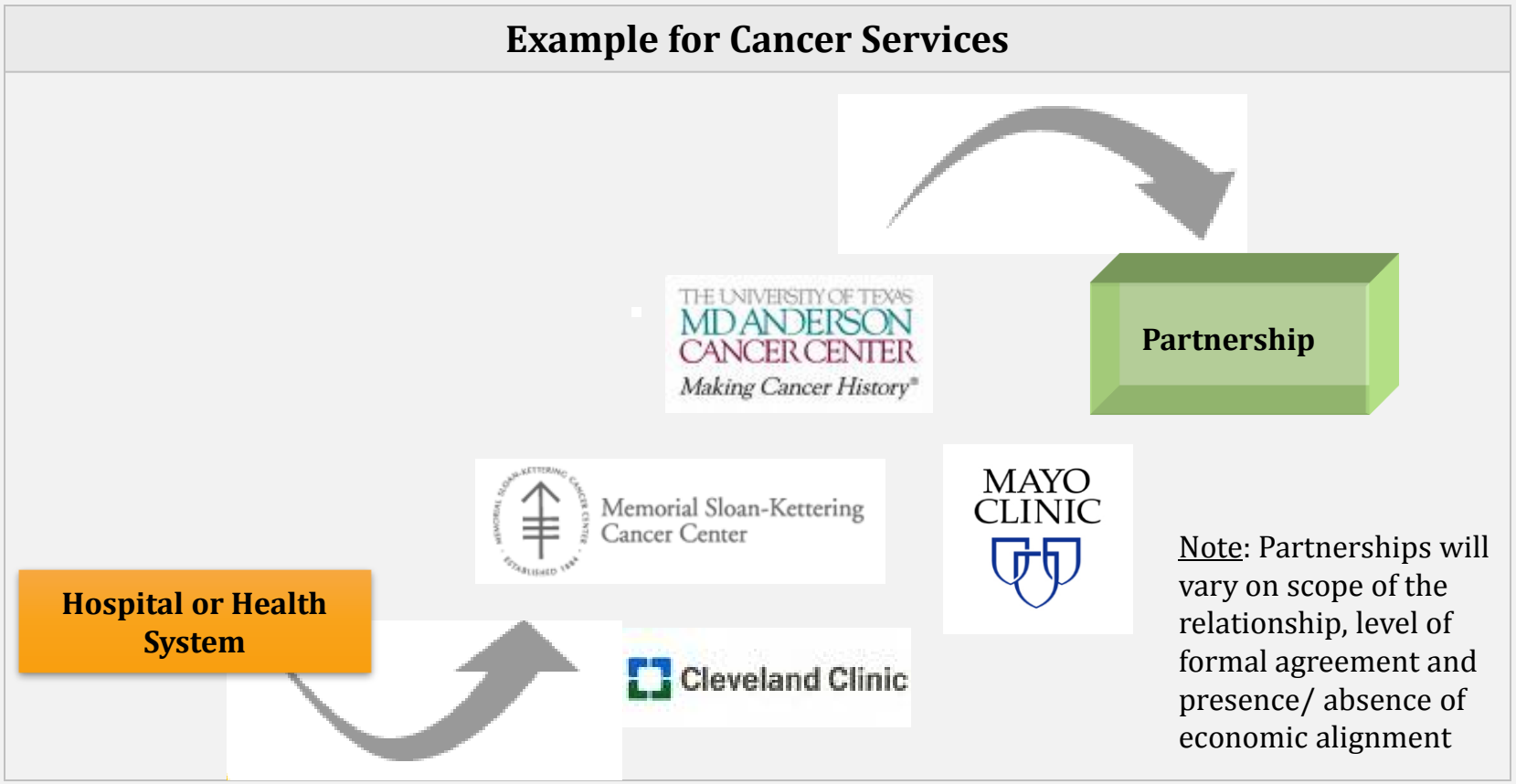
Resource Guide to:
Alternative Alignment Models

*Alternative Alignment Models **without***
Corporate Change of Control to
Strategically Reposition Organizations

Programmatic Contractual Affiliation

Partner with a nationally recognized leader to differentiate select programs and services within the marketplace.

Example for Cancer Services



Note: Partnerships will vary on scope of the relationship, level of formal agreement and presence/ absence of economic alignment

Third Party Capital Partnership

Partner with a third party source to improve access to capital for strategic investments and improved positioning in the marketplace.

Potential Strategies

- **3rd Party financing:** Use of others' capital to finance facility development
- **Healthcare REIT:** Sell real estate assets to REIT with possible lease back option; useful mechanism to reposition hospital facilities as care shifts to outpatient settings, etc.
- **Co-location:** Arrangement of mutually beneficial services in order to increase traffic to a particular destination
- **Risk management:** Become an anchor tenant with a developer & securing options for future expansion
- **"Condominium" Model:** Bring parties together to a single site who have their own business & capital source
- **Phased Development:** Large space development planning with incremental short-term space investments

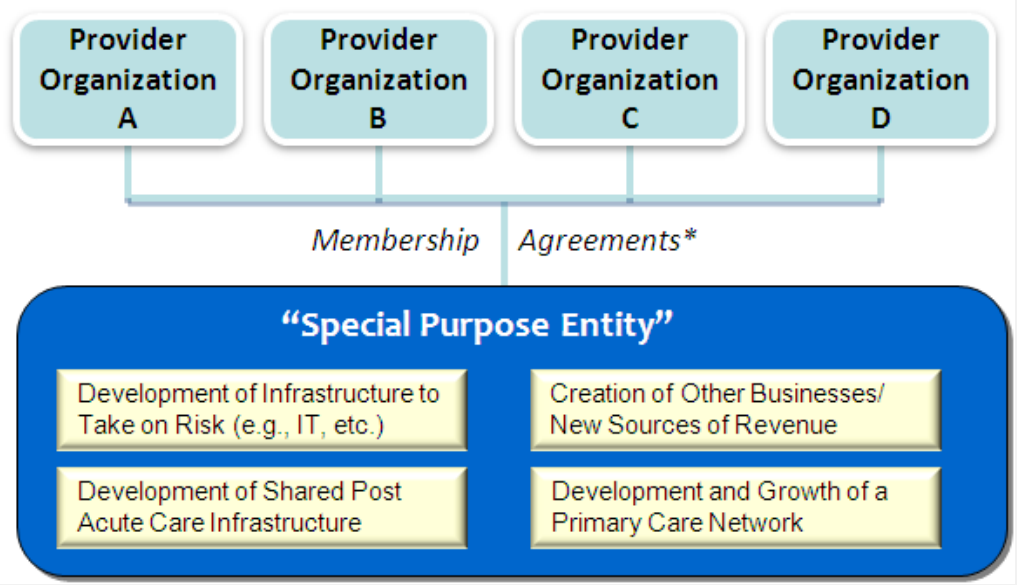
- Strategies may be used independently or in combination with one another.

Considerations

- Market positioning
- Economic risk
- Competitive/Collaborative implications and reactions
- Regulatory implications (e.g., Stark)
- Types of structural arrangements
  - Service ownership
  - Equipment lease/ownership
  - Real estate lease/ownership
  - Financial vs. non-monetary ("sweat") equity
- Branding of the facility
- Priority of clinical programs
- Relationship between ambulatory and inpatient facilities
- Other

Special Purpose Entity

Develop a Special Purpose Entity that would have its founding members create a new non-profit entity for select joint activities. In some places called a "Shared Services Arrangement" or "Common Infrastructure Organization".



- Membership Agreements define the scope of purpose of the work done together.
- Members can move a large portion of their cost structure into the "Special Purpose Entity" (SPE).
- Members remain independent and retain their own assets/liabilities and control over their delivery systems.
- The SPE serves as a platform for the parties to develop broader shared activities over time.
- It creates the circumstances for them to engage in new business activities they couldn't do on their own.

Special Purpose Entity Examples

Purchasing Collaboratives

- Multiple parties enter into contractual agreements (purchasing collaboratives) that create a new entity to achieve greater efficiencies and economies of scale in purchasing arrangements.
- Partnering systems are controlling members of the collaborative but ownership and governance of their other operations remain independent.
- ***Example*:**
  - **MNS Supply Chain Network** is a partnership between MedStar Health (**Georgetown University Hospital**) in Columbia, MD, Novant Health in Winston-Salem, NC, and Sentara Healthcare in Norfolk, VA
  - Designed to lower costs of medical supplies and services formed in 2011
  - Governed by a board which includes a senior executive from each of the 3 systems with the board chair rotating annually among the three systems.

