

**VIA EMAIL AND HAND DELIVERY**

August 9, 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 this transition to value-based care occurs, Ballad Health must reach beyond the traditional boundaries of the health care system and invest in community and population-level interventions that address the root causes of health problems. The Accountable Care Community model will be the primary vehicle for the coordination of activities around community health improvement. An Accountable Care Community encompasses leadership and stakeholders not only from the medical care delivery system, but also from the public health system, employers, community stakeholders at the grassroots level, and community organizations whose work often encompasses the entire spectrum of the determinants of health. Through collaborative partnerships and multi-sector oversight, an Accountable Care Community can streamline efforts across the community and across numerous health issues for health promotion and disease prevention, access to quality services, and access to healthcare delivery. As public health experts have noted, Accountable Care Communities are well-positioned to comprehensively address a broad range of health issues while maximizing the community's assets.

Ballad Health will not be building these Accountable Care Community partnerships from scratch. Wellmont and Mountain States have long-standing relationships with stakeholders in each of these categories that have been cultivated over decades of community work. These include:

- Public Sector Partners - Ballad Health will include public sector partners in (i) the development of the Community Health Improvement Plan, (ii) the Academics and Research Plan and (iii) in the formation, governance, and operation of the Accountable Care Community. Public Schools will be especially important to the prevention efforts of Ballad Health, and strong relationships already exist with many of these schools for the provision of tele-health services for clinics, exercise equipment and training, prediabetes assessment and education, and walking and reading programs. It will be critical for Ballad Health to work with the public sector to leverage new and existing spending and resources. Certain public

sector partners will have significant involvement with Ballad Health. While the Tennessee Department of Health will be the primary public agency responsible for regulation and active supervision of the COPA, the expertise and partnership of regional health departments will be essential to informing and guiding the work of the Accountable Care Community. Local public health offices can have a significant role in development of the needs assessment, performance measurement and improvement, health promotion, and patient engagement necessary for a successful Accountable Care Community. They may also be able to assist with the collection of population health data related to risk factors and disease incidence, and provide technical assistance in reporting quality performance measures. The College of Public Health at ETSU will also have a central partnership role in the establishment of the Academic Medical Center model, the shared research infrastructure, which will be instrumental to studying the population health and community health improvement measures enacted under the COPA and in attracting translational research funding from outside sources. The Academic Medical Center model will be integrally connected to the overall plan for Academics and Research but will have its own plan and budget with the goal of advancing research collaboratively with Ballad Health and ETSU. This will ensure new economic opportunities and research findings for the region. By working with the public sector partners, Ballad Health will be able to provide a range of services to the population, including population-based primary prevention services, support for minority health initiatives, support for primary care providers, oral health, pharmacy, disease screening, and home healthcare services.

- Private Sector Partners - Ballad Health will focus on three strategic directions with private sector partners (i) the development of the Accountable Care Community and the Community Health Improvement Plan, (ii) the development of the Academics and Research Plan, and (iii) the development of integral relationships with businesses, schools, and faith-based organizations to implement prevention strategies. Through the formation of the Accountable Care Community, Ballad Health will identify essential private sector partners and outline the key contributions each will commit to making in support regional systems for community health improvement. These partners will be engaged in the development and implementation of the Community Health Improvement Plan, and Ballad Health will work to scale best efforts and increase capacity through the committed \$75 million investment with a focus on those which align most closely with community health improvement goals. Ballad Health has also committed to working with existing academic partners to identify needs for clinical education and graduate medical education to increase the pipeline of nursing, allied health, and physician professionals serving in the area through an \$85 million investment in Academics and Research. Finally, Ballad Health will work with regional businesses, faith-based organizations and schools to extend prevention education and resources in order to help reduce health risk in populations. These efforts will include the provision of onsite, tele-health, and embedded resources such as health coaches and health educators. Because of these long-standing relationships, the community is primed for an Accountable Care Community model under the leadership of Ballad Health.
- Physician Groups - Ballad Health seeks to build on the work that has already begun in the regional Accountable Care Organizations to further align clinical efforts through a more cohesive clinical network that includes employed and independent physicians. This strategy will emphasize the mutually supportive contributions to common population health medicine strategies aimed at reducing cost, improving quality, and increasing access to prevention and best practice treatment resources. Physician group leaders will be important leaders for the

