Baylor Health Care System Update
Baylor’s Circle of Care

Guided by Baylor Values
- Integrity
- Servanthood
- Quality
- Innovation
- Stewardship

PEOPLE
To be the Best Place to Give & Receive Care

QUALITY
Deliver Safe, Timely, Effective, Efficient, Equitable Patient-Centered (STEEEP) Care, Supported by Education & Research

FINANCE
To be Responsible Financial Stewards

SERVICE EXCELLENCE
To Our Patients and Our Community

Vision: To be trusted as the best place to give and receive safe, quality, compassionate health care.
BHCS Today (as of August 2010)

- 27 Owned/Operated/Ventured/Affiliated Hospitals
- 26 Ambulatory Surgery Centers
- 70 Satellite Outpatient Clinics (Imaging/Pain/Rehabilitation)
- 171 HealthTexas Locations
- 4 Senior Health Centers
- 2 Retail Pharmacies
- Baylor Research Institute
- 3 Philanthropic Foundations

300 Access Points (as of July 2011)
As of June 2011

Community Benefits % of Net Patient Revenue

<table>
<thead>
<tr>
<th>Percent</th>
<th>FY '07</th>
<th>FY '08</th>
<th>FY '09</th>
<th>FY '10</th>
<th>FY '11*</th>
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<tr>
<td>0.0%</td>
<td>$399,100</td>
<td>$446,000</td>
<td>$468,100</td>
<td>$494,000</td>
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<td>5.0%</td>
<td>13.76%</td>
<td>13.52%</td>
<td>13.24%</td>
<td>12.53%</td>
<td>12.09%</td>
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<tr>
<td>10.0%</td>
<td>4.81%</td>
<td>6.46%</td>
<td>5.58%</td>
<td>5.75%</td>
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<tr>
<td>15.0%</td>
<td>Medical education &amp; other community services</td>
<td>0.74%</td>
<td>0.72%</td>
<td>1.20%</td>
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</tr>
<tr>
<td>20.0%</td>
<td>Charity &amp; unreimbursed cost of Medicaid</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
<td>1.24%</td>
</tr>
<tr>
<td>25.0%</td>
<td>Total</td>
<td>$600,000</td>
<td>$500,000</td>
<td>$400,000</td>
<td>$300,000</td>
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* FY 11 represents preliminary information and will be finalized in January 2012. FY 12 data will be available for the first quarter ended September 30, 2011.
• 34 Total Programs
  – 21 Baylor University Medical Center sponsored (approved by the Accreditation Council of Graduate Medical Education)
  – 3 shared with UT Southwestern Medical School (Urology, Plastics, Anesthesia)
  – 10 approved by Texas Medical Board, American Dental Association or other Board Specialty
• 223 BUMC Residents and Fellows
• 18 Garland Family Practice Residents
• September 6, 2011 announced a new affiliation with the Texas A&M Health Science Center (TAMHSC) College of Medicine.

• In December, Baylor will welcome 23 third-year medical students to the TAMHSC-College of Medicine Clinical Training Program in Dallas. A comparable number of fourth-year medical students will begin the program the following academic year.

• Students will complete clinical rotations at Baylor Dallas in surgery, internal medicine, obstetrics/gynecology and medical electives.

• Baylor Garland will host a rotation in family medicine, while other local facilities will provide rotations in pediatrics and psychiatry.

• Students also will rotate among various HealthTexas Provider Network clinics located throughout the Metroplex.
• Translational Research on three campuses (Dallas, Fort Worth, Plano)
• Cancer (breast, colon, prostate, others)
• Diabetes (prevention, treatment and islet cell transplantation)
• Cardiac and cardiovascular
• Immunology (cancer, infectious disease, vaccines and treatment)
• Molecular and genomic medicine
• Clinical Trials of new treatments and drugs
• Collaboration with Roche
What changes do we envision over the next five years?
DON'T BE AFRAID OF CHANGE.
• Current system not sustainable
• Growing uninsured and uncompensated care costs
• Increase in incidence of chronic disease
• Payment systems not tied to value, quality
• Healthcare lags behind other sectors in information technology
• Healthcare spending to outpace GDP growth.
• Half the nation’s healthcare spending will come from government by 2020.
• U.S. continues to far outspend other nations on healthcare.
• Healthcare costs vary widely – can vary more than 600% within the same town.
• Happy Birthday! Medicare turns 46.
SWORDS of DAMOCLES HANG OVER HOSPITALS

Health Reform

The Economy and Federal Debt
October 14, 2011 – deadline for House/Senate to submit recommendations to Committee.