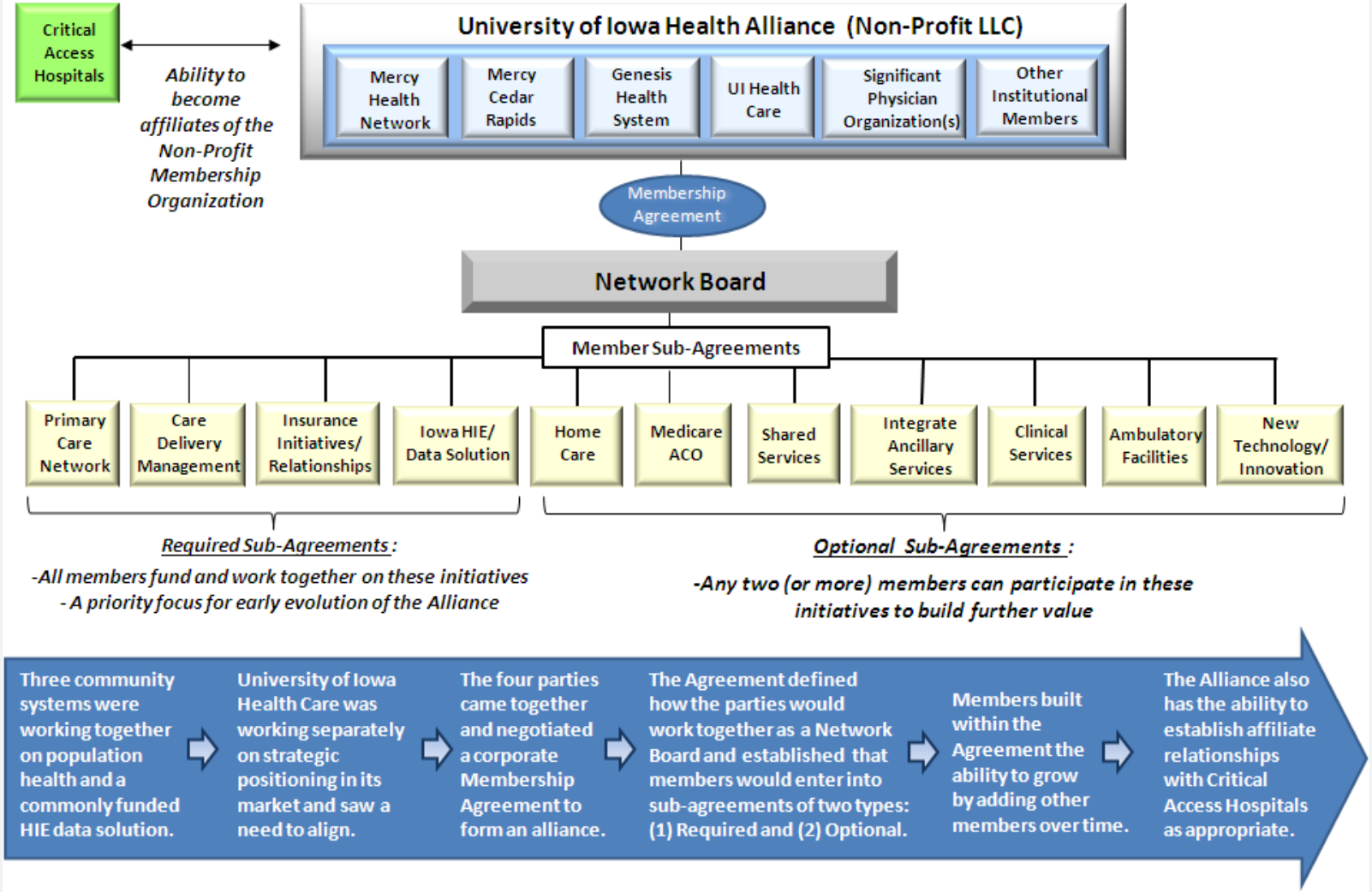
Best Practice Collaborations

- Allow partner organizations to work together to identify, define and implement best practices for clinical and business operations
- Require little to no capital investment to establish
- Can be structured to allow additional entrants into partnership
- ***Example:***
  - **BJC Collaborative** formed in 2012 between **BJC Healthcare** in St. Louis, St. Luke's Health System in MO, CoxHealth in MO, Memorial Health System in IL
  - It is a non-profit LLC managed by operating committees with leadership from partners
  - 4 roundtable groups share best practice information on patient care, employee benefits, professional development and regulatory compliance

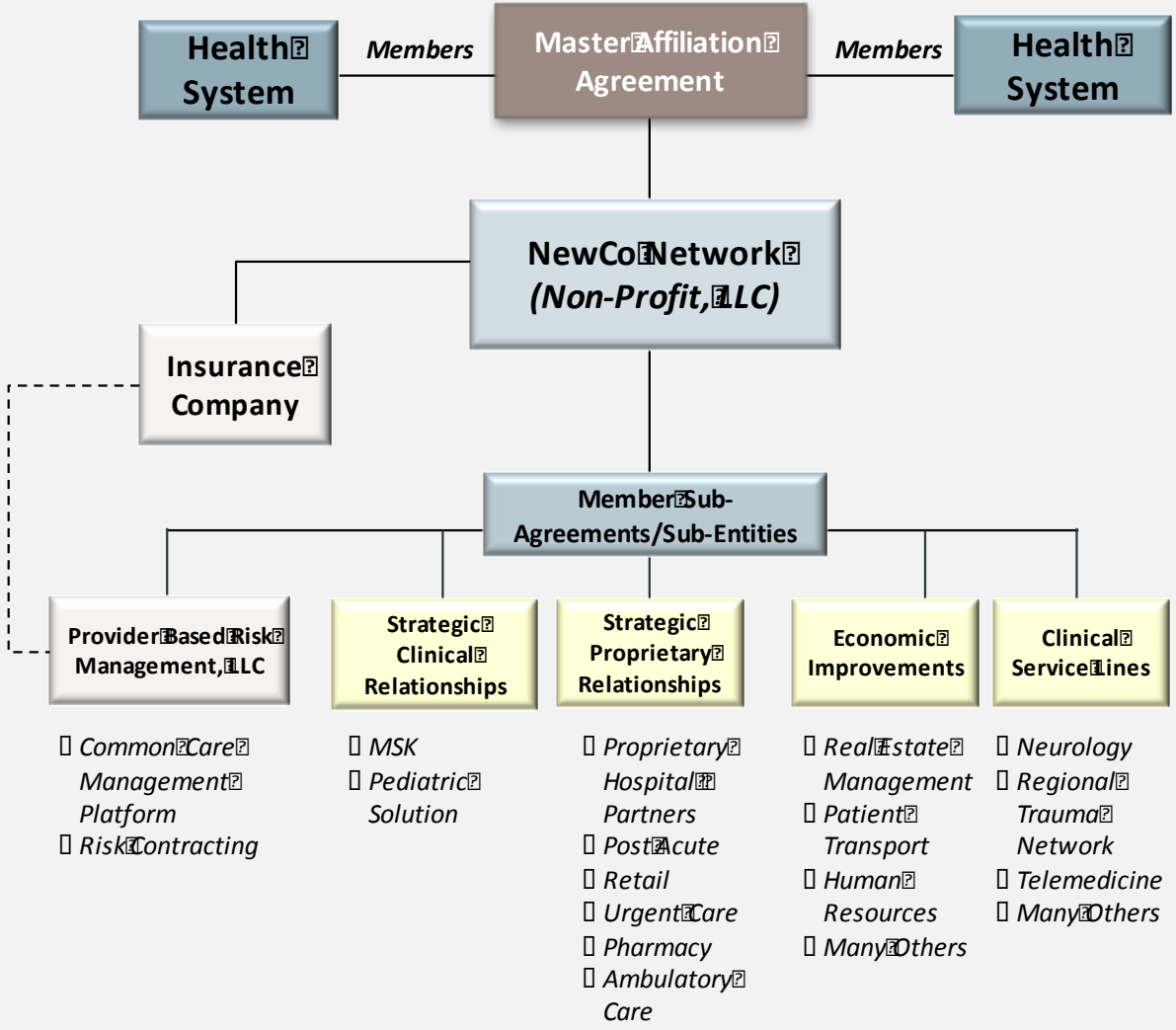
Integration without Merger

- Integration without Merger is earning its place as a preferred strategy among providers nationwide *unable* to or *uninterested* in pursuing a full sale/asset merger.
- Hospitals and smaller health systems are joining together on a *selective basis* to achieve substantial, mutual benefits while maintaining fundamental autonomy.
- The resulting relationships range in intensity, purpose and scope depending on the unique circumstances of the hospitals involved.
- While aligning with one hospital/system is often more efficient and practical, multiple parties may be required to achieve the size and scale needed for long-term success.
  - Involving multiple parties can occur at the outset or incrementally over time, as an initial two-way relationship can create a story or value proposition to attract others later on.
  - Providers need *not* be geographically contiguous to pursue Integration without Merger and derive substantial benefits; certain functions can be combined and accomplished remotely.
- These arrangements could ultimately be a prelude to merger if it eventually makes sense.

Integration without Merger Example: University of Iowa Health Alliance



Integration without Merger: Two Northeast Hospital Systems



Integration without Merger/Statewide Collaboration Example: Health Innovations Ohio (HIO)

- ✓ **Created a statewide collaboration** with 4 Ohio Health Systems: **University Hospitals of Cleveland**, Summa Health System in Akron, Mount Carmel Health System in Columbus, Catholic Health Partners (CHP) in Cincinnati
- ✓ No assets were combined between the 4 parties. However, within this structure there is a fractional ownership between CHP and Summa Health. CHP bought a 30% share in Summa for $250M to provide capital to the organization
- ✓ HIO hired a dedicated executive to drive the business agenda and created infrastructure to support the organization
- ✓ HIO members lead Ohio in piloting and establishing new models of integrated care to reduce fragmentation and deliver improved quality, patient experience and cost.
- ✓ They have launched more than 60 Patient-Centered Medical Home Sites, recognized by the National Committee for Quality Assurance. They also have created Accountable Care Organizations to manage the health of a variety of populations, enrolling nearly 200,000 traditional Medicare beneficiaries, pediatric Medicaid recipients and HIO member employees.

