

April 16, 2018

The Honorable John Dreyzehner, M.D., M.P.H.
Commissioner, Tennessee Department of Health
5th Floor, Andrew Johnson Tower
710 James Robertson Pkwy.
Nashville, TN 37243
Via email: John.Dreyzehner@tn.gov

Re: Planned Merger Related Synergies

Dear Commissioner Dreyzehner:

I am writing you on behalf of Ballad Health ("Ballad"). As you know, upon approval of the Terms of Certification for the Certificate of Public Advantage, Ballad Health announced publicly that it expected to eliminate approximately 250 positions due to synergies resulting from the merger. For reference, I provide the reporting on this announcement from local media as a demonstration of Ballad Health's transparency on this issue (<http://www.wjhl.com/news/the-merger-how-ballad-health-could-impact-you-20171201033045747/871551939>).

Since the merger closed, management has been able to engage to determine its approach to reducing administrative and support cost. This has been made more urgent due to the deteriorating financial situation legacy Wellmont and Mountain States have experienced since July, 2017 prior to the closing of the merger. As reported publicly, due to the increased cost of labor, pharmaceuticals and supplies, and the continued shift to the outpatient setting from inpatient, the operating income of the combined systems has declined by 123% since the same time in the prior year.

Despite these challenges, management believes it can achieve the immediate results it needs to by reducing the number of positions it planned to eliminate from 250 to approximately 199 with 49 of those positions having already been eliminated through attrition since January.



Thus, the impact on existing team members is limited to approximately 150 individuals at this time. Given the national pressures impacting cost growth, we will continue to look for opportunity to reduce costs that are duplicative and look for ways to improve value.

Ballad Health's board and management appreciate the State's approval in the Terms of Certification which permit us to act on these opportunities to reduce costs by realigning the workforce, as these synergies are necessary for both our financial stability as well as to help us prepare to fulfill the commitments we have made elsewhere in the Terms of Certification. However, even with your approval being contained within the Terms of Certification, before we acted, and as a courtesy, we wanted to ensure you were aware we were taking this action effective Tuesday April 17, 2018.

Pursuant to the Terms of Certification and the Commissioner's order in Virginia, no individual working in a rural hospital will lose their job in this action. When rounded, approximately 67 percent of the impacted positions are in Johnson City, 22 percent are in Kingsport, 6 percent are in Bristol and 4 percent are in Greeneville. This realignment of the workforce affects less than 1 percent of Ballad Health's total workforce. Ballad Health has submitted its policy related to severance and plans to follow the policy as provided. Finally, Ballad is taking all steps necessary to comply with relevant State and Federal laws relating to personnel reductions.

In the last several months, it has been reported that nearly 150 health systems have implemented reductions in workforce, or are closing hospitals¹. These systems are facing the same pressure as Ballad Health. However, because of the recent merger, Ballad Health is able to reduce costs that were previously duplicative without having an adverse effect on our operations, programs or access. In the future, as we act to consolidate duplicative inpatient services in accordance with the Terms of Certification and Commissioner's order in Virginia, we look forward to adding new services that are not currently available. This is the vision of what we hoped for in our region. As our management team and board have watched these other systems continue to close hospitals and services, or outright sell their systems, the belief is that our approach to changing our capacity will prove more thoughtful than simply the elimination of cost without any clear benefit other than the financial impetus to do so.

¹ Becker's Hospital Review, "136 Layoffs so far in 2017", Kelly Gooch, December 21, 2017, www.beckershospitalreview.com/hospital-management-administration/136-layoffs-so-far-in-2017.html

As always, management is pleased to answer any questions you or your staff may have.

Sincerely,



Timothy S. Belisle

Executive Vice President-General Counsel

Cc: Commissioner Marissa Levine, M.D., M.P.H.

Via email: Marissa.Levine@vdh.virginia.gov