- November 23, 2011 – deadline for Committee to vote on a plan w/goal of $1.5 trillion in deficit reduction.

- December 23, 2011 – deadline for House/Senate to vote on deficit reduction bill.

- January 15, 2012 – date that the ‘trigger’ leading to $1.2 trillion of future spending cuts goes into effect, if the Committee’s legislation has not been enacted.

- January 2, 2013 – OMB orders sequestrations for defense and non-defense categories of spending necessary to meet spending cuts required by the ‘trigger’.
THE SUPER COMMITTEE!!
• If recommendations pass, the president could request an additional increase in debt ceiling of $1.5 trillion.
• If Congress fails to act or send a balanced budget amendment to the states before the end of the year, automatic across-the-board spending cuts totaling $1.2 trillion go into effect.
• Cuts apply to both mandatory and discretionary spending programs in FY2013.
• Medicaid would not be subject to cuts, but Medicare provider payments would face a cut of no more than 2% over nine years.
• The president would then be authorized to request an additional increase in the debt ceiling of $1.2 trillion.
1. Crack down on Medicare fraud/abuse - $9 billion over 10 yrs.

2. Raise Medicare eligibility age gradually to 67 - $124.8 billion over 10 yrs.

3. Restructure Medicare benefits (increase co-pays) – $110 billion over 10 yrs.

4. New rules for Medigap plans – restricts what they cover so seniors pay more - $38 billion over 10 yrs.
5. Fix the SGR Medicare physician payment formula – this will cost $358 billion over 10 yrs according to CBO.

6. Raise Medicare Part B premiums – seniors would have to pay 35% of premium cost, up from 25% now - $241 billion over 10 yrs.

7. Cut hospital payments for bad debt - $14-26 billion over 10 yrs.

9. Medicaid block grants – turns Medicaid from open-ended entitlement to block grant with greater state flexibility to decide what to cover - $750 billion over 10 yrs.

10. Medicaid “blended” matching rate reduces federal exposure, shifts costs to states - $100 billion over 10 yrs.

11. Repeal CLASS act – Eliminate long term care insurance program created by ACA - $86 billion over 10 yrs. (This has been done.)
Hospitals Put on Sick List

New Study Finds Revenue Is Growing at Slowest Rate in Two Decades, Leading to Uptick in Mergers

BY ALISA WILHELM MATHEWS

Nonprofit hospitals are under increasing financial pressure, with revenue growing at the slowest rate in at least two decades, according to a new report from Moody’s Investors Service.

The 4% median revenue growth rate, based on a review of 401 hospitals’ fiscal 2010 financial results, is the lowest the firm has seen since it started tracking the figure two decades ago, Moody’s officials said in a report set to be issued Wednesday. Though the hospitals have been pushing hard to reduce expenses over the past few years, around 20% of those in the study were still running in the red on an operating basis. Even those that were in the black achieved fairly thin margins, with 63% of all the hospitals achieving results between breakeven and 5%.

Nonprofits, including those owned by state and local governments, represent around 80% of U.S. acute-care hospitals, according to the American Hospital Association.

One upshot of the tough times is an uptick in hospital mergers, as smaller hospitals seek to link up with larger systems or sell themselves to for-profit operators. In the first six months of this year, there have been 55 deals, more than double the 35 deals at this time last year, according to Irving Levin Associates in Norwalk, Conn., a research firm that tracks healthcare transactions. The full-year number for 2010, 73, was already the highest since 2001.

“IT’s a way to get to the next level of economies of scale,” says Ralph de la Torre, chief executive of Steward Health Care System LLC. The 63% of all the hospitals achieving results between breakeven and 5%.