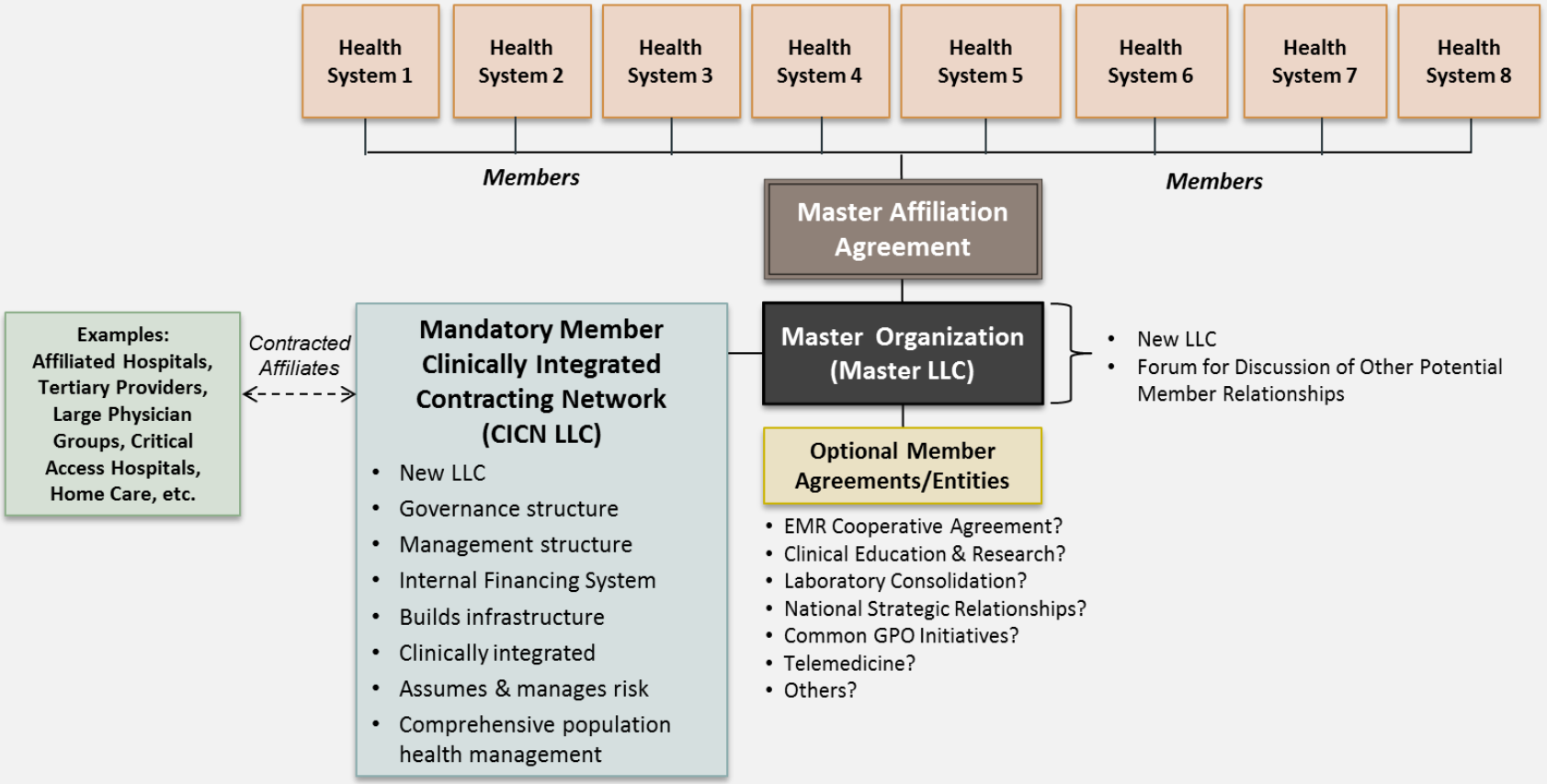
The new organization will focus initially on three areas:

1.Senior Health – In January, HIO expanded access statewide to two Medicare Advantage plans offered by its health systems – SummaCare

2.Medicaid – The 4 health systems plan to share strategies for cutting the cost of delivering care to high risk patients, expanding coverage to more patients in the state, and improving outcomes of patients on the government's health plan for families and children with low income

3.Population Health Management for Employees – The 4 health systems have a combined 70,000 employees, and HIO will focus on comparing wellness programs of each system to find the best ways to keep those employees and their dependents healthy

Clinically Integrated Contracting Network Example: Midwest Health Systems



Clinically Integrated Contracting Network Example: Midwest Health Systems

- Members negotiate a *"**Master Affiliation Agreement**"* delineating member rights.
- ***Minimum requirements for participation*** are established and members must adopt agreed upon metrics of performance (e.g., cost, quality, etc.)
- Members have ***certain common rights***, including :
  - Representation/voting rights on the Board
  - The choice to opt in/out of any business activity other than those required
  - Control over capital contributed to the activities in which they participate
- A ***Clinically Integrated Contracting Network ("CICN")*** is established and becomes the primary area of focus. Participation is required for all Members.
- The "CICN" serves as the *platform through which* ***Members assume and manage financial risk and population health.***
- Members could enter into ***Optional Member Agreements.***
- The CICN is the primary area of focus for Members but the ***network structure provides the flexibility*** for them to enter into other optional Member Agreements.
- These "optional" components of membership ***could involve collective efforts relating to a wide variety of activities*** (e.g., EPIC, clinical education, etc.).

Collaboration with Proprietary Hospital Operator

Healthcare reform is creating new relationships between providers that would not have occurred historically as they prepare for new demands in an era of lower reimbursements.

✓One example is the ***Cleveland Clinic*** and investor-owned Community Health Systems (CHS) who announced the formation of a "strategic alliance" this past March in which:

- ✓ Both organizations will remain independent but ***formed joint advisory groups*** to consider improvement in areas such as clinical services, physician alignment and integration, supply chain processes, other hospital operations, developing standardized data to share, and developing a strategy for national employers.

✓Initially the purpose of forming this alliance is to reduce costs through operational efficiencies and improve care within both health systems

✓Benefits to both organizations include:

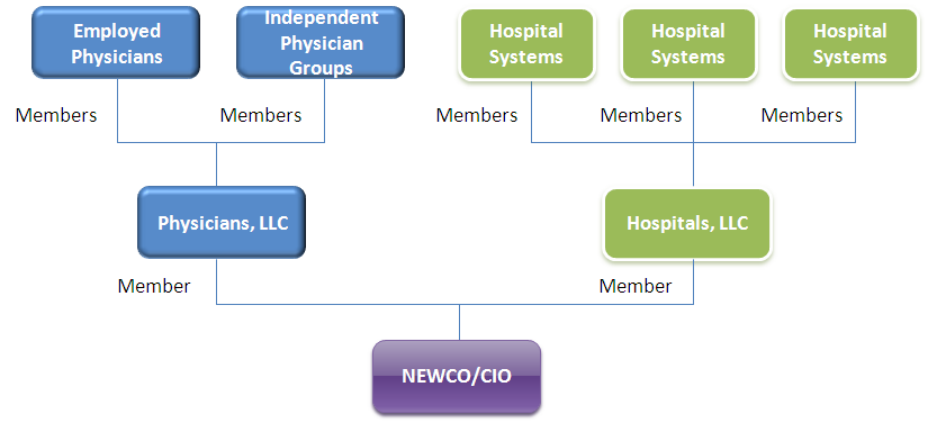
- ✓ **Cleveland Clinic:** Benefits from CHS's expertise in hospital operations and efficiencies and access to CHS's wider referral base

- ✓ **CHS:** Obtains access to better processes and an association with the Cleveland Clinic brand

Physician Alignment: Inclusive Accountable Care Organization

- This model is designed to accommodate employed and independent physicians, as well as owned and independent hospitals in a clinically integrated organization that has a unique governance structure and focuses on risk contracting, including total cost of care risk contracts, a unique "two pool" internal finance mechanism between the physicians (both primary care and specialists) and the hospitals, as well as a comprehensive system of population management.

