

Pennsylvania Insurance Department

Public Informational Hearing

COMMENTS BY

KEITH T. GHEZZI, M.D.

INTERIM PRESIDENT & CEO

WEST PENN ALLEGHENY HEALTH SYSTEM

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Good Morning. I am Keith Ghezzi, Interim President and CEO of the West Penn Allegheny Health System ('West Penn Allegheny'). I am a board-certified emergency physician and my family roots are firmly planted in western Pennsylvania. I was raised in Johnstown, PA and serve on the board of Washington & Jefferson College, my alma mater. It is a great honor and privilege to be leading this organization at an historic moment in time for healthcare delivery in this region. The challenges are great, but the opportunities that we are discussing today are far greater.

The West Penn Allegheny Health System is an intrinsic part of the fabric of the communities of southwestern Pennsylvania. At its core, the West Penn Allegheny Health System is an organization defined by our talented people. It is an organization committed to excellence; an organization with one purpose, one mission. Formally stated, the **purpose** is *to improve the health of the people in the Western Pennsylvania region*. The **mission** is *to practice medicine, educate and conduct research as an integrated team of physicians, nurses and support professionals who are committed to improving the health of our patients*.

The West Penn Allegheny Health System was formed in 1999 out of the ashes of the bankruptcy of the Allegheny Health Education and Research Foundation. The individual hospitals are some of the oldest and best-known names in health care in western Pennsylvania.

From their inception, the System's hospitals have been in the vanguard of patient care, medical research and health sciences education. Offering a comprehensive range of medical and surgical services, the hospitals serve Pittsburgh and the surrounding area, house more than 1,600 beds and employ nearly 12,000 people. Together, the West Penn Allegheny hospitals admit more than 62,000 patients each year, log 173,000 emergency visits and in 2011, provided outpatient services to nearly 850,000 individuals. Combined, the hospitals are among the leaders in numbers of cardiac surgeries, neurosurgeries and cardiac catheterization procedures performed throughout the region.

Allegheny General Hospital (AGH) was founded in 1885, in the area formerly known as Allegheny City, and it is the flagship hospital of the West Penn Allegheny Health System. AGH was the first hospital in Pennsylvania to be designated as a Level 1 trauma center. It was also the first hospital in the northeastern United States to offer an aeromedical service. Its most recent "first" was achieved earlier this year when cardiothoracic surgeons became the first in western Pennsylvania and among an elite group in the world to replace a failing human heart with the latest generation **total artificial heart implant**, introducing a new, life-sustaining treatment option for the most critically ill patients with end-stage heart failure.

AGH is also one of just a few hospitals in the United States which offers patients surgical repair of brain aneurysms and removal of brain tumors through an incision in the eyelid, a unique minimally-invasive option that generally yields a shorter recovery period and nearly imperceptible cosmetic results.

AGH is one of just six hospitals in the state, and the only quaternary level Pittsburgh area hospital named by Thomson Reuters to its exclusive list of the nation's **50 Top Cardiovascular Hospitals for 2011**. AGH is also the only hospital in the greater Pittsburgh region and one of six in the nation to be lauded by both Thomson Reuters and US News and World Report for excellence in cardiovascular care.

The Western Pennsylvania Hospital in Bloomfield was founded in 1848 as Pittsburgh's first chartered public hospital. Today, West Penn is one of only two hospitals in the City of Pittsburgh that offers labor and delivery services, welcoming more than 3000 babies annually. Dedicated professionals in the Level III neonatal intensive care unit provide the highest and most sophisticated level of care possible for nearly 700 critically ill newborns per year.

The area's first Infant Apnea Center was created at West Penn Hospital years ago and continues to evaluate, manage and monitor babies and young children at risk for life-threatening events.

The Bone Marrow Transplant program at West Penn is one of the largest in Pennsylvania. Among the first hospitals in the nation to join the National Marrow Donor Program, West Penn Hospital is the only hospital in the region with a blood and marrow transplant program approved by the Cancer and Leukemia Group B, a national clinical trial organization.

The dedicated nursing staff at West Penn is the reason it was the first hospital in Pittsburgh and Western Pennsylvania to achieve Magnet™ recognition status from the American Nurses Credentialing Center (ANCC), a worldwide recognition for excellence in nursing that has been earned by only about 6% of US healthcare institutions.

Forbes Regional Hospital in Monroeville has been providing care to the residents of the eastern suburbs for 40 years. From the founders, a diverse group of religious women, to the current clinical and administrative leaders, the commitment to develop excellent quality services close to home has been unwavering.

