

# New Hanover County Partnership Advisory Group

Meeting #16

July 2, 2020



# TABLE OF CONTENTS

<u>Section</u>	<u>Page Number</u>
1. Approval of Minutes	3
2. Welcome	4
3. Our Journey (Evaluation & PAG Recommendation)	5
4. Next Steps	12
5. Vision for Future	14
6. Closing Remarks	16



# APPROVAL OF MINUTES

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# WELCOME

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# OUR JOURNEY

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## EVALUATION & PAG RECOMMENDATION

# THE JOURNEY & PAG PROCESS DATES BACK TO 2017 WITH THE DEVELOPMENT OF NHRMC'S CURRENT STRATEGIC PLAN

2017

NHRMC Board develops and approves current **strategic plan** with focus on access, value, and health equity



Lean facilitators ask NHRMC BOT: **What factors may inhibit NHRMC's ability to carry out, enhance and sustain its mission?**

2018

NHRMC Board identifies structural and financial barriers and begins vetting **SystemCo** restructuring

Barriers or Limitations Identified by NHRMC BOT						
Diplomatic Hurdles	Investment Outside of County	Branding Inflexibility	Financing Opportunity	Investment Limitations	Scale Limitations	
No legal structure change	Controlled by local and state government	Branding flexibility	Financing flexibility	Investment flexibility	Scale flexibility	Not Addressed
Create System Parent	State restrictions on additional entities	Branding flexibility	Financing flexibility	Investment flexibility	Scale flexibility	Not Addressed
Control to Hospital Authority	Partially addressed, but no additional entities	Branding flexibility	Financing flexibility	Investment flexibility	Scale flexibility	Not Addressed
Control to Private (NHRMC)	Partially addressed, but no additional entities	Branding flexibility	Financing flexibility	Investment flexibility	Scale flexibility	Not Addressed

2019

After fully vetting option, NHRMC BOT determines **SystemCo** restructuring offers limited value and begins **partnership** discussion; Works with Commissioners to establish PAG

Oct    Nov    Dec    Jan    Feb    Mar    Apr    May    Jun

PAG understands NHRMC current state and healthcare industry transformation



PAG evaluates NHRMC Strategic Outlook including impact of **SystemCo**

Strategic Area	Strategic Priority	Strategic Initiative	Strategic Outcome
Access & Affordability of Care	Improve patient access	Expand telehealth services	Increased patient satisfaction
Operational Excellence	Reduce costs	Optimize supply chain	Cost savings
Quality & Patient Safety	Improve patient safety	Implement safety protocols	Reduced medical errors
Community Health & Wellness	Improve community health	Expand outreach programs	Increased community engagement
Workforce	Attract and retain talent	Invest in staff development	Improved staff retention
Technology & Innovation	Embrace digital transformation	Adopt new technologies	Enhanced operational efficiency
Regulatory Compliance	Ensure regulatory compliance	Implement compliance programs	Avoided penalties
Reputation & Branding	Enhance brand reputation	Engage in community activities	Improved brand perception
Environmental Stewardship	Reduce environmental impact	Implement green initiatives	Reduced carbon footprint

PAG develops comprehensive Goals and Objectives and issues RFP



PAG understands proposals and evaluates value to NHRMC and the community

Proposal	Value to NHRMC	Value to Community
Proposal A	High	Medium
Proposal B	Medium	High
Proposal C	Low	Low
Proposal D	High	High



# THE PARTNERSHIP ADVISORY GROUP HAS ENGAGED IN SIGNIFICANT WORK OVER THE PAST 9 MONTHS

WHO WE ARE

**21** COMMUNITY MEMBERS, NHRMC TRUSTEES, PHYSICIANS, COUNTY AND NHRMC LEADERSHIP

## WHAT WE DID



- UNDERSTOOD THE CHARGE AS AN ADVISORY GROUP TO THE NHRMC AND COUNTY BOARDS
- REVIEWED THE CURRENT HEALTHCARE LANDSCAPE AND NHRMC'S STRATEGIC OUTLOOK
- DEVELOPED THE GOALS AND OBJECTIVES FOR THE PARTNERSHIP EXPLORATION PROCESS
- ASSESSED THE FEASIBILITY OF NHRMC REMAINING STATUS QUO OR RESTRUCTURING
- REVIEWED PROPOSALS AND ENGAGED WITH RESPONDENTS TO ASSESS PARTNERSHIP OPTIONS

