

1405

10 April 2013

Re: Highmark West Penn Takeover

To the attention of Michael Consedine, PID Insurance Commissioner

Dear Mr. Consedine,

Highmark's Mr. John Paul plans to scrap the current multi million-dollar electronic health record at West Penn-AGH for one sold by Epic. The cost will be several hundred million dollars.

We believe that a significant component of the financial losses at West Penn-AGH are due to the costs of and loss of productivity caused by its current Allscripts EMR. There were med-mal cases too.

Read the enclosed report of the adverse economic impact that Epic's EMR had on the Wake Forest Medical Center, before approving the Highmark transaction.

There is likelihood of a similar problem if Highmark carries through with the Paul plan to buy Epic's EMR. This will cost taxpayers and patients excessively and will result in increased insurance rates without any proof that it improves outcomes.

Sincerely,

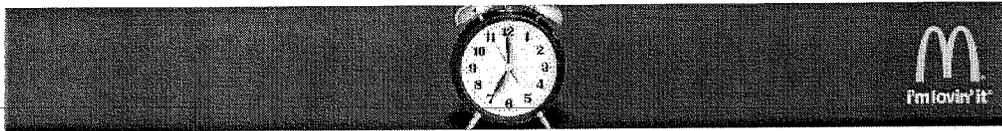
The Concerned and Accountable Patient Coalition

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Wake Forest Baptist has cost overruns, revenue loss with electronic records system

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Posted: Friday, April 5, 2013 12:20 pm | Updated: 11:01 pm, Fri Apr 5, 2013.

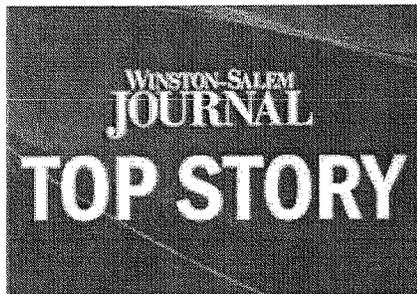
Richard Craver/Winston-Salem Journal

Wake Forest Baptist Medical Center's struggles to implement its Epic electronic records system contributed to additional costs and lost revenue during the first half of its fiscal year 2012-13.

The center provided the information in a second-quarter financial report submitted to bond agencies in which it also reported a \$49.6 million operational loss and a gain of \$7.4 million in overall excess revenue.

As a result, the center's management said it is "focusing significant efforts on optimizing clinic and hospital operations to drive volume growth and cost management." It has hired two consulting groups, Galloway Consulting and MultiCare Consulting Services, to assist with those efforts.

"Management believes that current levels of performance are insufficient to achieve



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Wake Forest Baptist's long-term goals," the center stated.

The center has more than 13,000 full- and part-time employees — the county's largest workforce. It announced in November it was eliminating 950 job positions, including 475 with current employees; by June 30 once it recognized the reduced revenue levels early in fiscal 2012-13.

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Wake Forest Baptist said it spent as of Dec. 31 about \$13.3 million directly on the Epic electronic-record system, which went live in September. Many health care systems in the Carolinas, including Novant Health Inc. and Cone Health, chose the Epic system to handle their electronic records.

The center also cited \$8 million in "other Epic-related implementation expense" that it listed among "business-cycle disruptions (that) have had a greater-than-anticipated impact on volumes and productivity." Also listed was \$26.6 million in lost margin "due to interim volume disruptions during initial go-live and post go-live optimization."

Wake Forest Baptist said operating room cases across its system were down 4.1 percent. It cited lower operating volume driven primarily "by continued pressure on elective outpatient surgeries, surgeons allocating time to train on and adjust to Epic, and the ramp associated with new surgeons replacing faculty that has turned over."

Wake Forest Baptist has not disclosed how much it plans to spend on the Epic conversion.

Carl Armato, Novant's chief executive, has said the system is spending \$600 million over five years on converting to electronic health records. It is the largest financial initiative in Novant history.

About 60 percent of the 350 physician clinics in the Novant Medical Group have transitioned to the new technology, with the rest to do so by fall. Transition for Novant hospitals is set to begin in late 2013 and will continue for several years.

A report released Tuesday by Standard & Poor's did not raise any red flags about Novant's Epic expenditures as part of the agency's annual financial review of Novant.

The center reported an operational loss of \$49.8 million through Dec. 31 even though it had a 1 percent increase in operating revenue to \$919.1 million. By comparison, the center had \$7.6 million in operational excess revenue through the first half of fiscal 2011-12.

The center said direct operational expenses "have been in line with expectations" during the first half. They were up 6 percent to \$952.8 million,

Management said it "anticipates substantially improved performance in the last half of the year."

