Approve the Dissolution and Integration of Northwest Hospital & Medical Center

RECOMMENDED ACTION

The UW Administration, President, CEO of UW Medicine/Executive Vice President for Medical Affairs/Dean of the School of Medicine and the UW Medicine Board recommend that the Board of Regents:

1) Approve the dissolution of UW Medicine/Northwest, a Washington non-profit corporation, of which the University of Washington is the sole corporate member;
2) Accept the remaining (i.e., post-dissolution) operations, assets and liabilities of the UW Medicine/Northwest corporate entity; and
3) Authorize the President to delegate to the CEO of UW Medicine/Executive Vice President for Medical Affairs/Dean of the School of Medicine, with the review and advice of the UW Medicine Board, authority to take all action necessary to combine the hospital operations of UW Medicine/Northwest into the University of Washington Medical Center and to manage them as part of UW Medical Center going forward.

BACKGROUND

UW Medicine/Northwest d/b/a Northwest Hospital & Medical Center (“NWH”) is a 501(c)(3) non-profit corporation that owns and operates a full-service acute care community hospital located approximately five (5) miles from the University of Washington (“UW”). In 1997, the Board of Regents approved a Cooperative Program Agreement between the UW and Northwest Hospital to establish a long-term and durable relationship to collaborate on selected patient care, clinical research and education activities. In 2009, as a result of the successful partnership, UW and Northwest Hospital sought to increase the collaboration between the two entities by entering into an Affiliation Agreement, which was approved by the Board of Regents. Pursuant to the 2009 Affiliation Agreement, UW became the sole corporate member of NWH and NWH became an integral component of UW Medicine. The Affiliation Agreement provided that UW Medicine could not reduce the core services provided on the NWH campus for five years, nor could it vote to dissolve the NWH corporation for seven years following the effective date of the arrangement unless approved by the NWH Board. Since the affiliation, NWH has continued to operate as a community hospital under its own hospital license and Medicare provider number.

UW Medicine and NWH’s collaboration and integration efforts have increased since the 2009 affiliation, resulting in, among other things:

- Increased financial and administrative efficiencies;
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- Alignment of clinical programs and improved patient care;
- Cost reductions;
- Creation of a UW Physicians (“UWP”)/NWH department (with incorporation of some of the NWH physicians into the UW SoM clinical faculty);
- NWH playing an increasingly important role in the training of UW Medicine residents and fellows; and
- Evolving cultural alignment.

Despite these efforts, additional integration is necessary to succeed in the rapidly changing healthcare environment and simplifying the operating structure and positioning for greater physician alignment will position UW Medicine for continued success.

To achieve the increased level of integration, UW Medicine seeks to combine UW Medical Center (“UWMC”) and NWH into one hospital with two campuses. By combining NWH and UWMC, UW Medicine will be better positioned to make strategic decisions to enhance quality, lower costs, increase efficiency and improve the financial performance at both locations.

OVERVIEW OF PROPOSED STRUCTURE

Executive Summary

Combining UWMC and NWH into one hospital means that NWH’s existing hospital operations would become a part of UWMC such that UWMC would be the sole remaining hospital with two campuses (i.e., the existing UWMC campus and the existing NWH campus). The two campuses would operate under UWMC’s hospital license, and would be fully integrated from a clinical, financial and administrative perspective under one unified management with accountability for both campuses. There would be one unified and open medical staff. The NWH corporation would be dissolved and all the assets and liabilities of the NWH campus would transfer to UW Medicine and be managed for healthcare purposes as agreed upon in the 2009 transaction. Pursuant to the dissolution, all NWH employees would become UW employees and the UW would assume NWH’s current collective bargaining agreements as successor employer.

1. Dissolution of NWH

Combining UWMC and NWH into one hospital with a unified management structure means that there is no longer a need for NWH as a separate legal entity. Management is recommending dissolution. Per the terms of the Affiliation
Agreement, upon dissolution of NWH, all remaining NWH operations, assets and liabilities transfer to UW Medicine.

2. NWH Employees

Approval of the recommended action means that NWH non-physician employees would become UW employees. For unionized employees, UW would assume NWH’s current collective bargaining agreements and obligations as a successor employer, consistent with UW’s state law obligations. NWH-employed physicians would become dual-employed by UW and UW Physicians (“UWP”) as members of the UWP NWH department.

3. Financial Impact

The UW Medicine Finance team prepared a high-level analysis of the significant areas that would be affected by full integration of the two hospitals. That analysis indicated that the annual impact of full integration would be close to $10 million improvement over current financial performance. This does not include one-time transactional costs.

4. Medical Staff

The proposed structure would require UWMC to have a unified medical staff between the two campuses. Current NWH medical staff members would join UWMC’s medical staff. Unlike UWMC’s current medical staff structure, the two-campus hospital would have an open medical staff, which would allow community and contracted physician groups to continue working at the NWH campus as members of the UWMC medical staff.