The heart surgery program at Forbes Regional Hospital has received three stars, the highest possible rating in a comprehensive assessment of the nation's heart surgery program by the Society of Thoracic Surgeons (STS) for its overall performance and patient outcomes. Forbes Regional is one of just three hospitals in Western Pennsylvania lauded by STS for having above average patient outcomes and the only one to receive the three-star rating for three consecutive years.

Forbes Regional Hospital was the first hospital in the Pittsburgh region to be named an accredited Chest Pain Center by the Society of Chest Pain Centers, an international organization dedicated to eliminating heart disease as the number one cause of death worldwide. Only nine other hospitals statewide have earned this accreditation.

The Women's and Infants' Care Center at Forbes Regional includes a labor, delivery, recovery, postpartum (LDRP) facility that delivers state-of-the-art care, all in a community setting. The Center's Special Care Nursery provides medical treatment and care for both premature and acutely ill newborns.

Allegheny Valley Hospital in Natrona Heights has been serving the residents of the Alle-Kiski Valley for more than 100 years. The 228-bed hospital serves as the inpatient facility and offers a broad spectrum of programs, including medical and surgical services, inpatient adult and geriatric psychiatric care, cardiology, orthopaedics and cancer care. AVH offers outpatient care centers throughout the community in New Kensington, Natrona Heights and Vandergrift, all providing a range of diagnostic services in easy to access, convenient locations.

AVH opened a new state-of-the-art emergency department in 2010. Like Forbes Regional, it is also home to an accredited Chest Pain Center. U.S. News & World Report recently recognized AVH for excellence in four clinical service lines.

Through the use of telemedicine, Allegheny Valley and Forbes bring an expert Stroke Neurologist to the patient who presents in the Emergency Department with stroke symptoms.

Canonsburg General Hospital was founded in 1904 and offers a blend of exceptional inpatient medical and surgical programs and outpatient services – including at its new, state-of-the-art Peters Township Outpatient Center – all of which helps people in the region preserve their health through innovative services and education.

Canonsburg provides comprehensive inpatient and outpatient rehabilitation services to help patients recover from surgery, accidents and illness. Surgeons from the West Penn Allegheny Neurosciences Institute provide an array of surgical services and are preparing to expand capabilities at Canonsburg to include advanced spine surgery. As a flight base for the West Penn Allegheny LifeFlight aeromedical transport service, patients at Canonsburg are assured of a seamless transition to AGH, should they need the specialized care provided at Canonsburg's sister hospital.

Supporting both a charitable and an academic mission, West Penn Allegheny has a strong commitment to medical research and education and is also dedicated to training future generations of health-care professionals. Today, about 450 medical students, residents and fellows can be found in numerous clinical sites throughout the hospitals and in some outpatient sites. Combined, Allegheny General and West Penn Hospitals have served as clinical campuses for three decades, for Drexel University College of Medicine and Temple University School of Medicine, both located in Philadelphia.

The system is equally committed to the training of nurses and other non-physician members of the health care team. The Western Pennsylvania Hospital School of Nursing is affiliated with Clarion University of Pennsylvania, and is co-located with the Indiana University of Pennsylvania School of Respiratory Care and the Radiologic Technology Program of Pennsylvania State University. At the Allegheny Valley Hospital, The Citizens School of Nursing is affiliated with Pennsylvania State University and the Westmoreland Community College.

The Simulation, Teaching, and Academic Research (STAR) Center at West Penn Allegheny Health System is dedicated to achieving excellence in patient care through the pursuit of lifelong learning, research and innovation. Using state-of-the-art mannequins that mimic the symptoms of a wide range of health conditions, the STAR Center provides hands-on learning opportunities to allow aspiring and practicing healthcare professionals to perfect their skills in situations closely resembling the clinical environment.

Allegheny-Singer Research Institute (ASRI) is a non-profit, independent research institute and a member of our System. ASRI is in a unique position to lead translational research that will improve patient care at a rapid pace. ASRI is focused on research that transfers innovation from the laboratory bench to the bedside so that patient care is advanced at a much more rapid pace than conventional research efforts. ASRI has conducted research activities that complement the strengths of West Penn Allegheny Health System: Cardiovascular and Pulmonary, Human Genetics, Neuroscience, Musculoskeletal, Lupus and Autoimmunity, and Oncology. The latter research portfolio currently hosts nearly 200 clinical trials.

These are but some of the highlights of the patient-focused, innovative care that the physicians throughout our system provide, supported by a cadre of outstanding nurses, technicians and ancillary staff that are as passionate about their work as this community is about its professional sports teams.