Inclusive Accountable Care Organizational Structure

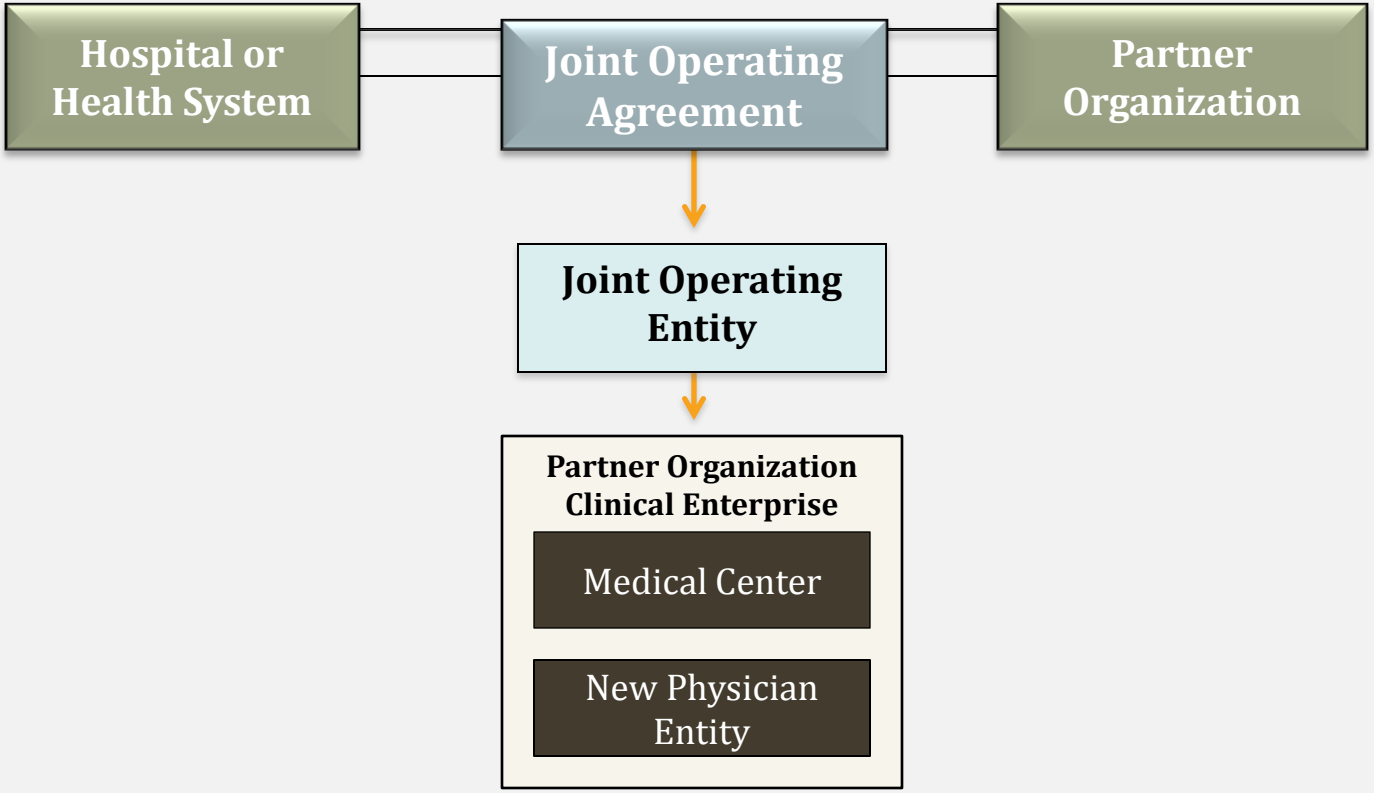


- This was developed and implemented at **Beth Israel Deaconess Care Organization (BIDCO)**, formerly known as Beth Israel Deaconess Physician Organization, in Boston, Massachusetts. It was developed with multiple systems including BIDCO hospitals and providers, Cambridge Health Alliance and Signature Healthcare
- The model was created to:
  - Align member hospital and physician efforts to improve patient care and care management
  - To share risk under reimbursement contracts
  - To effectively compete with Partners HealthCare and other large complex organizations

*Alternative Alignment Models **with** Corporate Change of Control to Strategically Reposition Organizations*

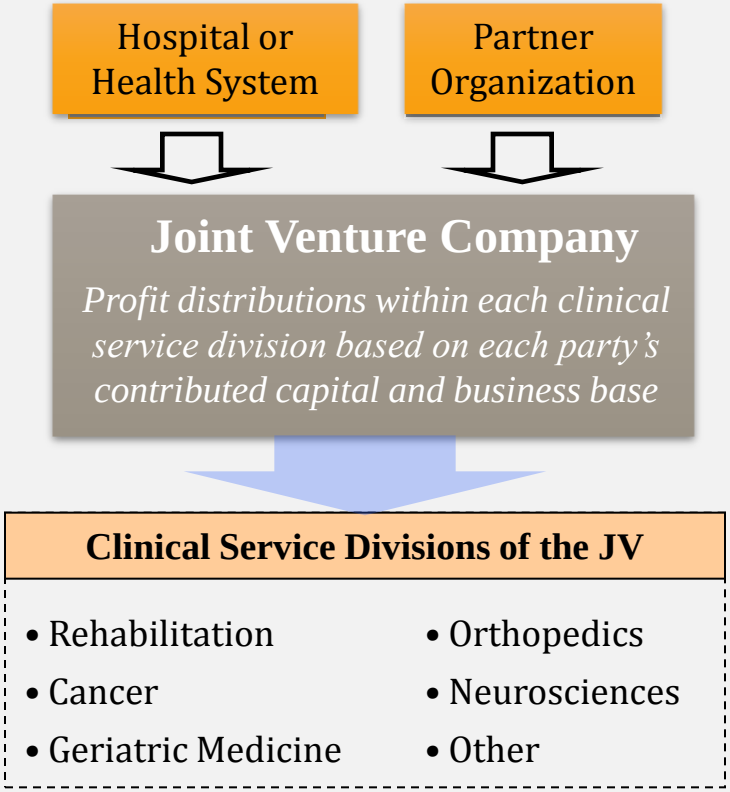
Joint Operating Agreement

Partnering organizations retain separate identities and a certain amount of autonomy. Considerable management and financial authority is shifted to the joint operating entity for the operation of the partner organization. The relationship between the Health System/Hospital and the partner organization is predicated on the value the System brings and not necessarily on capital contributed. The relationship returns economic value to both parties. Terms of an agreement govern their coordinated operation. The model is adaptable to apply to single organizations or combined operations of multiple providers.



Joint Venture Company

Engage in one or more service line joint ventures through the creation of a Joint Venture company. The greater number of clinical services pursued, the greater economic alignment between the organizations involved.

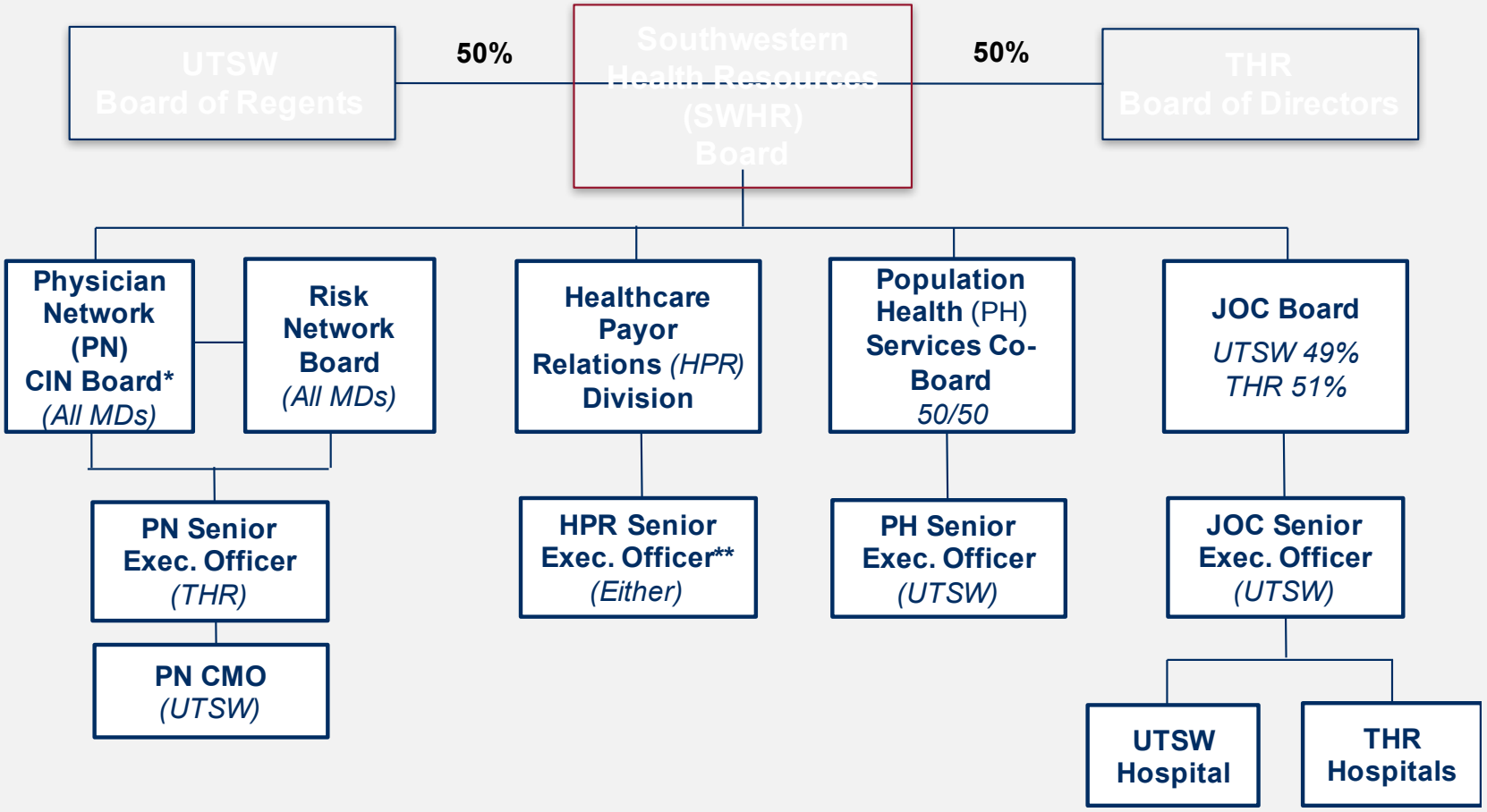


Considerations

- Allows both organizations to increase referrals, develop destination programs, and compete in a broader market
- Reduces capital spending and duplicative services
- Allows each organization to leverage their respective expertise in specific specialties
- May develop an arrangement for a more significant relationship in the future
- Need to determine physician involvement and how their interests are served

