



In the best interest of our community: Memorial's point of view

A presentation to the Citizens' Commission on Ownership &
Governance of Memorial Health System

Sept. 1, 2010

Presenter: Dr. Larry McEvoy, CEO

**The elephant
in the room is
Memorial's
“agenda”...**



We have one.



It's **serv**ing

It's not self-serving



It goes to our roots...

“...the preservation of
the public health,
the suppression of disease
and the alleviation of illness ”

-reason for the 1943 Ordinance to buy
Memorial in 1943 for \$76,500

...and today, it's really no different



Memorial Health System

Memorial's Mission

To provide highest quality health care

What makes for highest quality health care...

It's local

It's accessible to all

It's integrated

It's agile

Patients, not profits, are the sole focus.

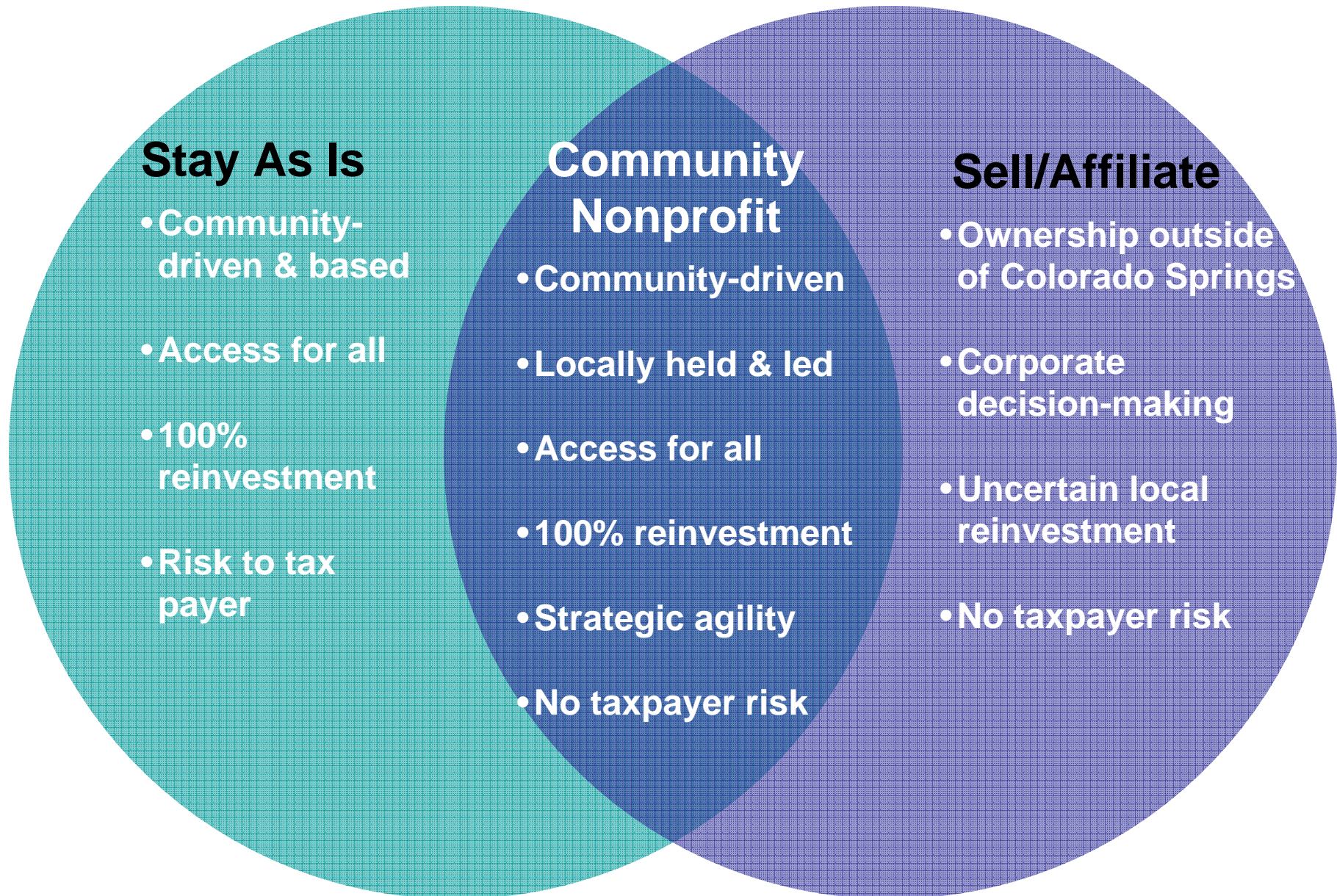
our recommended solution...

