

VIA EMAIL AND HAND DELIVERY

August 3, 2017

John Dreyzehner, M.D.
Commissioner of Health
Tennessee Department of Health
425 5th Avenue North
Nashville, TN 37243

Re: Population Health Improvement and the Impact on Ballad Health's Business Model

Dear Dr. Dreyzehner,

One of the key commitments included in Mountain States Health Alliance (“Mountain States”) and Wellmont Health System's (“Wellmont”) Certificate of Public Advantage (“COPA”) application is a \$75 million commitment over ten years to improve population health in Northeast Tennessee and Southwest Virginia. As we described in our application, this region suffers from some of the most serious health issues of any region in the country. An injection of funding specifically focused on improving the health of this region is a significant benefit offered by the COPA. During our COPA application discussions, however, a valid question has been raised, “If Ballad Health is successful in improving the population health of the region, the demand for healthcare services is likely to decrease. How will Ballad Health sustain itself when people don't need as many healthcare services?” This letter is intended to address that question.

Historically, healthcare has operated under a “fee-for-service” model where the more services hospitals, doctors and other providers perform, the more money they are paid. Under fee-for-service there is little financial incentive for health care providers to keep people healthy and out of the hospital. More and more frequently over the past several years, governmental payors, like Medicare and Medicaid, as well as commercial insurance companies are offering contracts that create financial incentives for doctors to keep people out of the hospital by better managing chronic conditions, and for hospitals to keep patients from being readmitted to the hospital by reducing hospital acquired conditions and taking more responsibility for post-acute care. We have no doubt that these value-based care models, that align financial incentives for doctors and hospitals with public health goals, are the future of health care payment models; and, if the COPA is approved, Ballad Health has committed to pursuing more of these value-based contracts. This commitment aligns our goal of improving the health of the region with the financial resources needed to continue to provide the highest quality of care possible in Northeast Tennessee and Southwest Virginia.

Admittedly, moving from a fee-for-service model to a value-based care model is a financial challenge for any health system dependent on significant inpatient revenue. The reality of population health improvement is that, as we implement programs which keep people healthy, we will eventually reduce the need for hospital-based services. If our health system is not properly aligned with the payors and primary care providers serving our service area, population health efforts could have the intended goal of improving the health of our region, but place significant financial stress on our health system. The new health system’s transition to value-based care has to occur carefully by entering into risk-based contracts with payors that allow the health system to retain savings associated with better care that at least offsets the lost revenue from hospital-based services, and by also reducing the fixed costs associated with these services.

As the Advisory Board noted in their April 7, 2017 Report, Mountain States and Wellmont both have significant experience with value-based contracts:

- Mountain States currently has 13 commercial and government value-based contracts. The contracts range from pay-for-performance, shared savings, bundled payments, to upside and downside medical loss risk. Mountain States is successfully performing under all agreements.
- Wellmont currently has over 20 value-based contracts, including pay-for-performance, bundled payments and other risk arrangements. Wellmont is successfully performing under all agreements.

Both systems have begun successfully navigating this transition by participating in Medicare value-based programs and working closely with commercial payors that understand the need to appropriately pace the transition to more risk in value-based contracts. The merger will allow us to further reduce fixed costs, create larger pools of managed lives to spread risk, and achieve synergies to be invested in the infrastructure necessary for large-scale population health. It will also permit a combined clinical governance necessary to expand evidence-based care throughout the region more quickly and effectively. We are confident that the combined leadership teams of Wellmont and Mountain States will bring to Ballad Health the clinical, operational and financial acumen to successfully navigate the transition from fee-for-service contracts to value-based contracts over the coming years.

As experts have independently reported, Wellmont and Mountain States have the core competencies and skill sets to be successful in population health improvement and value-based care in the near-term, as well as pursue larger risk-based contracts in the future. Combined, Ballad Health will have the resources and experience to be able to execute on population health improvement much more effectively than either system could alone. The transition to value-based care involves a deliberate approach. We are confident that the combined organization of Ballad Health will be well-positioned to make the transition to value-based care efficiently and successfully in the coming years.

We look forward to working with you and the Department staff as you complete the review of our COPA application.

Kind regards,



Alan Levine
President/CEO
Mountain States Health Alliance



Bart Hove
President/CEO
Wellmont Health System