Connecticut General Assembly
Committee on Labor and Public Employees
Informational Hearing: Hospital Conversions
December 3, 2013

My name is Dennis McConville. I am a Senior Vice President for Eastern Connecticut Health Network, ECHN, responsible for strategic planning, communications and marketing.

This past summer, the ECHN Board of Trustees announced that it had moved forward with a non-binding letter of intent to negotiate the sale of ECHN to a partnership between Tenet Healthcare Corporation (formerly Vanguard Health Systems) and Yale New Haven Health System.

ECHN includes Manchester Memorial Hospital, Rockville General Hospital, Woodlake at Tolland Nursing and Rehabilitation Center, Visiting Nurse and Health Services of Connecticut and the ECHN Medical Foundation that employs physicians and allied health professionals. We operate multiple outpatient medical access centers housing wholly owned and joint venture imaging centers, an endoscopy center, and wellness centers: and joint venture ambulance companies, in all 23 companies. The system treats approximately 200,000 residents of eastern CT each year and employs over 3,000 employees paying over $134M in wages and $36M in benefits. This makes ECHN the one of the largest employers east of the CT River in Hartford and Tolland Counties.

When ECHN was formed almost 20 years ago, it created a community-based continuum of care with multiple entry points – offering ambulatory care, home care, skilled nursing care and acute care hospital services. The network was developed in anticipation of new payment methodologies that have taken twenty years to materialize with the passage of the Patient Protection and Affordable Care Act. Assembling a network of providers would enable ECHN to offer and manage care in the most appropriate setting and control the overall cost of care provided. In addition, the larger community network created economic scale. Duplicative administrative costs were eliminated which reduced expenses in many areas of operation.

More recently, changes resulting from the Affordable Care Act and other financial challenges have mounted and now threaten the long-term viability of our health system.

For example, in order to compensate for the reductions in Medicare payments built into the Affordable Care Act, the health system's expenses will need to be reduced an additional 15 percent.

Government payments for Medicaid and Medicare patients make up 55 percent of ECHN's overall revenues however the payments do not cover the actual cost of care presenting significant financial challenges.

Unlike the attempts in the 90's, payment reform is real with the implementation of the Affordable Care Act. Bundled payments, payments made for a single episode of care such as a knee replacement to be shared among all providers involved in the patient's care, and global payments made to cover all costs of care for a population of patients will in time replace the fee for service payment system that our

networks have relied on for decades. Millions of dollars for necessary information technology upgrades and additional staffing are needed to adapt to the changes in the way we will be paid for and deliver care.

Additional financial challenges that ECHN is facing include the state's hospital user tax that will result in $6.7 million of lost revenue this year and $8.6 million next fiscal year; and the implementation of federal sequestration that has reduced Medicare payments to the system by $2.2 million annually.

As a result, ECHN has struggled to generate a positive margin each year. These challenges have restricted the health system's ability to reinvest in much needed equipment, technology and facility improvements to support our patients and staff. While we participate in group purchasing organizations and aggressively negotiate prices, the opportunities to reduce non salary costs have limits for a system of our size. Salaries and benefits make up 65% of our expenses and we have worked very hard to preserve jobs. With each resignation processed, we carefully evaluate the need to hire replacements and aggressively look to consolidate responsibilities for support personnel and managers.

These challenges are not unique to ECHN, our region or our state. Many hospitals across Connecticut are exploring or moving forward with merger and acquisition opportunities to achieve scale in order to reduce costs, secure capital to make needed investments and reform care delivery systems.

After studying the national, regional and Connecticut landscape along with ECHN's current and potential future position, our trustees decided that some form of partnership was in the best interest of ECHN.

After nearly two years of due diligence and analyses, the our Board of Trustees decided to pursue a transaction with a joint venture of Vanguard Health Systems and Yale New Haven Health System.

When ECHN learned that Vanguard would soon be acquired by Tenet Healthcare Corporation, we conducted due diligence for Tenet and found that Tenet shares a core set of values and strengths with Vanguard and it was decided to proceed with the negotiation of a definitive agreement. It is important to point out that when interviewing employees of the Tenet hospitals we visited, employees were very satisfied with their employer and stated that life was better since their hospitals' conversions. Staff had the resources and technology needed to more effectively do their jobs, to care for patients.

Under our proposed transaction, ECHN would become a for-profit company. It would pay property, sales and income taxes; continue to provide charity care; maintain all quality standards; continue to provide all services, profitable or not. ECHN would adhere to all of the same standards as ECHN currently including the CMS conditions of participation, accreditation standards and public health regulations.

- Connecticut-based YNHHS would bring its solid reputation for providing excellence in clinical care and provide ongoing clinical support, quality and clinical service line management.

- From the due diligence we conducted, Tenet understands that the hospital is an integral part of the community, and it seeks to engage community's participation on advisory boards that oversee the quality services offered, approve the credentialing of providers and provide input into the strategic plans for its hospitals. It seeks to actively cultivate and promote the belief that the community "guides" the hospital.

- Tenet has a record of investing in hospitals with capital needs (e.g. Detroit Medical Center, St. Vincent's in Worcester, Children's in San Antonio) and has experienced growth in the markets where they operate hospital systems have grown jobs where they operate.

Importantly, we believe that the proposed transaction would not only preserve jobs at ECHN but grow employment for caregivers as more care is offered and delivered locally. Enhanced service offerings and the healthcare needs of an aging population, people living longer with chronic illness, will drive demand for services.

The future of health care delivery will lead to reform of our care delivery models. The reform of our delivery systems may change the work setting where care is given but professional and clinical support jobs will most definitely be needed.

A successful ECHN will require the means to make the investments in our workforce and in the technology that will support their efforts.

To summarize, as we at ECHN look ahead to the future with healthcare reform, with our perennial financial challenges to reinvest in our assets and in new technology, with the constant pressure for all of our staff to do more with less, with the investments needed to rebuild and reposition our system to adapt to the risks that will come with payment reforms, we need to be part of a larger system. A system with the ability to reduce costs, with the resources to invest in technology and programs that can serve a larger population of patients as we continue to replace our focus on sick care with an expanding focus on keeping residents of our communities well. Our proposed transaction with Tenet and Yale New Haven will preserve and grow jobs at ECHN.

Over our two-year journey to seek an affiliation we have worked hard to be as open and transparent as possible with our employees and union leadership about our process, intentions and decisions.

The conversion of ECHN with the joint venture with Tenet and Yale New Haven will produce benefits to our patients and our employees that are not possible if we were to remain a stand-alone system.

Thank you