Independent (501-c-3)

community (local)

nonprofit

The best of both worlds



What it would look like...

What it would mean...

Memorial would retain its nonprofit status (501-c-3)



Mission-driven (vs. margin-driven)

Memorial would no longer be a city enterprise



No taxpayer risk

Memorial would remain independent



Decision made here, profits reinvested here

A volunteer board governs



Local leadership, local decisions

Care for all, regardless of ability to pay



Mission-driven (vs. margin-driven)

Greater strategic agility



Integration, higher quality, lower costs



...so how did we get here?

We asked five questions...

- **Who makes the decisions and where do they live?**
- **Where are earnings invested?**
- **What is the potential economic impact?**
- **Care for all in need, regardless of ability to pay?**
- **Strategic and operational agility?**

The Analysis

	Stay As Is	Hospital Auth	Community Nonprofit	Sale/Merger
Local decision making	✓	✓	✓	✗
All profits reinvested locally	✓	✓	✓	?
Access for all	✓	✓	✓	?
Economic Engine	?	?	✓	?
Strategic Agility	✗	✗	✓	?
<i>No risk to taxpayer</i>	✗	✗	✓	✓

Does it add up with lessons learned?

- Care, locally-designed & delivered, improves outcomes.
- There will be industry winners & losers.
- Integration and scale are key.
- Strategic agility is critical.
- Ownership and governance structure matters.

Does it add up with lessons learned?

“It is somewhat cumbersome and not particularly competitive... it is a structural disadvantage.”

Dave Burik, Navigant Consulting, talking about Memorial’s ownership structure (city enterprise)

“If you stay as is, you’ll die.”

Rulon Stacey, Poudre Valley

“I do not believe you can get high quality and low cost without integrated models of care.”

