

Observations on Corporate Governance Models of Health Care Provider Companies

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Goals and Objectives

To provide a series of observations on common governance models used by health industry provider companies, and the factors motivating those models.

- “History Lesson”
- Environmental Factors
- Who Cares About This
- Common Control Features
- Examples of Common Governance Models

- Experiences of banking, defense industries
- Concerns about rate review
- Reduce exposure to health planning jurisdiction
- Facilitate corporate affiliation growth
- Protect against excess coverage malpractice verdicts
- Tax planning with respect to for profit activity

- Extraordinary fluidity/pressure on cost/reimbursement
- Continued extensive national consolidation
- Transformation/digital technology
- Competition from emerging “disruptors”
- Continued intense compliance focus
- Evolving physician payment and employment models
- Benefits of “scale”

- Irreversible impact of Sarbanes Oxley
- Financial/economic link to effective governance
- 2016 “Best Practices” compilations
- Liability and reputational exposure concerns
- Influence of asset managers/CSR on governance
- Impact of Wells Fargo on governance
- Extraordinary focus on workforce culture

How Governance Relates to Structure

- Consistent application of best practices
- Streamlined decision-making
- Application of unified charitable purpose
- Rating agencies focus
- Enhanced oversight
- More effective talent management
- Limited pool of qualified directors
- Protection against “run-away” boards

- Membership rights under state law
- Reserved powers (bylaws)
- Powers of initiation (bylaws)
- Overlapping boards
- Executives employed at parent company

Note: Significant duties associated with role as “governing body” for TJC/CMS purposes

Typical Reserved Powers

- Amendments to organizational documents
- Appointment/ratification of directors
- Appointment/compensation of senior executives
- Budgetary matters
- Organic corporate transactions
- Mission consistency/sponsor

Typical Reserved Powers (cont'd)

- Selection of auditors
- Major loans and indebtedness
- Settlement of material disputes
- Significant investments/asset transfers
- Corporate wide policies
- Strategic planning
- and others

- Reflects broad system participation in governance
- Various “touches” on governance by internal constituents
- Approval v. Recommend v. Notify
- Often covers more action items than reserved powers
- Incorporated as adjunct to bylaws

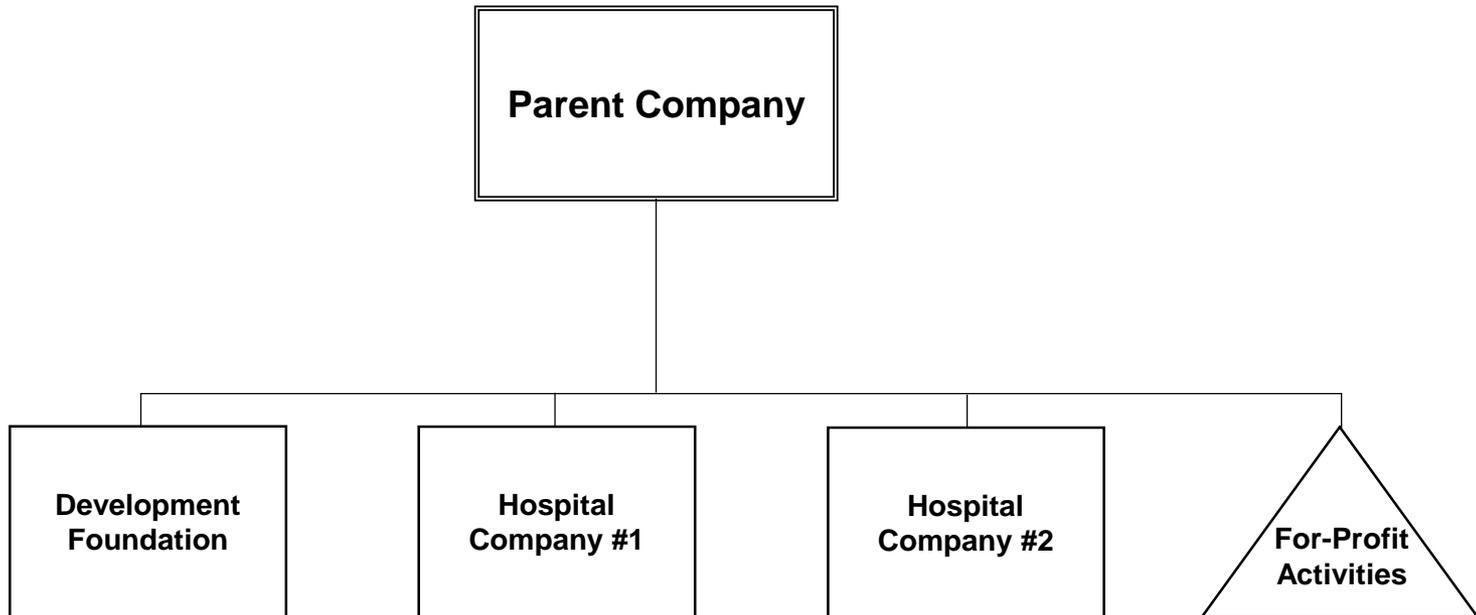
Who Cares About This?