While West Penn Allegheny has a strong track record of high-quality care and a strong community presence, we have faced financial and organizational challenges resulting from a difficult national and local health care environment.

Like most hospitals and healthcare systems in the country, West Penn Allegheny has been tested in meeting the demands for new equipment, the attraction and retention of medical professionals, physical plant upgrades and the adoption of information technology. In addition, West Penn Allegheny has been operating in a market that has been dominated by one large competitor in the healthcare delivery sector.

These factors were compounded by industry and regional dynamics (stagnant population growth, concentration of elderly, chronic under-reimbursement from Medicare and Medicaid) and West Penn Allegheny's unique characteristics (absence of consistent leadership and lack of "systemness.")

Countless experts have echoed our belief that the Pittsburgh market, which is really a six county region, is unlike any other healthcare market in the country because of the market share that has been under the control of one large provider system. Yet the people of West Penn Allegheny have continued to innovate, improve quality and maintain their focus on the core mission of providing outstanding, compassionate patient care.

I want to address the question of why we chose Highmark as our partner, and why now. The answer is not complex. Before I elaborate on that point, I must clarify that I was not affiliated with West Penn Allegheny or Highmark when these deliberations began. I was brought into the Highmark talks through the turnaround firm that I work for, Alvarez & Marsal (A&M). We were engaged by Highmark to assess the pros and cons of a potential affiliation with West Penn Allegheny. On November 7, 2011, I crossed the river to take on my current role as Interim President & CEO of the System. The information that follows is based on what I have been told since I arrived at the system.

A little more than a year ago, the board of directors was faced with continued downsizing of the system, because the financial profile of West Penn Allegheny had become more fragile. The board considered many remedies, including complete closure of West Penn Hospital in Bloomfield, in hopes that the organization would eventually stabilize, rebuild services and generate sufficient margins to rejuvenate the facilities. However, the reality is that organizations – public and private – cannot simply cut their way to prosperity.

Preserving the charitable mission of West Penn Allegheny was the board's highest priority. It initiated a serious due diligence process to identify a partner with a strong balance sheet and aligned culture that would share the mission. I want to underscore this point.

The West Penn Allegheny board members live and work in this community, and they take their fiduciary responsibility very seriously: to preserve these community assets for the people who have built them, receive care from them and come to work in them each day. They were clear in their deliberations, as they are today, that they did not “own” West Penn Allegheny – and that the interests of the community were paramount.

In the course of the due diligence, the board and executive staff talked to private investors and for-profit healthcare providers to understand what the future of West Penn Allegheny would be if partnerships with any of them were formed. They concluded that while the financial challenges might have been resolved with a stroke of a pen, the charitable mission of the organization might not be preserved.

By late spring 2011, the board concluded that affiliating with another local, community-oriented partner was the best alternative for preserving the rich tradition and purpose of West Penn Allegheny. Highmark was the obvious choice. Highmark and West Penn Allegheny are universally aligned in the need to:

- o Maintain choice and competition in the market, including West Penn Allegheny;
- o Invest in programmatic development and capacity, while reducing the overall cost of care, especially in ambulatory care and “shared services”; and
- o Stabilize leadership and align with physicians to establish the system as the provider of choice in the region.

You have heard Dr. Baum and Ms. Rice describe how a vibrant West Penn Allegheny fits into the Highmark vision for an integrated delivery network that will be attractive to patients and providers because of the commitment to quality and efficiency. As both a physician and a turnaround consultant, I believe that competition in healthcare is essential to improving quality, expanding access and reducing costs, and it requires serious capital investment. I share Highmark’s belief that people will choose to return to our hospitals – we are beginning to see that already, when they believe that the excellent care they expect will continue to be available.

The challenges facing West Penn Allegheny are no secret. We are confronting the same hurdles faced by health systems across the country, while sorting through challenges unique to our region and system. For instance, health care typically lags behind national economic trends. Every hospital is feeling

the delayed impact of patients who were displaced from work, opted to undergo elective procedures before COBRA benefits ran out and now are either qualifying for charity care or postponing medical care as long as possible. Uncompensated care is trending up for nearly every hospital in the nation. West Penn Allegheny recorded nearly \$85 million in a combination of charity care and bad debt in the audited June 2011 financial statements.

Similarly, inpatient volumes have declined at a number of Pittsburgh area facilities. Pennsylvania authorities recently reported that documented flu cases have dropped 97% compared to a year ago. Hospitalizations resulting from flu, statewide, total just 71 compared to 900 cases last year. The mild winter has resulted in lower admissions due to fewer falls and other traumatic emergencies. Reduced inpatient volumes limit a hospital's ability to fund its high fixed infrastructure costs. I do not know of a hospital or health system that has not felt the impact of these phenomenon.