Dr. Patricia Gabow, Denver Health

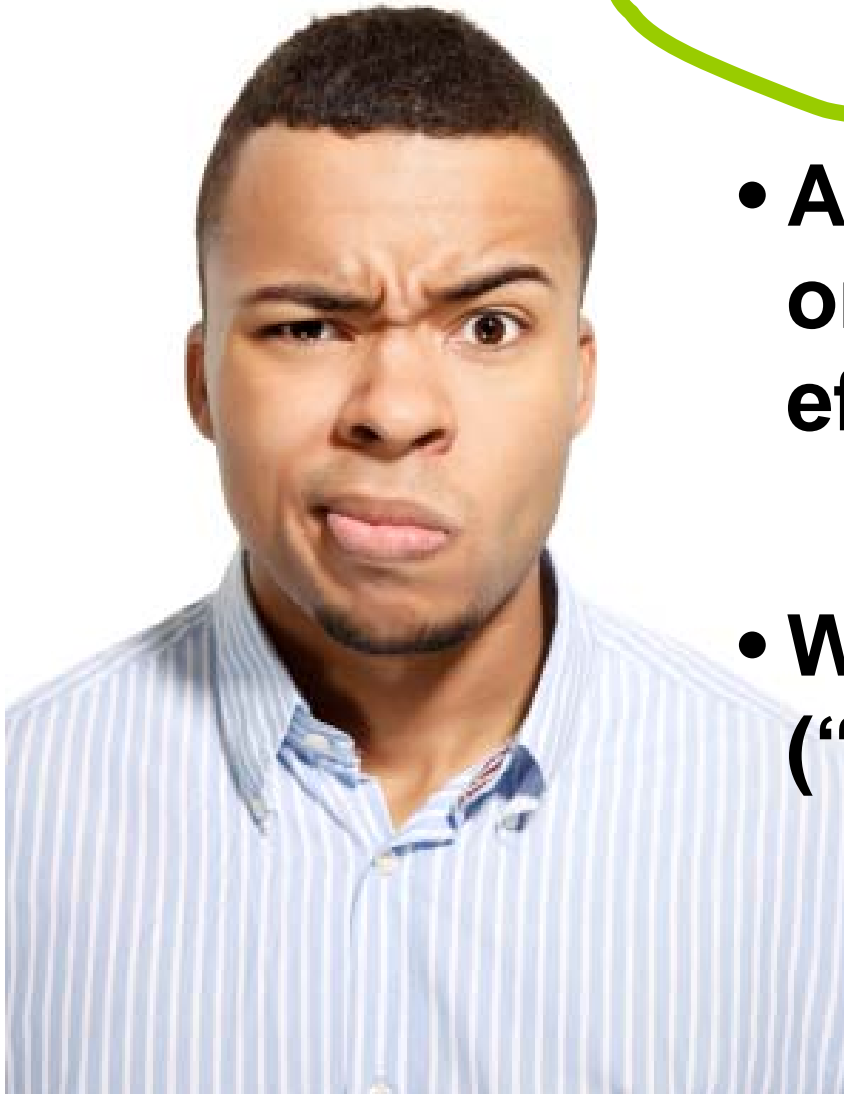
But, what about...

- **It's not broken...why fix it?**
- **Aren't for-profit organizations more efficient?**
- **What do we get? (“monetizing the asset”)**



But, what about...

- It's not broken...why fix it?
- Aren't for-profit organizations more efficient?
- What do we get? (“monetizing the asset”)