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“Hospital rating downgrades will likely increase in the short term unless expense reductions and productivity gains compensate for stagnant or weak revenue growth. While better managed hospitals can stave off rating downgrades, smaller hospitals are coming under particular stress.”

Lisa Goldstein, Moody’s August 2011
• Reduced payment – all sources
• Declining ability to cost shift
• Credit downgrades as hospitals seek capital
• Need for size and scale drives merger frenzy
• Payment increasingly tied to quality/safety – all sources
State Medicaid Issues

- Budget shortfall
- More Medicaid eligibles
- Standard dollar amount
- Inter-governmental transfers/disproportionate share
- Upper payment limit
- Maximize federal match
What will the future culture of the hospital need to be? What core values will we need to embrace?

- Innovation
- Caring & Compassion
- Servanthood
- Excellence
- Quality/Safety
- Transparency/Integrity
- Stewardship
Key Characteristics of Future Success

Shifting Paradigm Required to Respond to Short-Term and Long-Term Market Needs

Today

Providing charity care
Treating DRGs
Tracking discharges and days
Measuring cost per discharge

Future State

Allocating resources to improve community health
Managing disease populations
Tracking care episodes
Case mix, severity-adjusted care cost per episode
Future Success Factors

The successful emerging model requires:

- Scale and integration
- Market essentiality
- Leading quality and service
- Aligned physicians
- Sophisticated IT with high adoption rates
- Highly efficient resource & cost structures
- Assured capital access
- Progressive governance and leadership

Ensure Organizational Sustainability
### Must Do Strategies for Systems of the Future

**The first four strategies were identified as major priorities**

1. Aligning hospitals, physicians, and other providers across the continuum of care
2. Utilizing evidenced-based practices to improve quality and patient safety
3. Improving efficiency through productivity and financial management
4. Developing integrated information systems
5. Joining and growing integrated provider networks and care systems
6. Education and engaging employees and physicians to create leaders
7. Strengthening finances to facilitate reinvestment and innovation
8. Partnering with payers
9. Advancing an organization through scenario-based strategic, financial, and operational planning
10. Seeking population health improvement through pursuit of the “triple aim”
Better Health for the Population

Better Care for Individuals

Lower Cost Through Improvement

“Three-Part Aim”

Source: Susan Dentzer, Editor-in-Chief, Health Affairs
Reducing Costs by Standardization

- Lack of standardization is a significant cost to hospitals.
- Challenging for facilities where the majority of physicians are independent.
- Hospitals will be moving toward reimbursement for quality, rather than volume.
In this age of information and social media, patients are now deciding where to receive care. Quality outcomes are more publicly available. Hospitals may need to shift focus from influencing referral patterns to improving direct-to-consumer marketing and publicized outcomes.
The New Winners:

- Well-capitalized health systems with high functioning, data driven, digitally connected, physician-lead TEAMS delivering evidence-based, patient-centered healthcare
- Able to treat higher volumes of patients
- At lower predictable costs per episode
- Demonstrating consistent measurable high quality

Nate Kaufman, Kaufman Strategic Advisors, LLC, 2011
What Baylor Health Care System is doing to change how health care is being delivered.
1. Influence health care reform through patient-centered models of care
2. Fully implement clinical transformation to create an ideal experience for patients and caregivers
3. Continue to be a leader in medical education and research
4. Continue to develop existing and build new clinical centers of excellence to serve all people and improve the health of the communities we serve
5. Demonstrate financial stewardship by maintaining a top bond rating (AA)
6. Become an Accountable Care Organization
7. Baylor Health Care System routinely listed as one of the “Top 5” health care systems in the nation
Baylor Health Care System has elected to invest $350 million for the new cancer center.

