



September 28, 2016

The Honorable Terry G. Kilgore, Chairman
Southwest Virginia Health Authority
851 French Moore Jr. Boulevard, Suite 178
Abingdon, Virginia 24210

Re: Support for Proposed Merger between Wellmont Health System and Mountain States Health Alliance

Dear Chairman Kilgore,

On behalf of the Virginia Hospital & Healthcare Association (VHHA) and its 30 member health systems, with 107 community, psychiatric, rehabilitation, and specialty hospitals, we appreciate the opportunity to submit these written comments expressing our strong support for the proposed merger between Wellmont Health System (“Wellmont”) and Mountain States Health Alliance (“MSHA”). This merger will have the immediate benefit of providing economies of scale and sharing of resources and expertise needed to ensure access to care for thousands of Virginians in Southwest Virginia, including many rural communities that depend upon these systems for the care that they receive. Similar mergers have occurred in communities across Virginia and nationwide and have been necessitated by transformative changes in our larger health care delivery system.

Beyond the immediate benefits of this merger, the combination of Wellmont and MSHA presents a unique opportunity for these two systems to make an even greater investment in Southwest Virginia and Northeast Tennessee through initiatives that are designed to increase value in health care services, focusing on improving the health and well-being of the region as a whole, not simply being a provider of inpatient and outpatient hospital services. They both have a legacy of caring for the people in the communities they serve, which will only become stronger as a result of this combination.

States across the nation have seen a variety of different types of mergers, combinations, and other partnerships in response to a number of trends. Continuing government cuts to reimbursements, sequestration, and significant payment reductions from the Affordable Care Act (ACA) are inflicting financial pain on local hospitals. Additional expenses come from the ongoing industry transformation of care delivery that is focused on patient outcomes. Escalating Medicare cuts alone in 2015 and 2016 will cost Virginia hospitals and health systems \$1 billion. This is in addition to the \$1.5 billion in funding cuts Virginia hospitals have sustained in the past five years. Even so, hospitals have mandates to treat people who can't afford care, and those in subsidized programs that don't fully cover local hospitals' cost for seeing those patients.



Wellmont and MSHA are not only not immune to these conditions, but they are particularly susceptible to them. Across Virginia, data show one-third of acute care hospitals had negative operating margins in 2013. The trend was more pronounced among rural providers – 17 of 37 hospitals operated in the red that year. These financial pressures combined with the demographics of the region with its higher rates of unemployment and lower per capita incomes, and the pronounced health care challenges of rural communities, all present an environment in which merger is a natural step for Wellmont and MSHA.

The benefits of this merger; however, extend far beyond a necessary measure to withstand environmental headwinds. The true gains from the combination between Wellmont and MSHA will be shown through the development of a more integrated delivery system for the region that can focus its efforts on transformational investments to improve community health, expand access and choice, and improve health care value with optimal quality and health outcomes and lower overall health care costs.

Health system integration requires reshaping the delivery system to bridge care silos, coordinate care over time and settings, elevate quality and reliability, remain highly responsive to individual patient and family needs and address underlying population health needs. Through this combination, Wellmont and MSHA have committed to invest in the people, practice innovations and information technology systems required to make major strides in this regard. The combination will preserve access to essential services in rural communities, provide needed capital to strengthen full-service tertiary hospitals to be sure that highly-specialized services are available in the region, upgrade IT systems, and introduce operational efficiencies across facilities.

The transformational journey will take several years, but the six commitments made to (i) improve community health, (ii) enhance health care services, (iii) expand access and choice, (iv) improve health care value, (v) expand health research and graduate medical education, and (vi) attract and retain a strong workforce provide a roadmap for progress and accountability to the communities that the this new combination will serve.

Regarding costs, the larger national trend of combination and integration among providers has coincided with historic lows in overall health care spending. Similarly, the United States has witnessed persistent declines in hospital price increases. The most recent estimate of national health expenditure trends through 2014 show deceleration in overall prices for personal health care services, such as for hospital care and other professional services. At the same time, hospital productivity growth has also accelerated along with intensity of care provided.

To summarize, the last ten years of provider integration nationally is showing evidence of demonstrable improvements in quality and safety, lower overall health care cost trends, improvements in hospital productivity and deceleration in hospital prices. These positive results should flow from the combination of Wellmont and MSHA as well.



Virginia and Tennessee authorities are charged with evaluating the benefits of the proposed combination against the negative impacts on competition in the region. To their credit, the leaders of Wellmont and MSHA have made explicit commitments regarding health improvement, preserving access to care for all in the community, strengthening quality, and controlling costs that the business leaders who comprise their board, as well as regional and state authorities, will hold them accountable to. It is worth noting that the most vocal opponents of the combination are health plans – one of whom already enjoys a very high market concentration in the region and is pursuing an acquisition of another large carrier and has made no equivalent commitments regarding health and health care value improvement.

Given the market realities, the deep ties to the communities served, and the commitments to measurable outcomes that will benefit the region's health and economic wellbeing, we firmly believe that the proposed merger should be allowed to proceed. The combination of Wellmont Health System and Mountain States Health Alliance is a unique opportunity for Southwest Virginia to undertake a transformation of its health care delivery system, while at the same time continuing a legacy of caring for the communities that they have served so well over the years.

Thank you Chairman Kilgore for considering this letter in support of the proposed merger between Wellmont Health System and Mountain States Health Alliance. Please let us know if we can provide you with any further information on this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Sean T. Connaughton', with a long horizontal flourish extending to the right.

Sean T. Connaughton
President & CEO