Accountable Care Community and a cross-section of regional physicians will contribute to the Physician Clinical Council where clinical protocols and strategies to derive efficiency and improve quality will be vested for Ballad Health. Each of these organizations will be a cornerstone for community health improvement. The sharing of health information will be essential to this network as well, so Ballad Health will not only work to develop the Common Clinical IT Platform but will also meaningfully participate in a regionally accessible health information exchange. Ballad Health will seek to empower independent group participation in cooperation with large regional medical groups.

- Non-Acute Care Providers - Ballad Health will work to establish a shared information network with non-acute care providers and to establish a best practice set of protocols for the management of patients. The protocols will solidify Ballad Health's relationship with the providers that commit to a shared approach to best practices. Ballad will expand on Mountain States current preferred Skilled Nursing Facility network to include discharges from previous Wellmont hospitals. This approach has demonstrated outcomes for reducing readmissions and improving care outcomes across the continuum of care and will be mutually supportive for these providers, Ballad Health, and managing physicians, especially where payers are aligning incentives, such as around the avoidance of re-admissions.
- Behavioral Health and Substance Abuse Providers - Ballad Health plans to make a major investment in behavioral health and substance abuse resources in the Geographic Service Area. As outlined in the Application, Ballad Health has committed \$140 million towards the expansion of needed services which includes \$85 million for mental health and addiction recovery. This approach will require working closely with regional partners such as Frontier Health and others to develop and resource a comprehensive plan for prevention, crisis intervention and stabilization, accessible outpatient resources and community support, and needed inpatient resources all working in a more effective and cohesive continuum of care.
- Payers - The goal of Ballad Health is to move from the traditional payer-payee relationship to a partner role where the goals of the health system and the payer are aligned. This will result in shared savings for both the payer and Ballad Health through improved efficiency and quality of care. Ballad Health will work with payers to align systems of prevention and education to reduce both the incidence and progression of disease and to keep those populations it serves well. Ballad Health's aim is to create a fourfold relationship that includes Ballad Health, its physician partners, patients/beneficiaries, and payers to develop a cohesive set of strategies around population health improvement. With a relatively small number of major payers and a regionally integrated delivery system, Ballad Health has a phenomenal opportunity to align goals, incentives, and resources to support the singular goal of community health improvement in the Geographic Service Area. Payers, including insurance companies and businesses, will be invited to play an essential role in the development of the Community Health Improvement Plan and the Accountable Care Community.

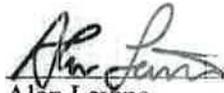
Traditionally, a shift of this magnitude would only occur as a response to a change in how the health system is paid. However, because of the synergies provided by the combination of Wellmont and Mountain States, we will be able to bring the health system of the future to the region ahead of the payment system to support it by investing in prevention, the underlying social determinants of health, and the root causes of poor health. We have set forth financial commitments which will fund an intensive effort to improve the health of our region, and the State will hold us accountable for those

financial commitments through its active supervision. This positions us to act now to address the health needs of the community rather than waiting for payment reform to be implemented. As payment reform occurs, the work we are doing via our own investment in population health will position Ballard to succeed in a model where we are paid to deliver health care value. We are committed to building that value now, ahead of the curve.

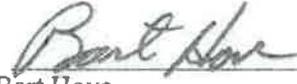
As experts have independently reported, Wellmont and Mountain States have the core competencies and skill sets to be successful in population health improvement and value-based care in the near-term, as well as pursue larger risk-based contracts in the future. Combined, Ballard Health will have the resources 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 Ballard 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,



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President/CEO  
Mountain States Health Alliance



Bart Hove  
President/CEO  
Wellmont Health System