What is Driving the Need for New Relationships?

- “Reform related” demands for more access, lower costs, higher value
- Increased use of tiered networks
- Emergence of quality-based and value-based payment systems
- Decline in NIH funding
- Shift in federal funding priorities
  - e.g., shift from basic research to translational research
  - e.g., shift from GME/quaternary care funding to FQHC funding bonanza in PPACA
- Flight to capital
- New market entrants, as private equity firms seek facility and physician network opportunities
- Dramatically altered political landscape: coming to grips with reality that we may not be able to afford everything we have now and want to have in the future
- Excess capacity??? Excess Demand???
Public University / Health System

- Relationship between the University and Medical Center
  - Integrated body consisting of medical school, hospitals, faculty clinics
- Relationship with the Marketplace
  - Through separate non-profit corporation or entity created by state law
  - Sole member: University
  - Directors: All University personnel
  - Separate group of allied entities used to engage in joint ventures with 3rd parties
Stanford University

- Relationship between the University and Medical Center
  - School of Medicine within the University
  - University is the sole corporate member of the two Hospitals and has affiliation agreements with each Hospital
  - Faculty, employed by the University, provide clinical services through the Hospitals via PSAs

- Relationship with the Marketplace
  - Through Packard Children’s Health Alliance and University HealthCare Alliance, each of which has two corporate members: the University and the respective hospital
Harvard University

- Relationship between the University and Harvard Teaching Hospitals
  - No "Dean's Tax"
  - No affiliation agreements
  - FPP's employ clinical faculty
  - University control of faculty appointment and promotion
  - University participation in recruitment of senior clinicians
  - "Harvard limits" on rate of salary increases, funding of named chairs
  - Tradition

- Relationship with the Marketplace
  - Significant activity through PCHI
  - Two Physician Members, both selected by Partners

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For-Profit Joint Venture Model

- Relationship between the University and Medical Center
  - Minority investment interest, with limited governance participation
  - Alignment of medical center with academic mission depends largely on contractual arrangements
- Relationship with the Marketplace
  - Limited partnership controls health system expansion
  - LP relationship typically constrains competitive activities
  - Model may isolate FPP/clinical faculty
West Penn Allegheny/Highmark

- Relationship between the Health System and Temple University School of Medicine
  - Development of Temple University School of Medicine at West Penn Allegheny Health System, expanding WPAHS’s historic relationship with Temple by establishing a four-year campus at WPAHS
  - $75 million Highmark endowment to support medical education in market
- Relationship with the Marketplace
  - A model devised to integrate insurance and health care delivery functions
Private Equity Model

- Relationship between the Health System and Tufts School of Medicine
  - St. Elizabeth Medical Center is a teaching affiliate of Tufts
- Relationship with the Marketplace
  - Model allows for infusion of capital to overall health system from private equity firm and alignment with financial buyer (vs. strategic buyer)
  - Possibility of future exit by Cerberus creates uncertainty
University Concerns

- Increased exposure to healthcare uncertainty
- Allocation of risk capital
- Opportunity cost
- Mission creep
- Exposing university endowment at risk
- Balance between academic and health missions
**Emory / Saint Joseph’s JOC**

- **Relationship between the University and Health Sciences**
  - The relationship between the University, the Emory Hospitals, and Emory School of Medicine remains unchanged: the Hospitals and School of Medicine are operating units of the University
  - University sub-committee (Woodruff Health Sciences Center Board) governs health sciences operations
  - Emory Healthcare is clinical enterprise; separate 501(c)(3) but ultimately governed by University
  - Three governing “boards”
  - Affiliation involves a subset of Emory Healthcare operations

- **Relationship with the Marketplace**
  - Joint Operating Company is the new entity, with EHC as majority owner
  - Tax-exempt status (EHC group exemption)
  - EHC managed

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**Key Elements of Emory/Saint Joseph’s Inc. Transaction:**