Joint Venture Company

UT Southwestern MC and TX Health Resources Structure



*True CIN Not employment vehicle
**Reports to SWHR Board and CEO's of UTSW and THR

Joint Venture Company

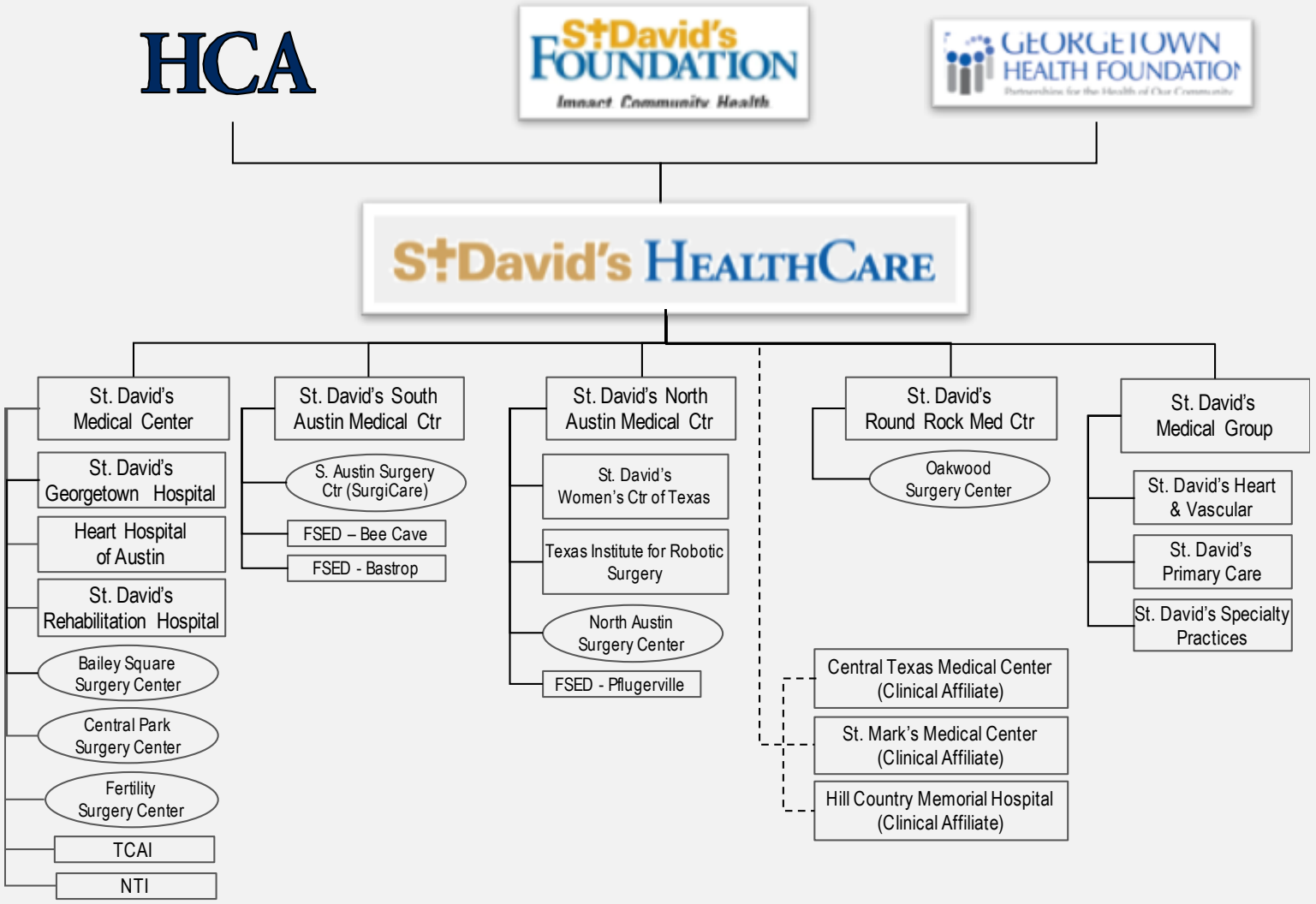
UT Southwestern MC and TX Health Resources Transaction

In 000's	THR	UTSW
Desired Ownership Interest	51%	49%
Enterprise Value Per VMG	$843,892	$981,589
Required Contribution	$930,995	$894,486
Difference	$87,103	
Adjusted Earning Allocation	46%	54%

Initial Support Contributions (3 Year Period)

	THR	UTSW
SWHR	$8.93M	$6.61M
JOC	$5.53M	$5.31M
Physician Network	$66.2M	$29.6M
Risk Network	$1.6M	$1.66M
Population Health	Split TBD	$56.1M

Joint Venture Company: St. David's Healthcare

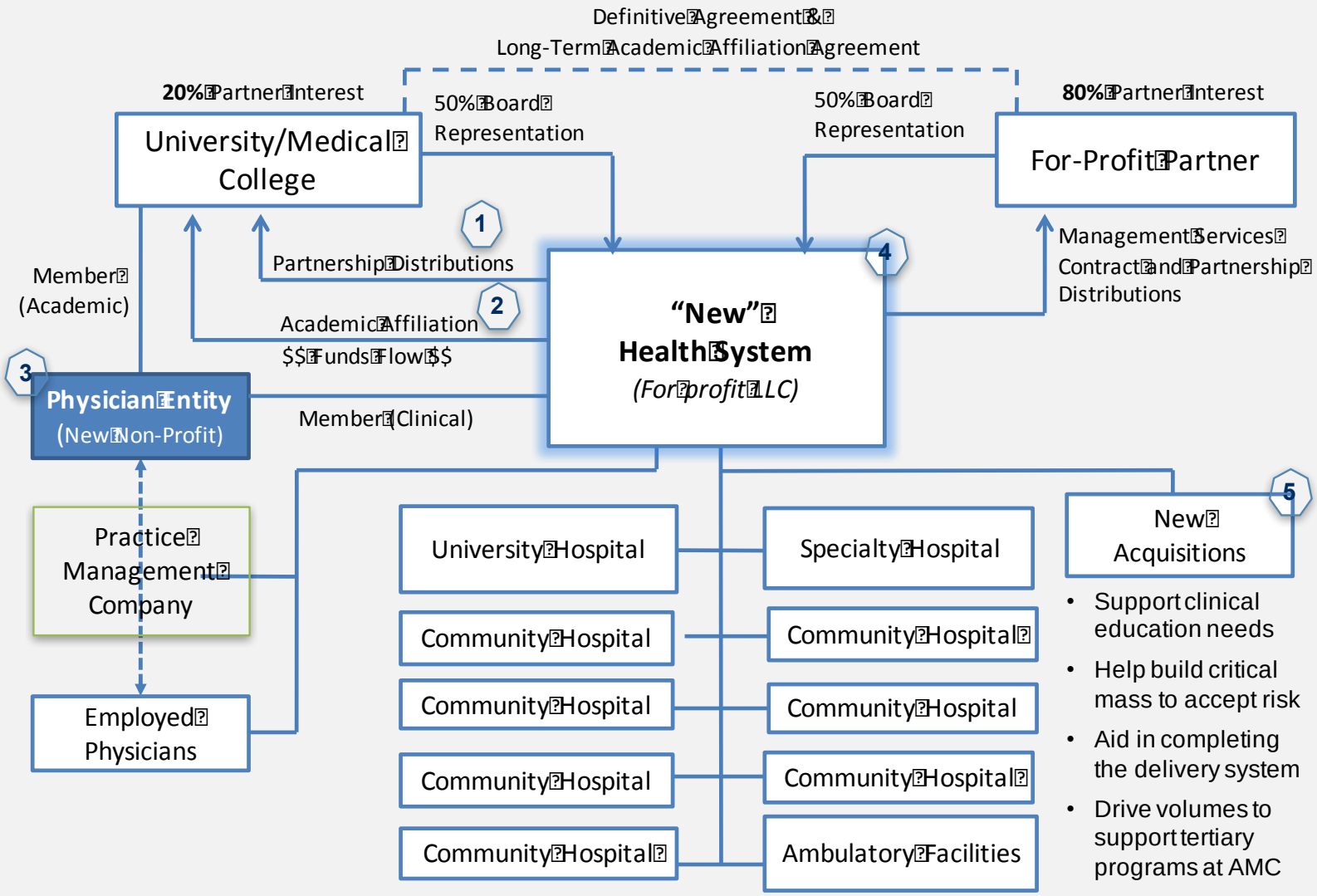


Joint Venture Company: St. David's Healthcare

- ✓ St. David's Hospital in Austin and Columbia/HCA formed a joint partnership.
- ✓ Both parties contributed equal amounts of assets to the venture.
- ✓ Columbia/HCA is the managing partner, all the hospitals in the "venture" systems are now run as for-profit hospitals
- ✓ The non- profit partner holds half of the seats on the governing board.
- ✓ St. David's was valued at $160 million.
- ✓ The St. David's Foundation received no assets.
- ✓ St. David's shares 50% of system profits with Columbia/HCA.

Joint Venture Company

Northeast Hospital System and For-Profit System



Joint Venture Company

Northeast Hospital System and For-Profit System

1. University receives a distribution of annual excess cash flows from the "New" Health System. The distributions are not subject to tax.

2. The academic funds flow will create a reliable source of academic funding to support the teaching activity of the faculty physicians consistent with current levels.

