



Strategic Restructuring: Information and Resources for California Community Clinics

Introduction

Strategic restructuring comprises a range of collaborative strategies that community health centers (CHCs) might use to expand the delivery of services, achieve operational efficiencies, and fulfill their role as leaders in the health of their communities.

Strategic restructuring occurs when two or more independent organizations establish an ongoing relationship to share, transfer, or combine services, resources, or programs. Such partnerships are distinguished from less formal collaborations in that they often involve a commitment to continue for the foreseeable future, shared or transferred decisionmaking power, and some type of formal agreement. The principal types of strategic restructuring include: administrative consolidation; joint programming; creation of a management services organization, administrative services organization, or joint venture corporation; and merger. They are described below with examples.

Administrative Consolidation

Administrative consolidation refers to the sharing, exchange, or contracting of administrative functions to increase the administrative efficiency of one or more of the organizations. For instance, one CHC might contract with another to provide it with financial management services. Neighborhood Health Care is one example.

NEIGHBORHOOD HEALTH CARE

(formerly Escondido Community Health Center)

www.nhcare.org

Contact: Tracy Ream, CEO

Partner: East County Community Health Services

Summary: East County's administrative infrastructure failed to keep pace with a recent major expansion of its service area. It contracted with the University of California, San Diego for financial management support, but discovered that this assistance was not sufficient to shore up other management weaknesses that were exacerbated by its having become a larger and more complex organization. The situation came to a head when East County's executive director resigned, leaving a leadership void. East County approached Escondido Community Health Center as a partner that shared its mission and could provide more comprehensive management expertise. The two obtained waivers required to allow Escondido's executive director to lead both agencies under a management services agreement that extended for three years. Although the partnership was not without challenges, it has been ultimately beneficial. After the three years of administrative consolidation, the partners merged.

Lessons: "Because we managed East County as a separate entity for the first couple of years, it allowed more time for us to get to know each other, so merger conversations didn't have as threatening a tone."

Joint Programming

Joint programming entails the joint launching and managing of one or more programs to further the programmatic mission of the participating organizations. An emergency diversion program, such as La Clínica de La Raza's, is one example.

LA CLÍNICA DE LA RAZA

www.laclinica.org

Contact: Jane Garcia, CEO

Partner: Sutter Solano Medical Center

Summary: Sutter Solano Medical Center's emergency rooms were stressed by frequent users who did not require urgent care and would be more appropriately served by La Clínica's new North Vallejo facility. In 2008, La Clínica opened its North Vallejo Urgent Care Clinic to divert unnecessary emergency department visits. The collaboration enabled Sutter Solano and La Clínica to secure funding to develop and refine a successful program. Beyond mere ED diversion, this partnership created a broadly defined "medical home" model that was enthusiastically embraced by the community and helped increase community and health care provider awareness of the new North Vallejo clinic.

Lessons: See the full report for an evaluation of this successful partnership: www.chcf.org.

MSO, ASO, and Joint Venture Corporation

Management services organizations (MSOs) and administrative services organizations (ASOs) are created in order to integrate some or all of the partners' administrative functions. A joint venture corporation is created by two or more organizational partners, but may be more programmatically focused than an MSO or ASO. In both cases governance of the new organization is often shared among the founding partners. In California, the most common manifestation of these models can be found in the many consortia that have evolved over time.

(See *Strategic Restructuring for Community Clinics: Options and Examples*, under Resources on page 4.)

Merger

A merger is the integration of all of the programmatic and administrative functions of two or more existing organizations in order to increase both administrative efficiency and program quality. Two CHCs may merge into one legal entity, or a CHC may incorporate a previously independent private practice into its organizational structure. Following are examples of merger.

SANTA ROSA COMMUNITY HEALTH CENTERS

(formerly Southwest Community Health Center)

www.srhealthcenters.org

Contact: Naomi Fuchs, CEO

Partner: Elsie Allen Health Center, a school-based clinic

Summary: The original founders of the clinic, St. Joseph Health System and Santa Rosa Memorial Hospital, were looking for a community partner to take on operation of this small clinic. Santa Rosa CHCs was seen as a natural partner with the ability to assume this responsibility. Although the merger was achieved in 2010 as a fairly simple asset transfer, Santa Rosa CHCs leadership acknowledges in retrospect that the transition might have been handled more sensitively with earlier involvement of, and more frequent ongoing communication with, key stakeholders such as school administrators and staff.

Lesson: "Communicate, communicate, communicate."

Partner: Southwest Adult Day Services, a day program for frail, elderly, or disabled adults

Summary: The adult day program was on the verge of closing its doors, and a partner was needed to step in if this vital community resource was to be saved. Santa Rosa CHCs was able to bring federally qualified health center (FQHC) reimbursement rates to the program through a merger in 2004. The Santa Rosa CHCs obtained funding

from the St. Joseph Foundation and the Community Foundation of Sonoma County to help support associated legal and operating costs. However, the transitioning of licensing and billing went very slowly, and it was six months before Santa Rosa CHCs started getting paid for services, requiring that it obtain a line of credit to fill the gap.