- **Structure/Contributions**
  - Emory Healthcare and Saint Joseph’s Health System to create new non-profit corporation, Joint Operating Company (via “NewCo” holding company) to comply with specified charitable purposes and mission (See, Exhibit A)
  - Tax-Exempt Status/Group Exemption with Emory Healthcare
  - Emory contributions
    - Emory Johns Creek Hospital and Medical Office Building
    - “Synergies” of entire EHC system (non “system within a system”)
    - Assumption of Debt
      - JOC agrees to assume debt of three tax-exempt bonds issued by Catholic Health East in debt “swap”; guaranty to be provided by Emory University in Credit Support Agreement
Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

– Saint Joseph’s Contributions
  • Saint Joseph’s Hospital of Atlanta
  • Other subsidiaries (translational research institute; physician group)
  • Some entities of Saint Joseph’s Health System remain outside of JOC
  • Cash

Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

• Governance
  – EHC: 51% membership interest and majority of JOC Board
  – SJHS: 49% membership interest and minority of JOC Board
  – Actions Requiring Unanimous Approval
    • Fundamental changes to philosophy and mission of JOC
    • Changes to key governing documents
    • Capital Contributions
    • Strategic Transactions involving JOC
    • Change to names, logos or service marks
    • Closure of facilities
Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

– Supermajority Rights
  • Related party Agreements
  • Strategic transaction involving JOC subsidiaries
  • Material changes to philosophy or mission of subsidiaries
  • Changes to key governance documents or boards of subsidiaries
  • Material Revisions to Strategic Plan
  • Appointment of Sr. VP of Mission

– Member Reserved Rights
  • EHC (strategic transactions involving contributed assets; teaching and research implementation or discontinuation)
  • SJHS (strategic transactions involving contributed assets; ERD implementation and compliance)

Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

• Application of Ethical and Religious Directives/Vatican Approvals

  – Saint Joseph’s Hospital to remain a Catholic institution and to be operated according to Catholic standards and requirements, including Ethical and Religious Directives (ERDs)

  – Emory Johns Creek Hospital will not become a Catholic institution but will operate “in a manner consistent with the ERD’s as applicable to a secular institution”

  – SJHS appoints Values Integration Committee and Sr. VP of Mission to oversee Catholic mission-related matters and application of ERDs to all JOC facilities

  – Dispute resolution process in place with exclusive SJHS remedy being termination right, subject to other exit/termination provisions if resolution process fails
Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

• Management/Medical Staff Issues
  – Separate medical staffs to be maintained; separate TJC accreditations as Governing Body
  – JOC to be operated in accordance with 5-year strategic, operating and capital plan
  – EHC to manage JOC under Management Agreement and provide defined services (back office; IT; compliance; legal; HR, etc.) on cost basis
  – CHE to provide defined transition services for specified time following close

Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

• Transfer and Exit Rights
  – After three years, transfers to third parties allowed, subject to right of first refusal based on terms of offer or valuation
  – After three years, EHC has right to “drag” SJHS in sale of JOC to bona fide third party, subject to specified price protections for SJHS; SJHS has right to “tag along” in sale to bona fide third party
  – After three years, SJHS has right to “put” purchase by EHC of SJHS interest, subject to “drag” rights and EHC right to terminate
  – Coordination between “put” and “drag” rights and termination provisions
Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

– Termination rights:
  • Mutual Agreement
  • By SJHS for alleged violation of ERD’s or other Catholic requirements
  • By either party if other member suffers dissolution, loss of 501(c)(3) status, or change of control
  • By either party if either party transfers membership in violation of transfer provisions
  • Termination right includes valuation process in sequential steps involving combination of
    – Negotiation
    – Formula based on market multiples
    – Appraisal process subject to penalties by “triggering” party
    – Discounts and premiums applied to valuation in certain circumstances
    – Financing of “put” available by SJHS

Key Elements of Emory/Saint Joseph’s, Inc. Transaction: (con’t)

• Other Issues
  – Employment of Saint Joseph’s Physicians
  – Intellectual Property
  – Name Use/Service Mark Agreement
  – Teaching and Research
  – Pension Plan Issues