3. A unique "Dual Member" structure is used to establish the University as a new, non-profit entity that is integrated and aligned.

   - This is not an ownership structure; it is a "Member" structure with the division of authorities between two Members: (1) The "Academic" Member *and* (2) The new "Clinical" Member.

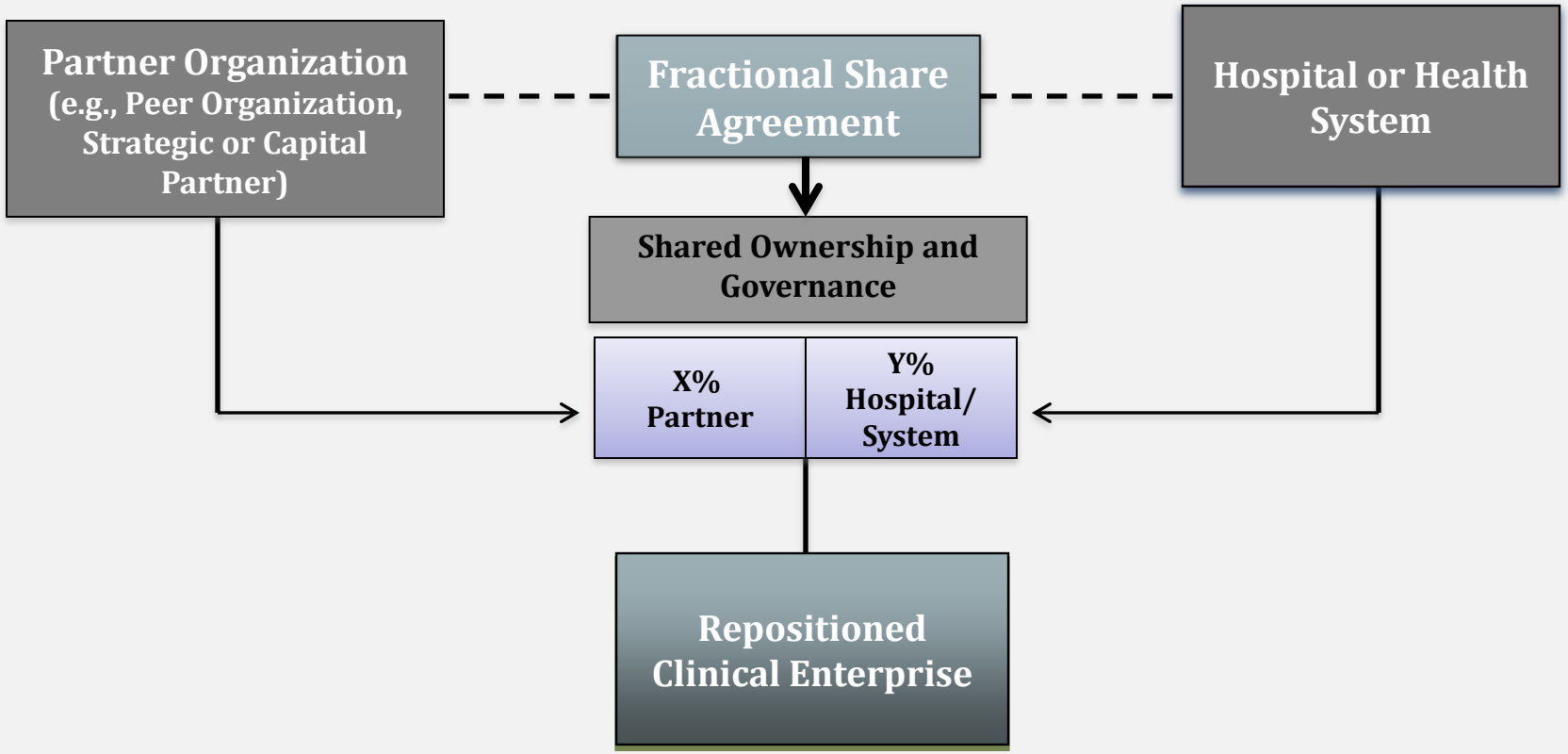
   - The Members hold certain reserved powers or authorities that create a long-term balance between the interests of the "New" faculty physicians, and college of medicine.

4. Governed by a resilient shared (50/50) governance structure comprised of ten Board members, including five from the University and five from the for profit. The University would also have certain unilateral rights, including the right to name the Chairman of the Board.

5. The for-profit commits to jointly develop a strategy to pursue subsequent acquisitions that will benefit the System.

Fractional Ownership Model (Majority/Minority)

A "Fractional Share Agreement" may be for a minority, equal or majority share. The partner organization provides capital and other commitments in exchange for its share of ownership and governance rights/authorities of the Clinical Enterprise. The governance agreement addresses the respective control interests of both parties.



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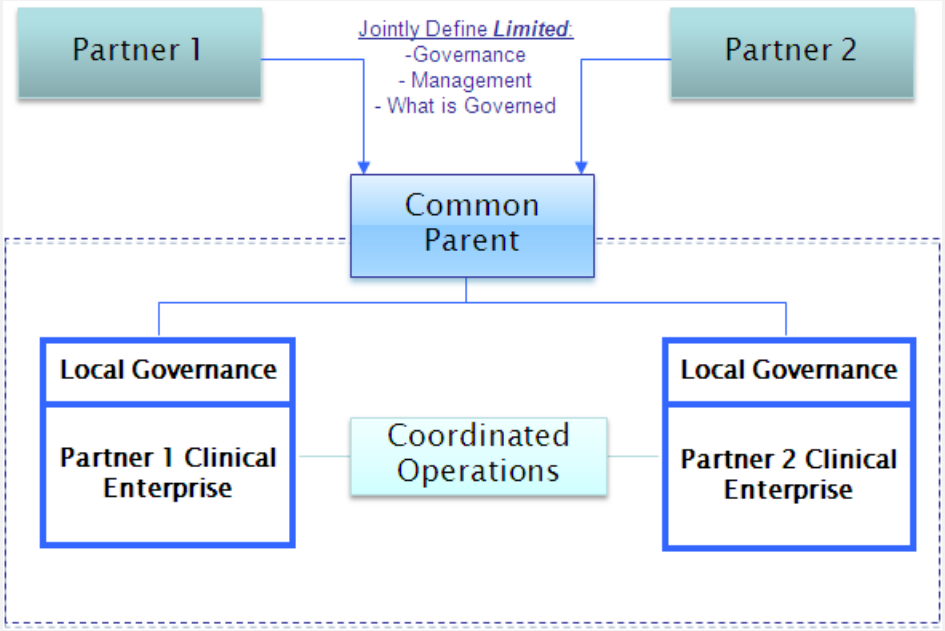
Creation of a Common Parent

A common parent organization is created to bring two or more parties together under a single structure that they jointly define. Participants continue to have local boards and assets are kept separate but many of their operations that can be improved by working together are combined.

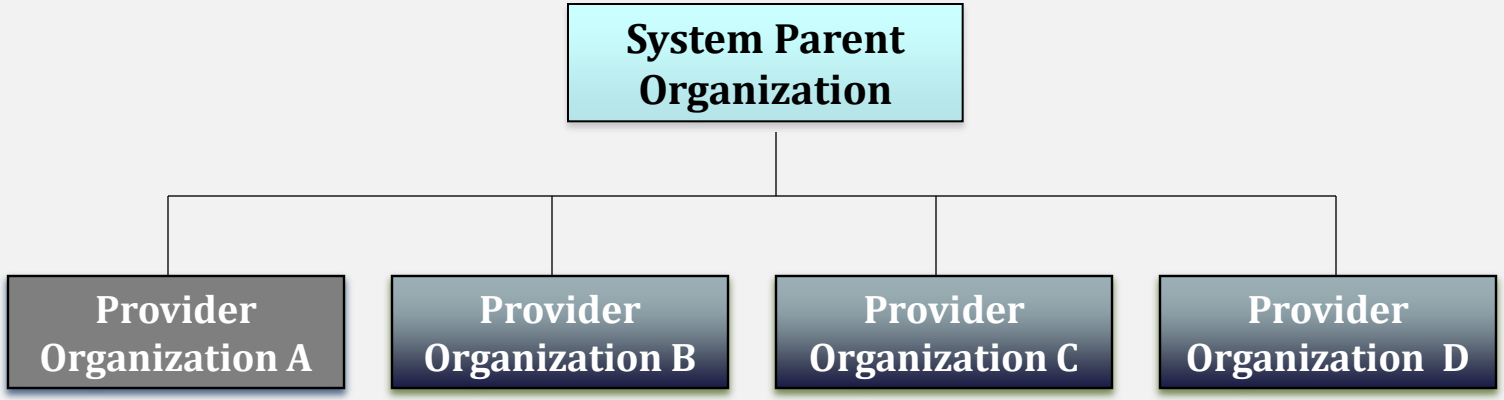


- Common Parent serves as vehicle to collaborate on activities that return greater benefits when done together.
- Members cede certain rights for potential shared benefits (e.g., better terms via single signature contracting)
- Common Parent would lead creation of other initiatives between the parties with broader powers over time.
- Helps to establish a broader value proposition to attract other potential partners.
- Through the common parent the parties could engage in collective consolidations (e.g., buy a hospital, etc.).

Merge with Non-Profit System

In a full asset merger, entire businesses and operations are combined and the independent provider organization becomes part of a larger, existing system.