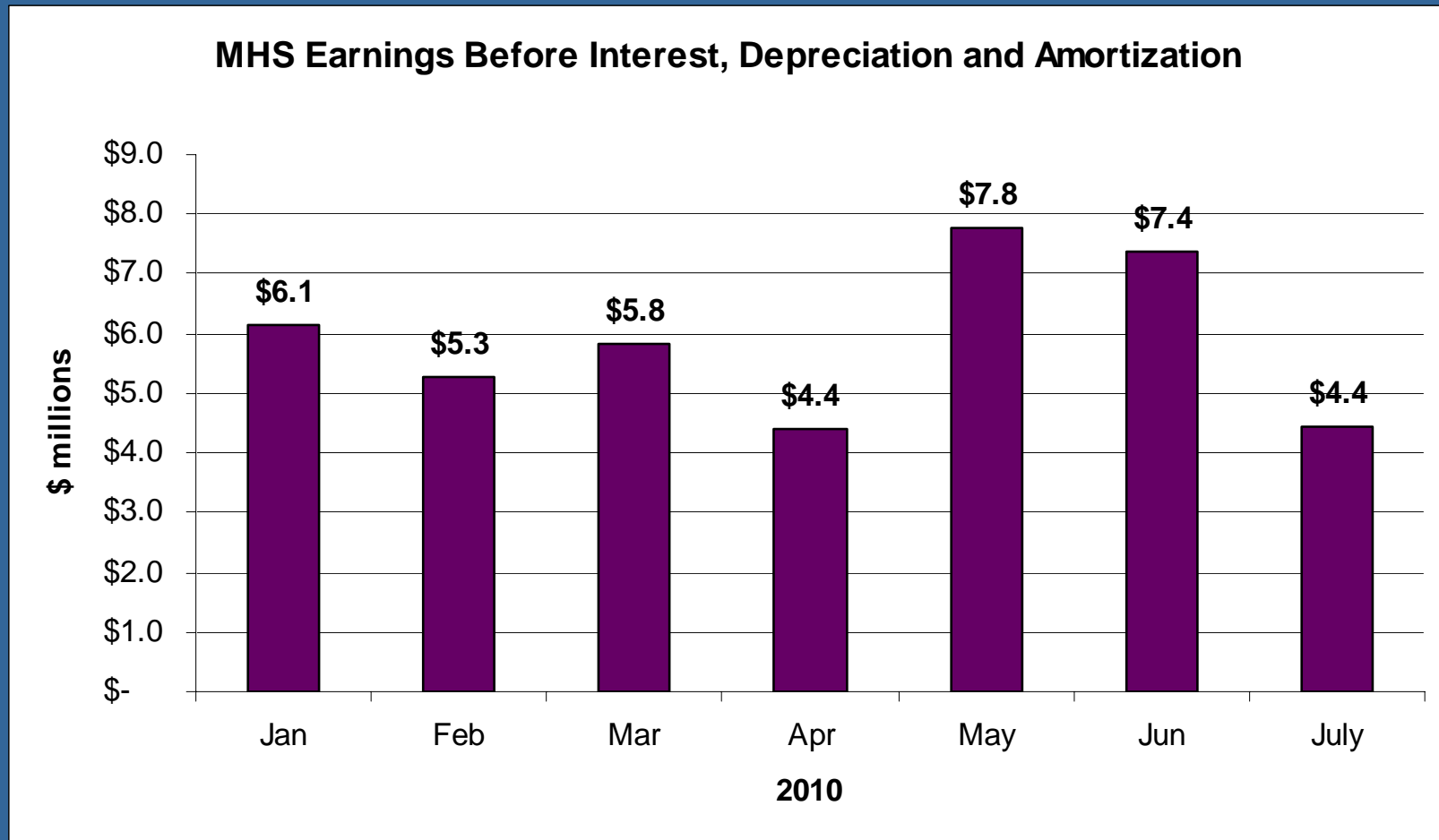


“If it ain’t broke, don’t fix it...”



- **Standing still poses substantial risk**
- **Reform will amplify any competitive disadvantage**
- **If change will help our mission, why WOULDN'T we pursue it?**

Present-day Memorial is performing well...



Total EBIDA to date is \$41.2 M (vs. budget of \$36.3 M).

Total Net Income to date is \$20 M (vs. budget of \$11.3 M).



...it's what's coming that matters.

Though there is good news.....

- ~\$600 million/year business; largest local non-military employer
- ~4,100 employees, which generates at least 7,200 secondary jobs
- The largest non-military TriCare provider west of Mississippi
- The broadest and deepest pediatric service offering in southern Colorado
- Commitment to treat all in need, regardless of ability to pay
- ~\$70 M/year in uncompensated care yet receives no tax support