## 15 PAG Meetings over 9 Months

**2 MEETINGS**

TO UNDERSTAND NHRMC AND THE INDUSTRY TRANSITION IN HEALTHCARE

**4 MEETINGS**

TO DEFINE GOALS AND OBJECTIVES AND DEVELOP AN RFP

**4 MEETINGS**

TO UNDERSTAND RESTRUCTURING OPTION & STRATEGIC OUTLOOK

**5 MEETINGS**

TO ASSESS THE PROPOSALS RECEIVED IN RESPONSE TO THE RFP

*And counting!*

## 5 WORK GROUPS

ASSESSING STATUS QUO, RESTRUCTURING, AND PARTNERSHIP



PUBLIC PRESENTATIONS BY EACH RESPONDENT TO THE PAG

## 12 SITE VISITS

WITH THE RESPONDENTS TO UNDERSTAND FIT AND CONDUCT DUE DILIGENCE



TIME LISTENING TO THE COMMUNITY, NHRMC EMPLOYEES & PROVIDERS



And Countless Hours Spent on Homework and Reading Industry Articles and Information Shared by the Public



SUPPORTED BY A MULTIDISCIPLINARY TEAM OF NHRMC AND COUNTY LEADERSHIP AND OUTSIDE ADVISORS



BROUGHT INFORMATION TO THE PUBLIC **6** PROPOSALS + **32** SUPPLEMENTAL DOCUMENTS **3** FINALIST PRESENTATIONS  
**15** PAG MEETING DOCUMENTS **10** FEATURED VIDEOS + GENERAL UPDATES THROUGHOUT



# THE PAG HAS ASSESSED PROS AND CONS OF PROPOSED PARTNERSHIP MODELS

	Pros		Cons	
	Joint Venture	Full Integration	Joint Venture	Full Integration
Ownership Interest	Maintain ownership interest	Receive maximum consideration and commitments include <i>fully funding</i> Strategic Plan	Lower amount of consideration paid and commitments made by partner for partial ownership	Relinquish ownership interest
Board Powers	Maintain role in governance	Maintain role in governance	Subject to partner “veto rights / reserved powers”	Subject to parent reserved powers
Board Appointment	Appointment of directors to governing board	Appointment of directors to governing board	Partner gets appointments to governing board	Partner has <i>more limited</i> role in appointments
Capital Commitment	Potential opportunity for distributions	No further capital commitments	Ongoing commitment to contribute capital if required, or risk dilution	Few, if any, opportunities to participate in ongoing distributions
Return on Investment	Potential future returns on investment	Full ROI achieved at closing / Maintain right of reversion / No ongoing debt obligations or downside risk	Responsibility for at least a part of ongoing debt and downside risk	Likely no participation in any future returns
Organizational Direction	Ability to influence strategy	Partner has full incentive to invest / Retain ability to influence strategy through local board and parent board appointments	Less incentive for partner to prioritize investments in venture	Reduced ability to control strategy



# THE PAG HAS EVALUATED STATUS QUO AND SYSTEMCO VS. PARTNERSHIPS OPTIONS USING KEY PROPOSAL ELEMENTS

Key Proposal Elements	Partnership	 New Hanover Regional Medical Center Status Quo	 New Hanover Regional Medical Center SystemCo
<b>Improving Access to Care and Wellness</b>			
1. Expansion & Reconfiguration of Facilities	● — ●	🕒	🕒
2. Ambulatory Network Development	● — ●	🕒	🕒
3. Information Technology	● — ●	🕒	🕒
<b>Advancing the Value of the Care</b>			
4. ACO and Health Plan Development	● — ●	🕒	🕒
<b>Achieving Health Equity</b>			
5. Full-Scale Health Equity Program	● — ●	🕒	🕒
<b>Supporting our Staff</b>			
6. Avoiding Staff Shortages	● — ●	🕒	🕒
7. Developing and Recruiting Talent and Expertise	● — ●	🕒	🕒
<b>Partnering with Providers</b>			
8. Provider Needs	●	🕒	🕒
9. Engaging Independent Providers	● — ●	🕒	🕒