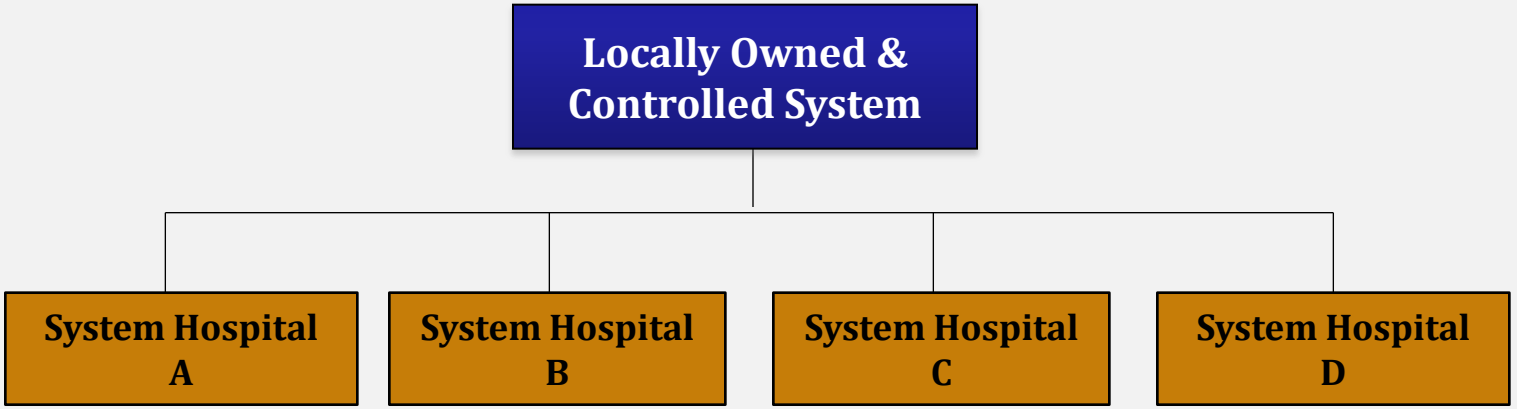
Non-Profit Integration Into Existing System



- Parent becomes the sole member of the merged provider organization.
- Partnership terms are defined in a Definitive Agreement which typically includes:
  - ☑ Governance structure and representation
  - ☑ Clinical services configuration
  - ☑ IT/EMR status and integration plan
  - ☑ Budget and capital allocation approach
  - ☑ Defined accountability terms
- Transfer of control occurs on closing date.

Consolidation of Hospitals in Own Market

Create a resilient locally-owned and controlled multi-institutional healthcare system by acquiring hospitals available within the market that share similar values and expectations for excellence and quality in health care delivery.

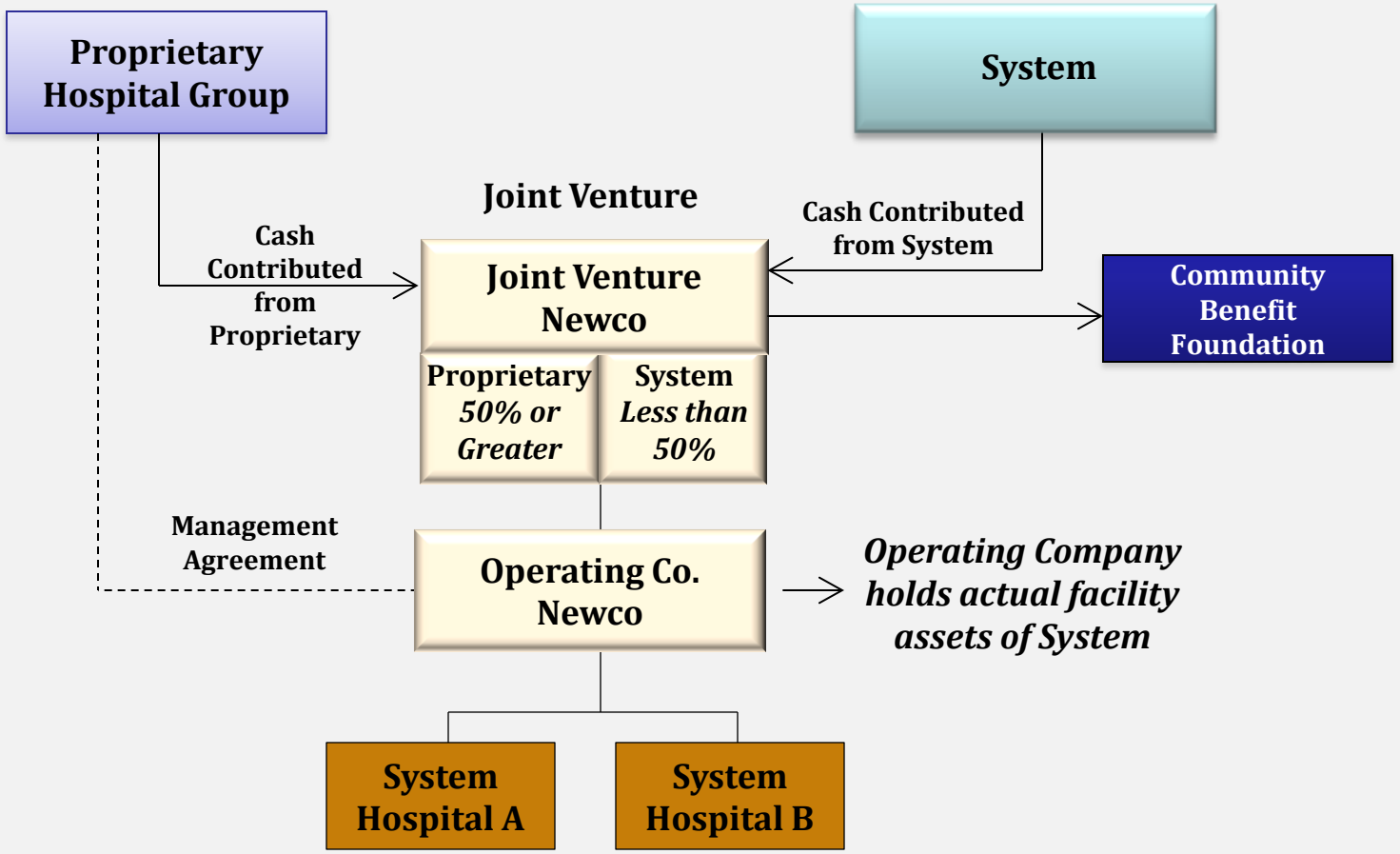


Financing Options for Purchase Transaction:

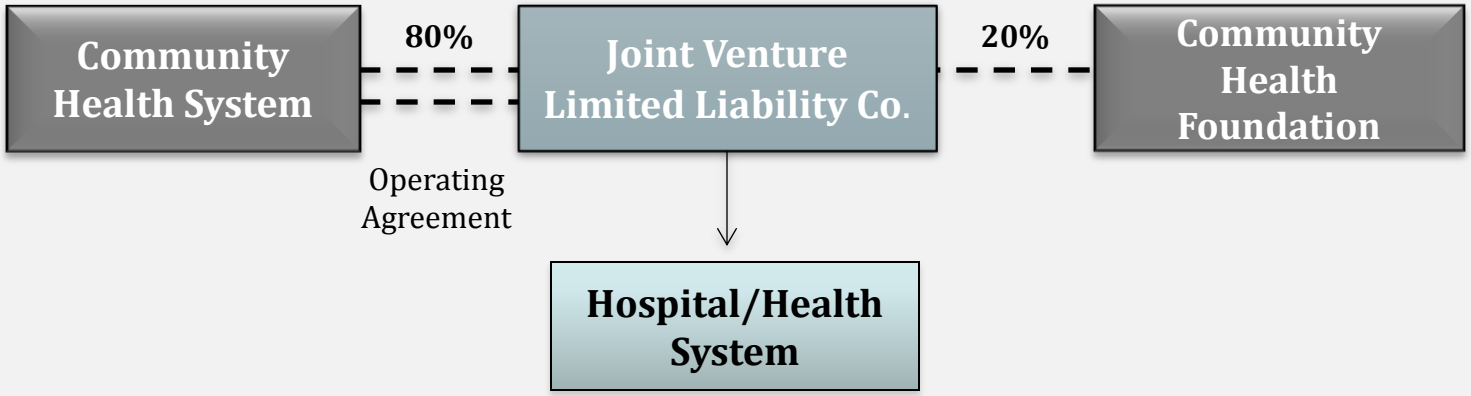
- Leverage balance sheet (if strong capital position)
- FHA Acquisition Loan for Healthcare Facilities:
  - Section 232/222(f) for purchase of existing healthcare facilities at low fixed rate (for facilities at least three years old and not in need of substantial rehabilitation)

Consolidation of Hospital with For-Profit

Form a new joint venture company to acquire other providers in the market. The System and Proprietary capitalize the JV with cash contributions. The JV acquires assets of target partners. A Community Benefit Foundation is created with proceeds from the sale.