...there are also hard truths

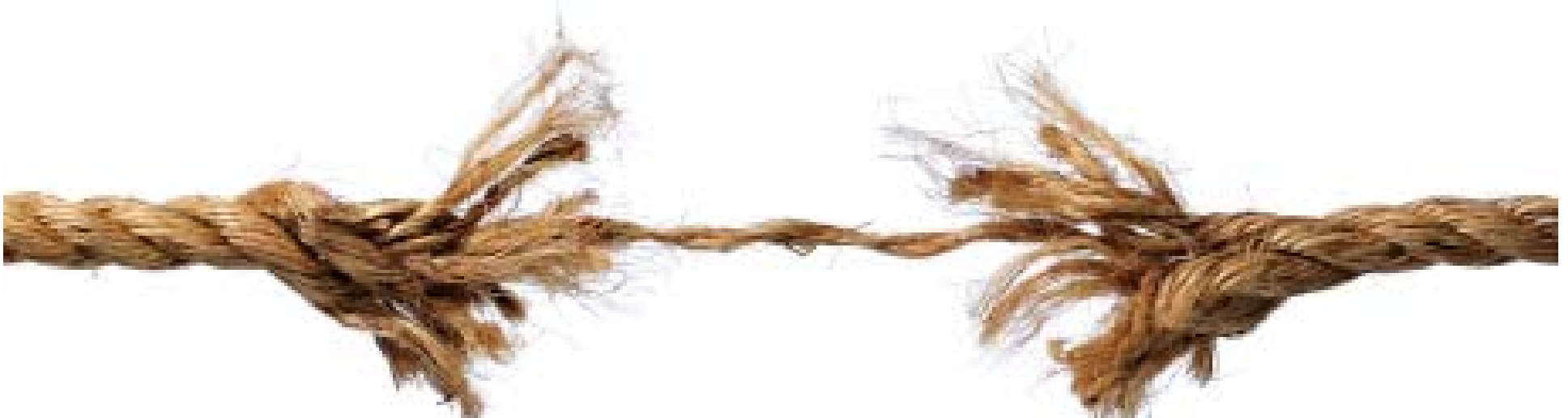
Generally speaking,
**pediatric services
lose money**

**TriCare is
a poor payer**

- **Taxpayers are at risk** if MHS can't continue to self-sustain
- Payment is increasingly **outcome-based** and **bundled**, while providers are **fragmented**

Today's Industry Realities

- Mediocre quality
- Fragmented 'system'
- High (and increasing) costs
- Narrowing margins
- Highly-regulated
- Volatility + uncertainty



...Making the case for integration clear

Aside from the quality case for integration, independent financial modeling comparing “staying as is” vs. “integration” suggests:

Growth • Scale • Profitability

are more likely with integration, allowing MHS to successfully compete in the new health care reality.

Case in Point:

Remain same: \$582 M → \$697 M

vs.

With Integration:

\$582M → \$911M

[five year increase in net patient services revenues
as projected & confirmed by outside financial analyses]

But, what about...

- It's not broken...why fix it?

- Aren't for-profit organizations more efficient?

- What do we get?
(“monetizing the asset”)



“Isn’t for-profit care more efficient?”



A focus on quality, not profits, generally drives lowest cost.