Key Proposal Elements	Partnership	 New Hanover Regional Medical Center Status Quo	 New Hanover Regional Medical Center SystemCo
<b>Driving Quality Care Throughout the Continuum</b>			
10. Clinical Transformation	● — ●	🕒	🕒
<b>Growing the Level and Scope of Care</b>			
11. Partnerships for Highly-Specialized Services	● — ●	○	○
<b>Investing to Ensure the Long-Term Financial Security</b>			
12. Financial Performance Benefits	●	N/A	N/A
13. Addressing Financial Gaps and Threats	● — ●	○	🕒
14. Total Financial Consideration	● — ●	N/A	N/A
<b>Strategic Positioning</b>			
15. Integrated, Regional Health System	● — ●	🕒	🕒
<b>Governance</b>			
16. Contemporary Governance Model	🕒 — 🕒	○	🕒
17. Control at the Local Level	●	●	●
18. Legal Organizational Model	● — 🕒	○	🕒
<b>TOTAL WEIGHTING</b>	<b>47-68</b>	<b>16</b>	<b>20</b>

\*Summary Partnership Harvey Balls updated to reflect PAG final Harvey Balls as represented on Slide 11:

12. Financial Performance Benefits: 3/4 – 4/4 to 3/4, 13. Addressing Financial Gaps: 3/4 – 4/4 to 1/2 – 4/4, 15. Integrated, Regional Health System: 3/4 – 4/4 to 1/2 – 4/4

# THE PAG HAS REVIEWED THE FINANCIAL ANALYSIS OF PROPOSALS

	Atrium Health <sup>(1)</sup>	Atrium Health - Option 2 <sup>(2)</sup>	DukeHealth	DukeHealth - Option 2 <sup>(3)</sup>	Novant Health <sup>(4)</sup>
Purchase Price / Upfront Cash	50,000,000	200,000,000	500,000,000	1,375,000,000	1,500,000,000
Other Components of Cash Consideration					
Present Value of Lease of Property Plant Equipment Over 40 Years	567,800,000				
Present Value of Cash Installation Payments Over 15 Years		950,000,000			
County Retention of NHRMC Assets Less Liabilities		440,491,000	440,491,000	440,491,000	440,422,000
<b>TOTAL CASH PROCEEDS TO COUNTY</b>	<b>617,800,000</b>	<b>1,590,491,000</b>	<b>940,491,000</b>	<b>1,815,491,000</b>	<b>1,940,422,000</b>
<hr/>					
<b>TOTAL CAPITAL COMMITMENT</b>	<b>1,204,047,839</b>	<b>1,008,000,000</b>	<b>1,903,400,000</b>	<b>400,000,000</b>	<b>2,720,000,000</b>
Number of Years	12	12	12	5	12
Annual Capital Commitment	100,337,320	84,000,000	158,616,667	80,000,000	226,666,667
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Cash to Hospital Supporting Foundation	150,000,000	250,000,000			50,000,000
Other					
Estimated Present Value of Margin Share Over 40 Years	92,926,533				
Contribution of NHBMC					150,000,000
<b>TOTAL FINANCIAL CONSIDERATION</b>	<b>2,064,774,372</b>	<b>2,848,491,000</b>	<b>2,843,891,000</b>	<b>2,215,491,000</b>	<b>4,860,422,000</b>

Foundation contributions are assumed to support the hospital and are not included in Total Cash Proceeds to County

Capital commitments have been annualized to a maximum period of 12 years for comparative purposes

