The Benefits & Challenges Of For-Profit Business Operations In Non-Profit Organizations

The 2017 OPEN MINDS Performance Management Institute
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James Stewart, President & CEO, Grafton Integrated Health Network, & Chair, OPEN MINDS Performance Management Institute

www.openminds.com
163 York Street, Gettysburg, Pennsylvania 17325
Phone: 717-334-1329 - Email: info@openminds.com
Agenda

I. The Benefits & Challenges Of Forming A For-Profit Subsidiary

II. The Good, The Bad & The Ugly: Launching A For-Profit Corp In A Rapidly Changing Marketplace

III. Questions & Discussion
The Benefits & Challenges Of Forming A For-Profit Subsidiary
Want A For-Profit?

Recent surge in for-profit subsidiaries owned by non-profit organizations:

- **Reasons**
  - Shield tax status from “unrelated” income
  - Can be driven by regional difference
  - New IP from existing business lines

- **Market identification or segmentation**
  - Customer by payer source
  - Separate branding and messaging

- **Affiliation and Partnerships**
  - Corporate Form - LLC or other Limited Corp Status

- **Acquisition of existing entity**
What To Look Out For

- Beware of possible roadblocks
  - Not all states allow a NFP to own all forms of entity
    - Some disallow ownership of an S-Corp or LLC

- Benefit Limitations
  - If it is a controlled corporation benefit’s can limit savings
    - Controlled group regulations
Case Study: Continuum Behavioral Health

- Ian Lang, Executive Director, Continuum Behavioral Health
  - For Profit Subsidiary The Providence Center

- Owen Heleen, Chief Strategy Officer, The Providence Center – RI
  - Largest community mental health center (CMHC)
The Good, The Bad & The Ugly: Launching A For-Profit Corp In A Rapidly Changing Marketplace
The Good, the Bad, and the Ugly: launching a for-profit corporation in a rapidly changing health care marketplace

Ian Lang, Executive Director, Continuum Behavioral Health
Owen Heleen, Chief Strategy Officer, The Providence Center
Setting the Stage
was launched in 2013 as a fully-owned for-profit subsidiary of The Providence Center
The Providence Center is Rhode Island’s largest community mental health center. It provides both mental health and substance use disorder services. Its annual budget is $53 million. It has 820 employees and serves 15,000 unduplicated clients per year.
Steady Growth between FY 2010 - 2016

- TPC's revenue increased 50%, from $30.6 million to $46 million
- Employment increased to 810 from 477
- Clients served rose 81% to 14,458 from 8,000
That’s Annual Growth of

- 8.3% Revenue
- 11.6% Employment
- 13.4% Clients Served
TPC Operating Results FY10 – FY15
What TPC Saw

Affordable Care Act & Mental Health Parity provided larger commercially insured pool and required that substance use and mental health treatment was covered benefit
What TPC Saw

• The existing commercially insured system was fragmented and tough to access:
  • Dominated by stand alone providers
  • Only 55% of psychiatrists accept private insurance (JAMA Psychiatry, 2013)
What TPC Saw

TPC’s experience made it uniquely positioned to provide the new clinical models needed to provide comprehensive and coordinated behavioral health services to this growing population:

• Current fee for service model has struggled to adapt to the complex needs of individuals with serious mental illness
• Failures in coordination of care resulted in decreased quality and increased costs
What TPC Saw

While financially successful, TPC saw limited opportunity to generate the margin necessary to continue to fund expansion – and saw commercial market as opportunity to generate margin that could be used to fund overall mission.
What TPC Saw

There was considerable interest in Rhode Island to move from a volume to value based payment system
The Care New England Affiliation

In 2014, TPC became part of Care New England, Rhode Island’s second largest healthcare system. System includes:

- Butler Hospital (RI’s only free standing adult psychiatric hospital); 2 community hospitals
- Women & Infants Hospital
- VNA of Care New England
- Integra Accountable Care Organization
Benefits to the Affiliation

<table>
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<th>Protection and efficiencies of a $1 billion system</th>
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<td>Cash support for key initiatives</td>
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<td>Preserved TPC’s autonomy</td>
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<td>A gradual approach to systems integration</td>
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Continuum Behavioral Health

- For-profit S corporation founded in 2013
- All shares held by TPC
- Four TPC senior executives as Board of Directors
- Separate Continuum Senior Leadership Team
Continuum Behavioral Health

Programming includes:

- Nation’s first health home program for commercially insured adults
- General outpatient services
- Behavioral health based chronic pain program
- Outpatient and intensive outpatient substance use treatment
- Medication assisted treatment
Why Continuum Behavioral Health?