Higher Quality ⇔ Lower Cost

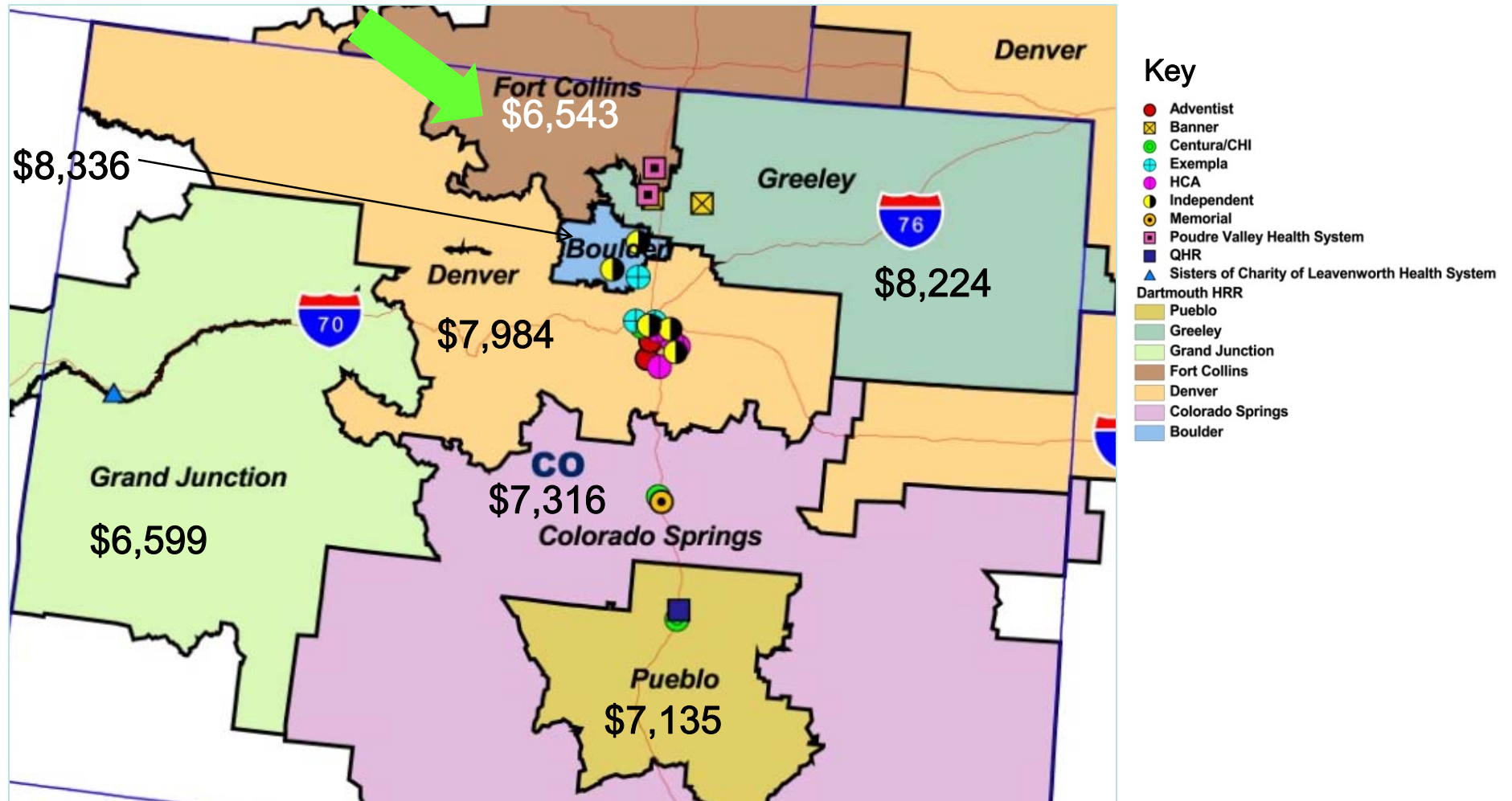
Results: Very Positive in First 2+ Years*

Health status	↑
Diabetes bundle	↑
Coronary disease bundle	↑
Preventive care bundle	↑
Readmissions	↓
Admissions	↓
Member/Provider satisfaction	↑
Total Medical Cost	↓

*All results are measured across the entire population of patients, not just chronic disease patients