- 450,000 sq. ft. outpatient center opened in March 2011.
- Cancer hospital will open in 2013.
- Economic impact – 200 new jobs over next five years
• The recent advances in cancer treatment where the therapy is aimed at specific genetic or metabolic defects or changes is being called by many different names, none of them perfect or all encompassing.
  – Personalized Medicine is by far the most widely used
  – Precision Medicine
  – Targeted Therapy
  – Individualized Medicine
• Whichever name is used, the objective is the same:
  – Use of genetic or other molecular biomarker information to improve the safety, effectiveness, and health outcomes of patients via more efficiently targeted risk stratification, prevention and targeted treatment approaches.
Focus on Wellness
Diabetes Health and Wellness Institute

Mission: To improve the care and save lives of people with diabetes by creating a new care model focused on health care, education and research in South Dallas
Baylor Health Care System’s award-winning wellness program has five main focus areas:

- weight loss
- fitness
- nutrition
- stress management
- tobacco cessation
Things are happening….

- Focus on employees “knowing their numbers”
  - Announced and in progress (5,000 employees have already participated)
  - Moving rewards to participation in activities
  - Move to the “stick” for those enrolled in the medical plan

- No longer hiring nicotine users
  - Announced and in progress
  - $25 per pay check surcharge continue for current employees
Things are happening….

• Catering
  • Expanded menu with healthy options completed
  • Expanded fund raising menu to be 100% healthy
  • Partnering with Aramark on cafeteria and retail areas

• New vending machines rollout system wide
  • Coming November 2011
  • 100% healthy options for snacks and drinks
Partnerships beginning…

• Implementation has begun
  • City of Haltom City
  • City of Garland
  • Southern Methodist University
  • Federal Reserve Bank

• Proposals outstanding
  • Accor

• Discussions with
  • University of Texas at Arlington
  • Texas Christian University
• **Strong physician relationships** have been key to BHCS’ success.

• Physician-friendly model offers a variety of opportunities to **partner** with Baylor.

• Entry into strategic markets begins with placement of primary care physicians and major diagnostic services.

• HealthTexas Provider Network, Baylor’s physician organization, provides resources to enter new markets quickly via physician employment.
BHCS’
Commitment to Quality

RESOLUTION
BOARD OF TRUSTEES
BAYLOR HEALTH CARE SYSTEM
September 26, 2000

WHEREAS, Baylor Health Care System’s Vision Statement includes “the most trusted source of comprehensive health services”; and

WHEREAS, Baylor Health Care System’s Mission Statement includes “serve all people through exemplary health care”; and

WHEREAS, one of the primary responsibilities we have as Trustees is continuous improvement in quality patient care and safety; and

WHEREAS, maintaining the status quo or achieving quality and safety levels only equal to or slightly better than national, regional, or local norms is not compatible with the BHCS Vision and Mission Statements; and

WHEREAS, regulatory and legislative changes and a growing number of more informed patients support better quality patient care and safety;

THEREFORE, BE IT RESOLVED, that the Board of Trustees of Baylor Health Care System hereby challenges itself and everyone involved in providing health care throughout the system to give patient safety and continuous improvement in the quality of patient care the highest priority in the planning, budgeting and execution of all activities in order to achieve significant, demonstrable and measurable positive improvement in the quality of patient care and safety; and

FURTHER RESOLVED, that the Board requests that periodic reports be made to the Board on planning, budgeting, execution and results of activities to improve patient safety and quality of patient care in Baylor Health Care System.

E. K. Browder, Chairman
Board of Trustees

September 26, 2000
• Commitment to mission, vision, values and areas of focus
• Focused on best practices and transparency
• Disciplined, consistent approach to health care delivery across the system
• Investment in leadership (EDGE; physician; nursing)
• Superior financial flexibility/strong balance sheet management
• Industry-leading portfolio of service lines & physician alignment models
• Relentless focus on maximizing long-term value
• Uniquely well-positioned for the future
Four Non-Negotiables

1. Putting the patient first in everything we do
2. Staying true to our mission
3. Living our values
4. Doing the right thing for the right reason
“Is it not now time to build a great humanitarian hospital, one to which men of all creeds and those of none may come with equal confidence?”

Dr. George W. Truett, 1903
Co-founder of Texas Baptist Memorial Sanitarium, predecessor of Baylor Health Care System
Creating the future of health care by building on the past.

“Is it not now time to build a great humanitarian system of care, one to which men and women of all creeds and those of none may come with equal confidence?”
Questions?