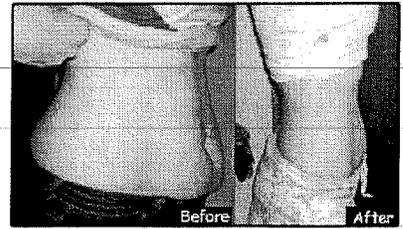
From an overall financial performance, the center had \$7.4 million in excess revenue through the first half because of non-operational gains, such as \$42.8 million from investment income. At the halfway point of fiscal 2011-12, the center had \$55.7 million in overall excess revenue.

Not-for-profit hospitals typically invest heavily in the stock market to increase their bottom line and to help pay for capital investments. However, the investment income of \$42.8 million is down from \$68.3 million through the first half of fiscal 2011-12.

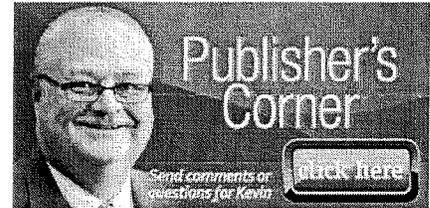
On March 20, Moody's Investors Service downgraded the center's long-term debt rating below the lowest level of high-grade investment quality. The downgrade to A1 from Aa3 affects \$597.2 million of rated debt outstanding.

The N.C. Medical Care Commission issued health facilities revenue bonds for the Wake Forest Baptist Obligated Group, which was formed in March 2011 by N.C. Baptist Hospital, Wake Forest University Health Sciences and Wake Forest Baptist Medical

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Center. According to a Wake Forest Baptist document, the combined group comprises 99 percent of the center's activities based on total revenues and total assets.

Moody's said its outlook for the bonds remained "stable" because the center is cutting expenses to stabilize its financial performance. In October, Standard & Poor's Ratings Services affirmed its AA- rating for the bonds, but revised its outlook to "negative" from "stable."

Moody's said the A1 rating "reflects the unexpected decline in financial performance through the first half of fiscal 2013, largely due to the installation of a new information technology platform (Epic), encompassing 95 percent of all revenue components of the enterprise."

Edward Chadwick, Wake Forest Baptist's chief financial officer, said in a statement responding to the Moody's report that the agency's decision was based in part by its overall negative outlook for not-for-profit health systems. He acknowledged the financial impact of the Epic installation.

"Moody's also noted that the medical center's rapid response to the economic downturn, including the suspension of noncritical capital and large-scale construction projects that have not yet begun, a reduction in its workforce and its favorable location in Winston-Salem, are viewed as strengths going forward," Chadwick said.

The center said in the report it took \$2.9 million in severance and other restructuring expenses during the first half of fiscal 2012-13.

The 950 position cuts are part of what the center calls "an accelerated transformation initiative aimed at transforming Wake Forest Baptist's cost structure in a manner that will significantly position for continued success in an ever-evolving health-care landscape."

Wake Forest Baptist spokesman Chad Campbell said Friday "there has been no change in any of the information that we have previously provided regarding consultants, reductions in force and the recent Moody's report."

David Meyer, a senior partner with Keystone Planning Group of Durham, said it is not a major setback if Wake Forest Baptist ends up with an overall loss in fiscal 2012-13.

Novant Health Inc. reported just \$1 million in net income for fiscal 2011 because of a steep decline in operating income and \$19 million in investment losses, only to rebound with \$274 million in net income in fiscal 2012.

"Most hospitals have accumulated reserves and manage their cash conservatively so that they can go forward even with an operating loss," Meyer said. "But it does put pressure on hospitals to do more belt-tightening because they don't want to use up their cash reserves.

Meyer said the additional Epic expenses likely show the center "is not managing the transition as well as it had hoped."

The center continues to scramble to make up for the loss, at least for now, of \$40 million to \$45 million in annual royalty payments it had received from its WoundVAC system. A legal battle with Kinetic Concepts Inc. has placed into limbo a revenue source that was expected to last through at least 2014.

In December, the center launched Wake Forest Innovation, which is dedicated to the commercializing of its academic and clinical research. The division is led by Eric



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Tomlinson, the university's chief innovation officer who doubles as president of Wake Forest Innovation Quarter, formerly Piedmont Triad Research Park.

The center said in the report it is bracing for "additional headwinds" as it experiences more of a financial impact from the federal sequestration, such as a shrinking of federal research grants.

It does expect the expansion of the on-campus comprehensive cancer center to open in January and the first operational phase of the Davie County replacement hospital to open in the fall.

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