The Joint Venture Leadership Alternative*

## ***“The Best of Both Worlds”: Hospital Management Contract with Surgeons vs. an Equity JV***

***(An Alternative Collaboration Model – Case Study)***

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# *The Partners...*

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- **Hartford Hospital (HH)**
  - Numerous Connecticut Facilities
  - Over 700 Total Inpatient Beds
  - Over \$1 Billion in Net Revenue
  - Over 1,000 Affiliated Physicians
- **Connecticut Surgical Group (CSG)**
  - Large Multi-Specialty Group / 14 locations
  - 20% of all HH admissions
  - 45,000 annual procedures
  - UConn Faculty, Research, World-wide Speaking

# *Background / History...*

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- CSG Desire to own ASC
- Connecticut CON History
- HH motives to JV
  - Collaborative Message
  - History of CSG Relationship
- HH Desire to locate in West Hartford
  - Blue Back Square Development

# Original “Deal Structure”...

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- ❑ 50/50 Equity JV
  - ❑ Freestanding Multi-Specialty
- ❑ 2 OR's (2,800 cases) / 1 Endoscopy Room (2,200 cases)
- ❑ CON approved w/ ok to add 3<sup>rd</sup> OR
- ❑ Board of Directors (3/3)
- ❑ ASC Medical Director (CSG)

# *Environmental Issues...*

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- ❑ Onerous Managed Care
- ❑ Specialty-Mix
- ❑ Rising Construction Costs
- ❑ Significant Competition

# *Development Process Activities...*

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- Shell Building Footprint / Owner ASC Experience
- Construction Costs / Elevator / Canopy
- Management Company Engaged (HVP)
  - Architect, Equipment Planner
  - On-site Administrator
  - Multiple pro forma scenarios / ROI erosion / Grow outside CSG / add 3<sup>rd</sup> OR / Improve Specialty mix

# *Alternative Partnership Model...*

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- HH buys out CSG equity @ FMV
- HH contracts w/ CSG to manage West Hartford Surgery Center (WHSC)
- CSG subcontracts w/ HVP for certain operational management services
- WHSC Net Rev (as HOPD) over 2x “Freestanding” ASC
- 3<sup>rd</sup> Party Valuation for CSG Services:
  - Mgmt. Company kept “whole”
  - CSG Incentives = Quality & Operational Benchmarks vs. Volume or Revenue Related

# Partnership Guiding Principles...

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- Run like “Freestanding” ASC vs. Hospital Department
  - High Quality “5 Star” experience for patients and surgeons
- Key CSG & HH Leadership roles
  - Tame the HH bureaucracy
  - Cut through “red tape”
- Recruit non-CSG surgeons
- Maintain control of key ASC functions:
  - Scheduling, pre-certification, registration & billing, medical supply & instrument standards, equipment, etc.
- Use HH contracts (e.g. GPO) / resources (e.g. bio-med)
  - Go elsewhere if better service / more efficient / less expensive

# CSG Role...

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- ❑ Oversee Mgmt Company
- ❑ Provide Medical Director
- ❑ Provide key leadership to Operations Committee
- ❑ Designate leader to work with HH
- ❑ Establish / maintain standards to ensure quality
- ❑ Recommend approved surgical procedures, credentialing and changes in hospital personnel
- ❑ Implement training programs
- ❑ Recommend and implement Quality Improvement & Utilization Review programs
- ❑ Develop Community Education and Outreach programs

# *Management Company Role...*

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- ❑ On-site Administrator
- ❑ Consulting Expertise / Operational Oversight
- ❑ Regional Operations Director / attend Ops Committee Meetings
- ❑ Operational Performance monitoring & benchmarking
- ❑ Strategic Planning / Industry Trends / Regulatory & Safety Issues
- ❑ Monthly Financial Reporting / Annual Budgeting / New Procedure Analysis
- ❑ Policy & Procedure development / coordination w/ HH

# Operations Committee (3 HH / 3 CSG)...

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- Ops Committee Members:
  - CSG (Chair + President + Chief Admin Officer)
  - HH (Senior VP + VP of Med Affairs + COO or CFO)
  - Ex-officio (Medical Director + HVP + Administrator)
- Roles & Responsibilities:
  - Advise HH on all clinical, managerial & operational issues
  - Monthly Review of financial & operations results
  - All significant clinical & operational matters
  - Health & Safety
  - Patient & Physician Satisfaction
  - Performance of Medical Director, HVP, Administrator and any subcontractors

# Performance Objectives...

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- Quality
  - Infection rate, Transfer rate, Hospital admits within 72 hours
- Operational
  - Patient satisfaction, On-time starts, Medical Records timely completion
- Documentation
  - Licenses, Accreditation, Certifications
  - Recruitment & Training
  - Annual Turnover Rate

# *Hospital / Surgery Center Integration Issues...*

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- Information Systems
- Scheduling, pre-certification, registration & billing (hospital collections)
- Hospital Support Services
- Policies & Procedures
  - Forms issues (anesthesia, billing, medical records, etc.)
  - Drug Control procedures (PIXIS units)
  - HR, Materials Mgmt, Finance

# Observations & Conclusions...

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- Importance of Partnership Relationships / Trust
- Excellent Communications
- Flexibility & Willingness to Adapt
- Monitor changing environment
  - Government Reimbursement / Managed Care Market / Specialty-Mix / Impact on pro formas
  - Construction Costs
- Collaborate for “Win-Win”

# Summary

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## □ Hospital Goals

- Collaborate with physicians
- Offer high quality “5 Star” experience to patients & physicians
- Protect revenue base
- Grow market share

## □ Surgeon Goals

- More control over surgery experience
- Offer high quality “5 Star” experience to patients & physicians
- Grow revenue base
- Grow market share

# *“Best of Both Worlds”...*

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- Hospital
  - 100% Ownership of outpatient surgery
  - Successful Physician Collaboration
  - Professional ASC Management (HVP)
- Surgeons
  - More control of Surgery experience
  - Additional Revenue Source
    - Without risk of capital
  - Professional ASC Management (HVP)