- (1) Atrium annual lease payments of \$28,970,266 for 40 years (present value of \$567.8MM using 3% discount rate). Present value of margin share of 5% of incremental operating EBITDA margin over 8%; assumes 12% EBITDA margin over 40 years discounted at 3%. Due to the contingent nature of this payment, we have included it in 'Other.' Also, Atrium provided a formula for routine capital expenditures over 40 years. This would imply a capital commitment of \$2.17 billion over 40 years, and total economic consideration of \$3.11 billion over 40 years
- (2) Atrium's minimum capital commitment under its revised proposal totals \$1.11 billion over 15 years plus \$120 million to construct a behavioral health and addiction treatment facility. The proposal mentions potential additional strategic capital based upon Atrium's enterprise capital allocation process. The installment payments are estimated to be approximately \$77 million annually for 15 years, totaling \$1.15 billion, discounted at 2.5% to \$950 million (Atrium previously provided a 3% discount rate for the long-term lease methodology, if the same rate is applied to the installment payments it would imply a present value of \$916 million). Atrium Health did not estimate County Retention of NHRMC Assets Less Liabilities, Ponder has used DukeHealth's estimate for comparative purposes
- (3) \$1.375 billion represents the middle of the range provided by DukeHealth. DukeHealth subsequently clarified option #2 to state the County would retain NHRMC's net cash and that DukeHealth would commit to minimum capital expenditures of \$400 million over five years
- (4) Novant Health ascribed \$150 million in value to the contribution of Novant Health Brunswick Medical Center although no cash value inures to the County or NHRMC for this additional consideration. \$3.1 billion capital commitment assumes \$60 million/year of routine capex and \$2.5 billion over an assumed 15 years for strategic capex

# AND THE PAG HAS DEVELOPED FINAL SCORING OF PROPOSALS FOLLOWING THE EXPLORATORY PROCESS

Key Proposal Elements	AtriumHealth	DukeHealth	NOVANT HEALTH
<b>Improving Access to Care and Wellness</b>			
1. <i>Expansion &amp; Reconfiguration of Facilities</i>			
2. <i>Ambulatory Network Development</i>			
3. <i>Information Technology</i>			
<b>Advancing the Value of the Care</b>			
4. <i>ACO and Health Plan Development</i>			
<b>Achieving Health Equity</b>			
5. <i>Full-Scale Health Equity Program</i>			
<b>Supporting our Staff</b>			
6. <i>Avoiding Staff Shortages</i>			
7. <i>Developing and Recruiting Talent and Expertise</i>			
<b>Partnering with Providers</b>			
8. <i>Provider Needs</i>			
9. <i>Engaging Independent Providers</i>			

Key Proposal Elements	AtriumHealth	DukeHealth	NOVANT HEALTH
<b>Driving Quality Care Throughout the Continuum</b>			
10. <i>Clinical Transformation</i>			
<b>Growing the Level and Scope of Care</b>			
11. <i>Partnerships for Highly-Specialized Services</i>			
<b>Investing to Ensure the Long-Term Financial Security</b>			
12. <i>Financial Performance Benefits</i>			
13. <i>Addressing Financial Gaps and Threats</i>		<sup>1</sup>	<sup>2</sup>
14. <i>Total Financial Consideration</i>	<sup>1</sup>	<sup>2</sup>	
<b>Strategic Positioning</b>			
15. <i>Integrated, Regional Health System</i>			
<b>Governance</b>			
16. <i>Contemporary Governance Model</i>			
17. <i>Control at the Local Level</i>			
18. <i>Legal Organizational Model</i>	<sup>1</sup>	<sup>2</sup>	
<b>TOTAL WEIGHTING</b>	<b>50-52</b>	<b>53-56</b>	<b>67</b>



## NEXT STEPS

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# NEXT STEPS

- July 7<sup>th</sup> NHRMC Board of Trustees meeting
- July 13<sup>th</sup> New Hanover County Commissioner meeting
- Opportunities for PAG to educate public
- Future PAG meetings and final Charter deliverable



# VISION FOR THE FUTURE

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# Imagine

 New Hanover  
Regional Medical Center





## CLOSING REMARKS

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# Thank You!