West Penn Allegheny Health System, regrettably, also has a legacy of financial challenges that are magnified with these types of global challenges. It has been widely reported that we received an auditor's opinion that brings into discussion the System's ability to continue as a "going concern." The auditors examined the period July 2010 through June 2011 and took into consideration fiscal trends for several years prior and the first several months of the fiscal year 2012. It is important to understand that a "going concern" opinion means that without significant change, the organization may not have the financial resources needed to continue to operate for a reasonable period of time. Accounting rules preclude any comments by the auditor on future plans or events, such as the Highmark affiliation. Change was underway at West Penn Allegheny prior to the release of the audit opinion in December 2011 and it continues at a brisk pace.

Working with Highmark, we are starting to see some tangible signs of improvement consistent with our short-term tactical plan. A "hybrid" operating room, where non-invasive procedures can be performed with surgeons assisting in a team approach, is under construction at Allegheny General Hospital. Our clinical leaders are deeply involved in strategy and program development to ensure that future investments help them deliver the highest quality care to the patients with the most complex needs. Reopening of the West Penn Emergency Department was a tremendous start of the restoration of services at that hospital, which is held in high regard by patients and providers alike. Forbes Regional Hospital is undergoing upgrades throughout the house. We are installing new flooring in patient areas and elevators and moving forward on a much-needed expansion of the emergency department. These improvements demonstrate that Forbes continues to respond to community needs through better

facilities and programs. Planning is also underway, in conjunction with Highmark, to expand clinical capabilities at Allegheny Valley and Canonsburg Hospitals. The changes that will take place at these community-based institutions will ensure that patients can receive care close to home to the greatest degree possible.

Our partnership with community providers is our best litmus test for perceived and actual improvement. In the past five months, dozens of physicians have joined the West Penn Allegheny Health System, either as members of our physician organization or as closely aligned independent providers. Several prominent physicians have agreed to join us in leadership capacities this summer. We continue to forge potential relationships with providers eager to preserve the community assets West Penn Allegheny offers, and to help bring the system to the forefront of the new health care paradigm under development in the United States.

While this important physical transformation and programmatic expansion is underway in our hospitals, a highly skilled and experienced team from A&M has been immersing themselves, alongside many talented West Penn Allegheny management and staff, in the operations of the hospitals and system-wide support functions. Our job is to bring rigor and discipline to operations and planning, based on knowledge and experience that has been acquired in healthcare markets across the nation. We also bring a sense of action-oriented urgency that is necessary to turn the system around.

Without “reinventing the wheel”, the A&M team has been able to work with the hospital and physician organization teams to implement tools that are relevant to the specific dynamics in this organization such as:

- Floor reports define economic success down to the hospital/unit level each and every day;
- Cost per unit of service monitoring allows managers to properly flex labor and supplies to changing volume;
- Performance improvement reports track initiatives that have been implemented (including any variance) and codify their return on investment;
- “CARTS” provides a tool for physician leaders to apportion resources and manage non-clinical time appropriately.

We are at the beginning of this groundbreaking journey to build an integrated delivery network with our partner, Highmark. With a direct relationship between Highmark and West Penn Allegheny, growing system accountability for high-quality care while simultaneously reducing the unnecessary use of resources can be coordinated and implemented in a streamlined effort.

I am extremely encouraged by the progress that we have made in bolstering the West Penn Allegheny Health System. The credit for our early successes is due to the loyalty of the physicians, nurses and administrative teams in each hospital and in the central offices. Without their palpable desire to build for the future on a very solid foundation, our work could not have a lasting impact.

I want to thank you for allowing me to share these thoughts on behalf of the board, physicians, staff and patients of the West Penn Allegheny Health System. You will hear from others today who will talk about the importance of West Penn Allegheny to the community – to help ensure access to high quality and cost-effective care. The hospitals in the West Penn Allegheny Health System have made great strides in meeting and frequently exceeding industry and government quality standards.

In closing, I appreciate the fact that the Department is moving forward to review the transaction that will result in an affiliation between Highmark and West Penn Allegheny Health System. This affiliation will allow the teams of the two organizations to build on the progress we have made thus far to benefit both the patients who rely on West Penn Allegheny for their care and the communities we serve.

Thank you for helping us to develop a new model of healthcare delivery for western Pennsylvanians and for affording me the opportunity to share our story at today's hearing.