What were we trying to do?

- Generate positive contribution to TPC bottom line
- Blank slate for innovation
- Develop a brand that is appealing to commercially insured marketplace allowing for expansion of services beyond location and population constraints TPC faces
Contribution to TPC Bottom Line?

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<th>Contribution Details</th>
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<td>Continuum had revenues of $4.93 million and expenses of $5.6 million in FY 16</td>
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<td>This included losses incurred in closing a substance use residential program that</td>
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<td>we determined was unsustainable</td>
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<tr>
<td>Year ended on positive note with revenue covering direct operating expenses for the</td>
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<td>last 6 months of FY16</td>
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The Financial Benefits
# The Financial Benefits

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<th>Benefit</th>
<th>Example</th>
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<td>Larger entity can provide financial buffer to offset startup costs</td>
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<td>Freedom from regulations provides some savings</td>
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<tr>
<td>Leasing shared services works</td>
<td>• Human Resources&lt;br&gt;• Information Services&lt;br&gt;• Finance</td>
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<td>Market clout is real, but relative</td>
<td>• TPC reimbursement rates are often higher than we could negotiate were we a standalone</td>
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But there are Costs

We overestimated our ability to take out costs

- Separate contracting
- Separate EHR
- Separate billing functions
- Pay-for-collection works – but only to reduce “stranded” costs. You’re still stuck with the rates you’re stuck with.

What is good for the battleship isn’t always good for the kayak:

- TPC-wide salary increases and retirement plan matching contributions
Continuum as Blank Slate for Innovation
• Lack of regulations and legacy programs enabled us to innovate and try new things
• We were able to design services that make sense for consumers
  • Creation of HealthPath, the nation’s first health home program for commercially insured adults
  • Development of behavioral health based approach to chronic pain
  • New bridge on discharge program designed to increase hospital follow up and reduce readmission rates
Healthpath:
An example of what we can accomplish

**Goal**

- Achieve for participating members the ‘triple aim’ of improving health, improving quality of care and quality of life and lowering costs

**Outcome**

- 75% members showed improved DLA scores in the last three months
- Lower 7 and 30 day BH readmission rates than comparison group,
- 100% offered appointment within 7 days of discharge
- 80% kept appointment

- Pulled down only $350K of total available $600K partners funding
- Projected 21% overall mean cost per month decrease for successful members.
- Lower Medical and ER and Medical Inpatient Utilization for HealthPath members as compared to comparison group

**Goal Outcome**

- Deliver a positive return on investment and generate savings that can be shared by the partners and the people we serve
Continuum as a System of Care
Increased geographic coverage with locations in Providence, Cranston, and South County

Growth in commercially insured client base:
- HealthPath serves BCBSRI exclusively
- Overall 65-70% of clients are commercially insured with rest Managed Medicaid

New programs developed that link CNE inpatient and outpatient services:
- women’s behavioral health service line
- OCD service line
- Bridge on Discharge clinician
The Future
CNE recently announced that Continuum will merge with outpatient services at Butler Hospital to create a CNE outpatient behavioral health service line. Projected benefits of this integrated practice design will be:

- Increased care retention benefiting population and FFS objectives
- Enhanced continuity and improved performance measures, i.e. HEDIS
- Operational cost savings
- Improved physician recruitment
- Flexibility in aligning physician resources across levels of care
Questions to Consider before You “Make the Leap”

• What’s the primary objective? You can’t accomplish everything.

• Remember going for-profit isn’t a magic formula. The same challenges you face in your non-profit marketplace will also exist in the for-profit world.

• This offers flexibility – take advantage of it.
Questions & Discussion
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