5. Real Estate

In 2009, after the Board of Regents approved NWH becoming an integral part of UW Medicine, the NWH campus was incorporated into all of UW Medicine’s strategic planning and programmatic development activities. As part of those activities, UW Medicine worked to maximize program development on the NWH campus to position NWH to meet the secondary care needs of UW Medicine patients. The dissolution of NWH would result in a transfer of the land and buildings into University ownership to be managed as part of the UW Medicine facilities inventory. Pursuant to the commitments made in the 2009 affiliation, the 44 acres of land will be continue to be managed and developed pursuant to the UW policies and needs, the UW Medicine strategic plan and, when applicable, the NWH Master Plan.
CONCLUSION

Over the past 20 years, the relationship between UW Medicine and NWH has grown from an academic-community hospital collaboration to what it is today—with NWH operating as an integral component of UW Medicine. Since NWH became an entity of UW Medicine in 2009, UW Medicine and NWH have taken many steps to work closely together and to achieve efficiencies at both hospitals. Though there has been significant progress, the rapidly changing healthcare environment calls for a higher level of integration within healthcare systems.

Combining the two hospitals into one requires a level of clinical, administrative and financial integration that will benefit UWMC, NWH and UW Medicine as a whole. Moving forward with the proposed structure is one strategy of many to ensure the future financial success of UW Medicine.

Attachment
Dissolution and Integration of Northwest Hospital & Medical Center
• Combine UW Medical Center ("UWMC") and Northwest Hospital & Medical Center ("NWH") into one hospital with two campuses.

• Both campuses would operate under the UWMC license.

• The two campuses of UWMC would be fully integrated clinically, financially and administratively with unified management and accountability.
1997
Board of Regents approves Cooperative Agreement between UW Medicine and NWH to establish a long-term relationship to collaborate on patient care, clinical research and education activities.

2009
Board of Regents approves Affiliation Agreement; UW Medicine becomes the sole corporate member of NWH and NWH becomes an integral component of UW Medicine.

Today
UW Medicine seeks to consolidate UWMC and NWH into one hospital with two campuses to increase integration and ensure the financial health of both hospitals.
• Since the 2009 affiliation, we have accomplished, among other things:
  – Alignment of clinical programs and improved patient care;
  – Increased financial and administrative standardization and efficiencies;
  – Creation of UW Physicians (“UWP”)/NWH department for NWH-based community faculty physicians;
  – Increased NWH role in the training of UW Medicine residents and fellows; and
  – Evolving cultural alignment.

• Rapidly changing healthcare environment calls for full integration.

• Combining the two hospitals is one strategy to ensure the future financial success of UW Medicine.
SNAPSHOT OF CURRENT ALIGNMENT*

Administrative Support Services under UW Medicine Executive Leadership
- Compliance
- Clinical Risk Management
- Payor Contracting
- Marketing
- Advancement
- Accounting
- Budgeting/Finance
- Supply Chain

Clinical Programs for Both Campuses
- Pharmacy
- Lab
- Pathology

Clinical Services in Varying Stages of Alignment with UW Medicine Departments
- General Surgery
- Orthopedics
- Urology
- Otolaryngology
- Cardiology
- Pulmonary/Critical Care
- Vascular
- Oral and Maxillofacial Surgery

*Alignment varies in structure and depth.
• UW Medicine, with assistance of other UW central units, conducted an evaluation of the proposed structure to identify:
  - Any barriers to moving forward; and
  - The most desirable, efficient and effective path to address key issues.
• The evaluation considered issues related to, among other things:
  - Clinical and administrative operations;
  - Finances;
  - Human resources;
  - Facilities; and
  - Governance.
• The evaluation team worked closely with legal counsel for both organizations pursuant to a Common Interest Agreement to identify legal implications and risks.
Six Executive Sponsors have overseen and managed the evaluation:

- Geoff Austin, Executive Director, UWMC
- Maureen Broom, Enterprise Finance Officer, UW Medicine
- Cindy Hecker, Executive Director, NWH
- Chris Malins, Associate VP, UW
- Nicki McCraw, Assistant VP, Medical Centers HR, UW Medicine
- Lori Oliver, UW Medicine Strategic Clinical Business Officer
### Dissolution of NWH

Upon dissolution, all NWH assets and liabilities would transfer to UW Medicine.

### NWH Employees

NWH non-physician employees would become UW employees.

- For unionized staff, UW Medicine would assume NWH’s current collective bargaining agreements and obligations as a “successor employer,” consistent with state law obligations.

NWH-employed physicians would become members of the UWP NWH department.

### Finances

High level analysis shows that annual impact of full integration would be approximately $10M improvement over current financial performance.

### Medical Staff

UWMC, as a two campus hospital, would have a unified and open medical staff so that community physicians and private practitioners can continue to work at the NWH campus.

### Real Estate

Pursuant to the commitments made in the 2009 affiliation, the 44 acres of land will be continue to be managed and developed pursuant to the UW policies and needs, the UW Medicine strategic plan and, when applicable, the NWH Master Plan.
OTHER IMPACTS

**Positive Impacts**

- Improved access to and growth in UW Medicine programs
- Greater system efficiencies through increased integration
- Strengthen and build UW Medicine presence in North King County/South Snohomish County

**Ongoing Management**

- Cultural alignment while honoring and supporting the unique character of both campuses
- Private to public entity
- Consistent UW Medicine patient experience (UW Medicine-wide)
In order to evaluate the financial impact of integration, a high-level analysis of the significant areas that would be affected was prepared by the Finance team.

The analysis indicated that the annual impact of full integration would be close to $10 million improvement over current financial performance.

The analysis did not include the one-time costs related to completing the integration work as those estimates are currently being developed.
## AREAS OF FINANCIAL IMPACT

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<td>• 340(b) eligibility</td>
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Discussion