Cost Variation Among Colorado Geographies

Medicare Reimbursements per Enrollee¹ by Referral Region

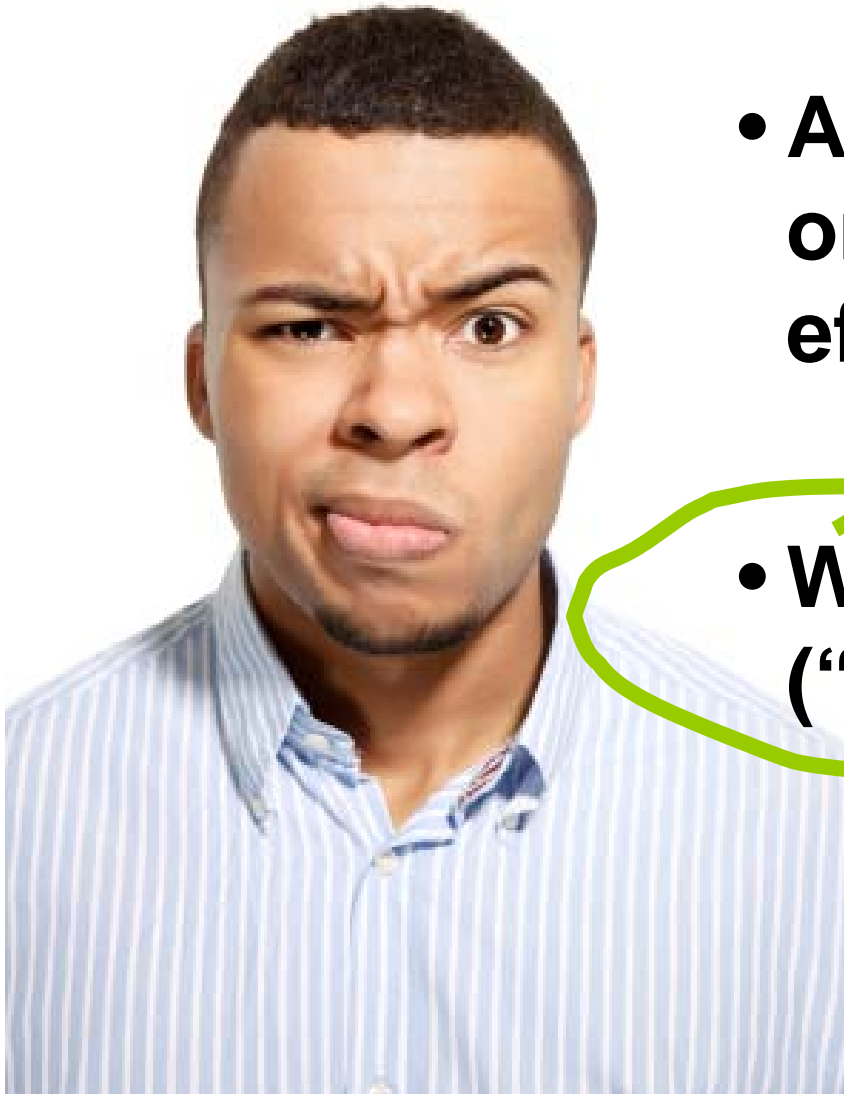


¹ 2007 Total Medicare Reimbursement per Enrollee (includes Parts A & B) by Hospital Referral Region
Source: Dartmouth Atlas of Healthcare

(Excerpted from Dave Burik's presentation (Navigant Consulting))

But, what about...

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("monetizing the asset")



“monetizing the asset”



vs.



**\$70 million in uncompensated care/year
for the next 50 years**

equals \$3.5 billion

VS.

One-time proceeds of ~\$300 million

**(and this does not reflect
the economic impact of
job growth and purchasing power)**

4,000 jobs now

at an average of \$55K/year/job

**equals \$220 million/year of
local personal income**

*...with job growth, as in Poudre Valley,
more than doubling jobs in 15 years...*

It could mean an additional

\$220 million/year, spent in this community

**(not including
the secondary jobs created)**



Imagine the possibilities...

- 
- **The strategic agility to integrate and achieve scale**
 - **Care is designed and funded to suit local needs**
 - **Access for all, regardless of ability to pay**

- **High quality, low cost health care for businesses**
- **Powerful economic engine**
- **No risk to tax payer**

Spencer Penrose



William Jackson Palmer



What about our legacy?

If you could have....

- A community-held, community-driven health care system (think local)
- A community defined by great health (think fittest community)
- Job growth that dwarfs population growth (think Poudre Valley)
- Low cost health care for employers (think Geisinger)
- Services designed around our community's needs (think Carson Tahoe)
- Quality so good that we are a health care destination (think Rochester, MN)

...without

- Financial or legal risk to taxpayer
- Outsiders defining what we need, what we'll offer

...would you?

We can have it all.

Memorial as a Community Nonprofit:

Commission Charter

- Eliminates taxpayer financial and legal risk
- Maximizes community benefit
 - Quality of care
 - Economic impact
- Ensures access for all

with...

- (non-governmental) local control
- local leadership, local decision-making
- 100% local reinvestment



questions?