Lesson: “Have at least four to six months of operating cash in reserve for the program when considering any type of merger.”

Partner: Sutter Medical Center of Santa Rosa, a family practice clinic and residency program

Summary: Sutter Medical Center of Santa Rosa sought a partner to take on the clinic in order to preserve the residency program. Santa Rosa CHCs was sought out because of its reputation for being a capable partner, and it took over the family practice clinic in 2007. This partnership entailed significant growth for Santa Rosa CHCs (80+ staff, 45 exam rooms, and 35,000 patient visits a year). Integration was complicated because of the inherent tension between the service-oriented mission of the clinic and the educational mission of the residency program.

Lesson: “It takes strong leadership to make these mergers work. When things start to get difficult, what you have in common is that you’re doing it for the patients and the community—that it is the right thing to do.”

HAIGHT ASHBURY FREE CLINICS AND WALDEN HOUSE

www.hafci.org / www.waldenhouse.org

Contact: Vitka Eisen, CEO

Partners: Haight Ashbury Free Clinics (HAFCI) and Walden House

Summary: HAFCI had been seeing steadily declining revenues since the economic downturn in 2008 and sought to achieve greater stability through growth. Walden House, a residential and outpatient substance abuse and mental health provider, welcomed the opportunity to expand into primary care services and to achieve FQHC status, which HAFCI had. Ultimately, the two felt that through consolidation they could offer more comprehensive services that would benefit the community, and achieve a scale that would make them more competitive in a demanding contracting environment and in the context of unfolding health care reform. As of this writing, a binding Letter of Intent has been signed, integration is underway, and the merger was expected to be formalized in July 2011.

Lesson: “Complementarity is really helpful—it makes a merger less frightening. Completely overlapping services create more anxiety, but complementarity can be more about enhancing services to clients.”

Getting Started

Organizations that are interested in exploring options for strategic restructuring should begin with internal discussions about how strategic restructuring could help strengthen operations, enhance effectiveness, and advance the mission. It is important to identify the specific synergies that particular organizational partners could offer. See *Strategic Restructuring for California Community Clinics: Internal Self-Assessment Workbook* (www.chcf.org) for questions to help guide that discussion.

The next step is to begin discussions with potential partner(s) to focus on the next level of detail. The sidebar below highlights some of the important issues to consider, particularly if a merger is contemplated.

Key Issues for CHCs Considering Merger or Partnership

State and federal licensure and enrollment issues:

All appropriate agencies must be informed, and a wide variety of applications and support documentation are required, such as:

- Personal information on board members
- Proof of legal business name and federal tax ID number
- Board resolutions authorizing the filing of the applications and daily operations authority

Enrollment: Must obtain National Provider Identifiers (NPIs) for the new organization and/or new facility location. NPI numbers are site specific.

Processing period: State health care agencies in California are taking longer to process and approve applications. Including licensure enrollment and rate-setting, the process now averages 12 months. This impacts business operations/revenue, as limited or sometimes no billing can be done during this transition period.

Physical plant issues: The site must be Title 24 compliant regarding accessibility for all and providing health care services in a clinic environment. Owners must obtain a new Clinic Certification statement signed by a local building authority or a licensed architect stating that the structure meets all requirements. Occupants must also obtain a new fire safety certificate that a local fire department has inspected and approved the site.

Medi-Cal and billing: New Medi-Cal PPS rates may need to be filed. Additionally, new billing systems and/or capabilities may be required if the clinic is a free clinic and has never billed before.

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We support ideas and innovations that improve quality, increase efficiency, and lower the costs of care. For more information, visit us online at www.chcf.org.

RESOURCES

Materials

Strategic Restructuring for Community Clinics: Options and Examples, a June 2009 Issue Brief that explores various types of strategic restructuring being used by community health clinics and regional consortia, and how such partnerships might help clinics become stronger and more sustainable.

www.chcf.org

A companion presentation to the Issue Brief (PDF or PowerPoint) and webinar (recorded January 2010).

www.chcf.org

Merging Ahead: Case Studies in Clinic Consolidation, a November 2010 Issue Brief that builds on earlier research and continuing conversations with clinic executives, board members, and other field experts in a close look at three case studies of strategic restructuring.

www.chcf.org

Peer Consulting

The CEOs listed in this document have agreed to make themselves available to talk with other peers who may be interested in some form of strategic restructuring and wish to learn more about their experiences.

Technical Expertise

CHCs may also find it useful to consult with experts in technical areas such as health care licensing and finance.

The following organizations may be helpful:

Pacific Health Consulting Group

www.pachealth.org

Specializes in restructuring and financing

Sinaiko Healthcare Consulting

www.sinaikohc.com

Recently merged with The Coding Source to provide multiple services to the field

Capital Link

www.caplink.org

Provides capital planning and development solutions

HFS Consultants

www.hfsconsultants.com

Provides financial, reimbursement, and licensing expertise

Gordon & Rees, LLP

www.gordonrees.com

With attorneys specializing in health care law