Consolidation of Hospitals with Proprietary: Community Health Systems Joint Venture, LLC



- Hospital/Health System sells 80% membership interest in the LLC to CHS
- Community Foundation established which owns remaining 20% interest in the LLC
- LLC governed by Operating Agreement and governed by a Board of Directors comprised of equal members from CHS and System
- All actions taken by Board would be accomplished through "block voting" and would require a majority of each organizations appointed Board members
- System governance comprised of a local board of trustees of up to 12 members, majority with CHS
- The LLC would enter into a management agreement with CHS where CHS would be responsible for the day to day operations of the LLC and Facilities

Consolidation of Hospitals with Proprietary: Joint Venture Between Duke and LifePoint

- ✓ LifePoint partnered with Duke University Health System to create a unique **joint venture, Duke LifePoint Healthcare** to own and operate a system of hospitals
- ✓ Both hospitals share an interest in collaborating with hospitals, physicians and patients to bring quality, innovative healthcare services to communities
- ✓ Duke LifePoint Healthcare pursues acquisitions and shared ownership and governance of community hospitals that are looking to become part of a stable, well funded system.
- ✓ Duke LifePoint Healthcare offer hospitals a variety of options to enter the system from acquisition to shared ownership and governance agreements to joint ventures with medical facilities and health providers

Consolidation of Hospitals with Proprietary: Joint Venture Between Duke and LifePoint

Example Structure: Rutherford Regional Health System and Duke LifePoint

- ✓ Under the terms of the joint venture, Duke LifePoint owns 80 percent and RRHS has a 20 percent ownership stake.
- ✓ The joint venture will invest $60 million in new equipment and technology and facility maintenance and renovations at RRHS over the next decade.
- ✓ The retained assets and proceeds from the transaction allow RRHS to pay off its debt.
- ✓ The remaining proceeds, approximately $30 million, will be available to fund projects to meet community health and wellness needs.
- ✓ Governance of the joint venture is shared by RRHS and Duke LifePoint through a board with equal representation from both organizations.
- ✓ This board structure ensures that the Rutherford County community will have an active, long-term voice in RRHS's future.

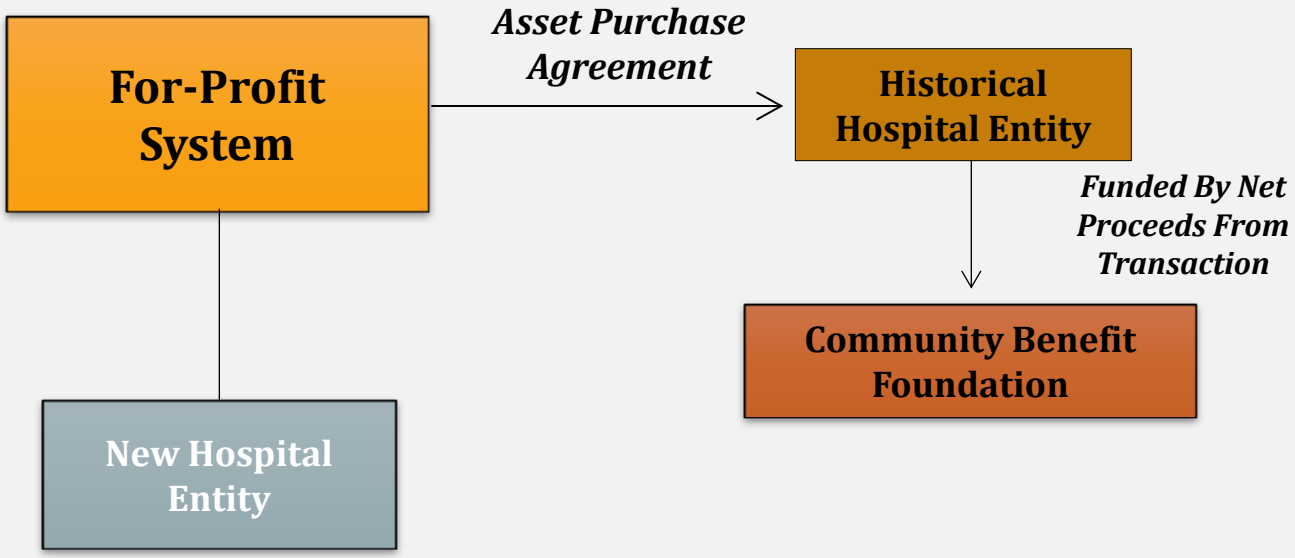
Move Control to For-Profit

Proprietary partnerships may involve one of the following pathways:

	Path 1 Incentivized Management Agreement	Path 2 Long Term Asset Lease	Path 3 Full Asset Acquisition
Characteristics	▪ Management agreement created with specific goals for-profit would meet to receive full compensation ▪ Length negotiated	▪ Assets not bought – lease payment is negotiated ▪ Adds to operating loss	▪ Organization's assets and liabilities are defined – will negotiate what is purchased or assumed
Benefits	▪ Economies achieved by being part of large system ▪ Capital invested by partner	▪ Governance control could be negotiated ▪ Some capital investment made by partner	▪ Debt is typically eliminated or retired ▪ Community Foundation is established
Risks	▪ Management turned over to another entity	▪ Management turned over to another entity ▪ Debt not reduced or eliminated ▪ Doesn't solve short term cash flow issues	▪ Control of the organization moves to purchasing entity ▪ Negative physician and community reaction

Full Asset Acquisition by For-Profit

Acquired organization converts to a for-profit. A Community Benefit Foundation is established. The. An organization (e.g. Foundation) is established to enforce the Purchase Agreement. A local Advisory Board is created with certain responsibilities and authorities.

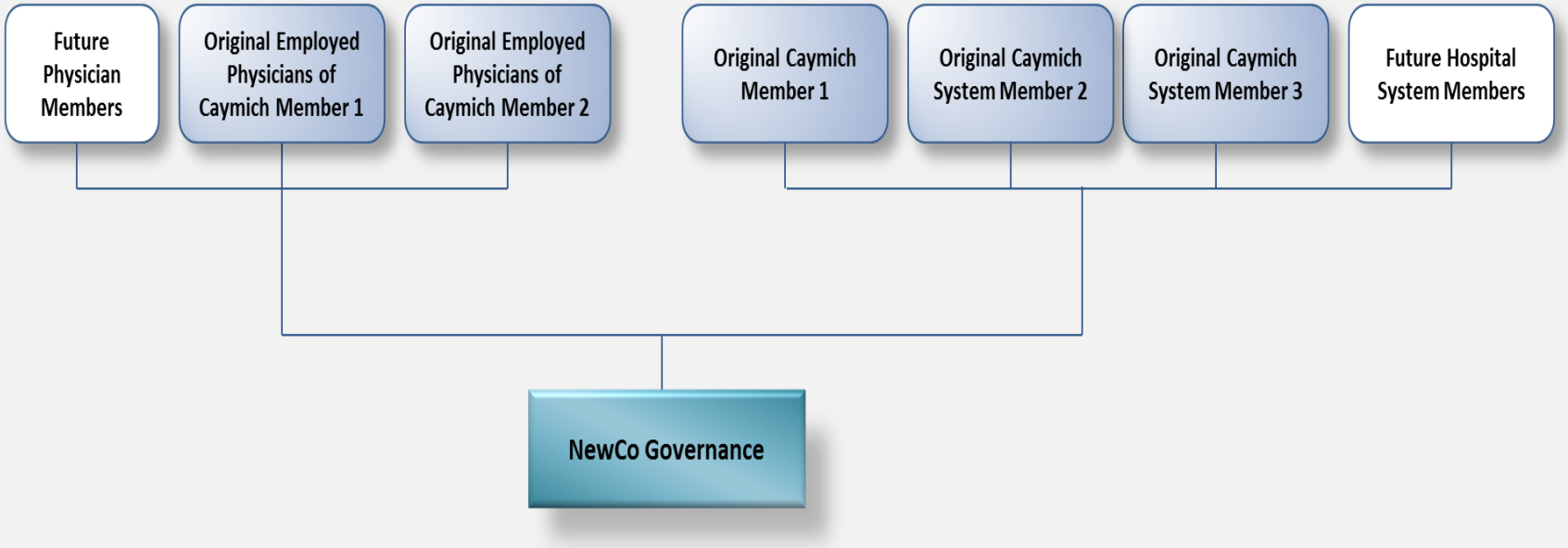


Full Asset Acquisition by For-Profit Example: Detroit Medical Center and Vanguard/Tenet

- ✓ In 2010 Vanguard Health Systems, Inc. and the Detroit Medical Center (DMC) completed the final purchase agreement where Vanguard acquired all the assets of DMC for approximately $365M in cash and they assumed all of DMC's liabilities
- ✓ Vanguard agreed to:
  - ✓ Keep all DMC hospitals open for at least 10 years
  - ✓ Invest an estimated $350M for routine capital improvements
  - ✓ Invest $500M on specific capital projects during the first 5 years of ownership
  - ✓ Assume liability for the defined pension plan for DMC retirees
  - ✓ Keep in place a policy for charity, indigent and uncompensated care that is at least equivalent to DMC's current policy
  - ✓ Fully support DMC's education mission and honor all educational contracts
  - ✓ Support DMC's research mission
  - ✓ Maintain DMC's regional headquarters in Detroit
- ✓ Tenet Healthcare recently completed transaction to acquire Vanguard for $1.8B

Inclusive Patient Care Risk Structure

The 'inclusive patient care risk structure' is built around the tenets of accountable care and could address many of the key goals of the group. **This model is solely designed and dedicated to patient care risk.**



- Establishes a structure solely dedicated to contracting and managing risk for populations.
- NEWCO has in it all of the organizational structure to create clinical integration.
- Includes a unique internal finance mechanism between physician and institutional partners.
- The structure has a contracting mechanism inside of it.
- Risk-based economic models drive performance among participating organizations.
- This model can accommodate multiple institutional and physician partners.