- State Attorney General
- State Licensure Agencies
- Department of Justice
- Internal Revenue Service
- HHS/OIG
- SEC
- Labor unions

Who Cares About This? (cont'd)

- Rating agencies
- Creditors
- Asset managers
- Accreditation Agencies
- CMS
- Donors

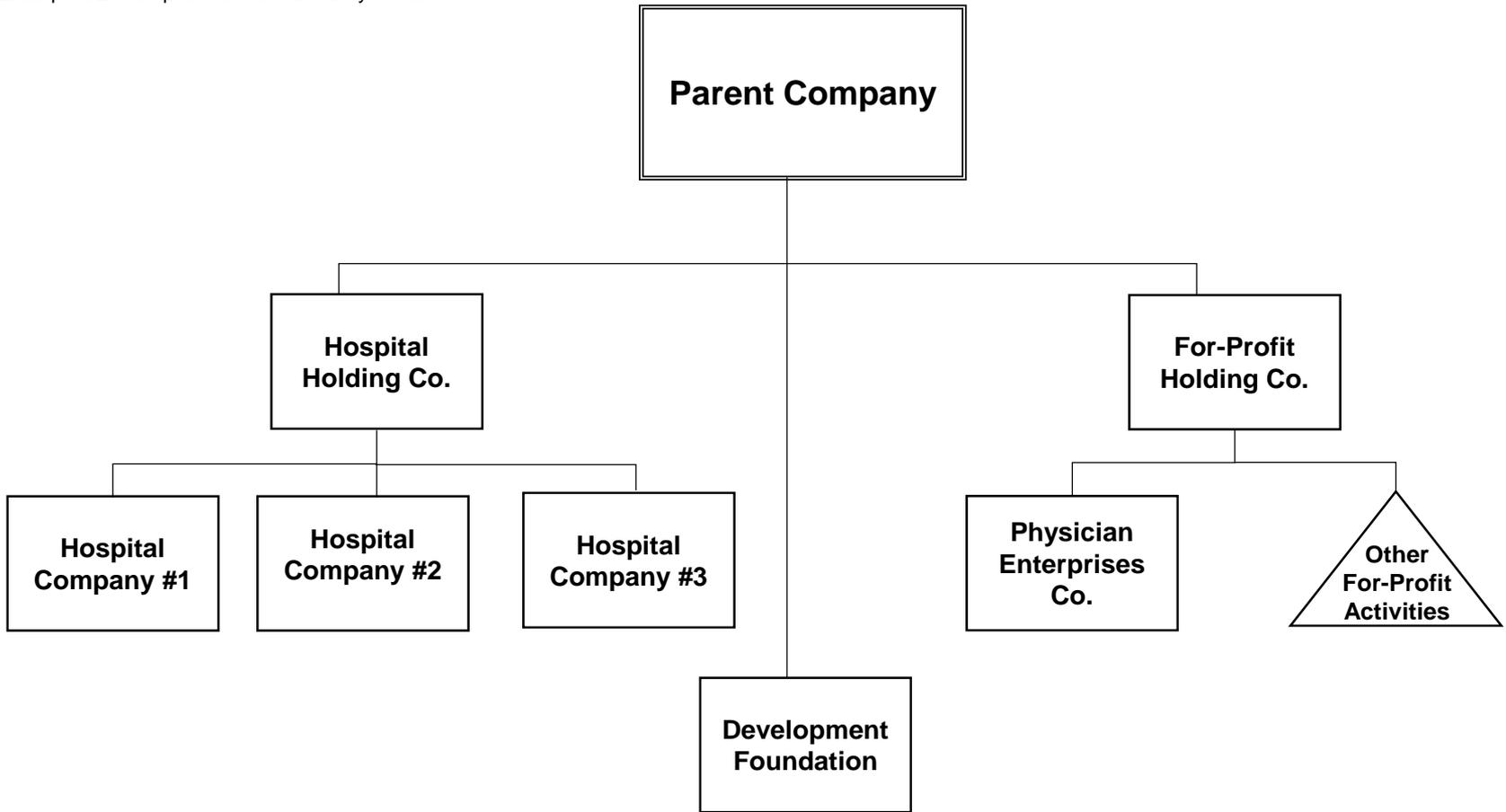
Example #1: Basic Parent/Subsidiary Model



Description of Controls:

This is the traditional approach to corporate restructuring/basic health system formation. In its basic, historical application, the parent corporation often maintained a limited number of reserved powers, in deference to local autonomy. That has changed dramatically due to environmental factors (e.g., financial pressure, competitive threats, transformation and disruption) that require greater “systemness”/control.

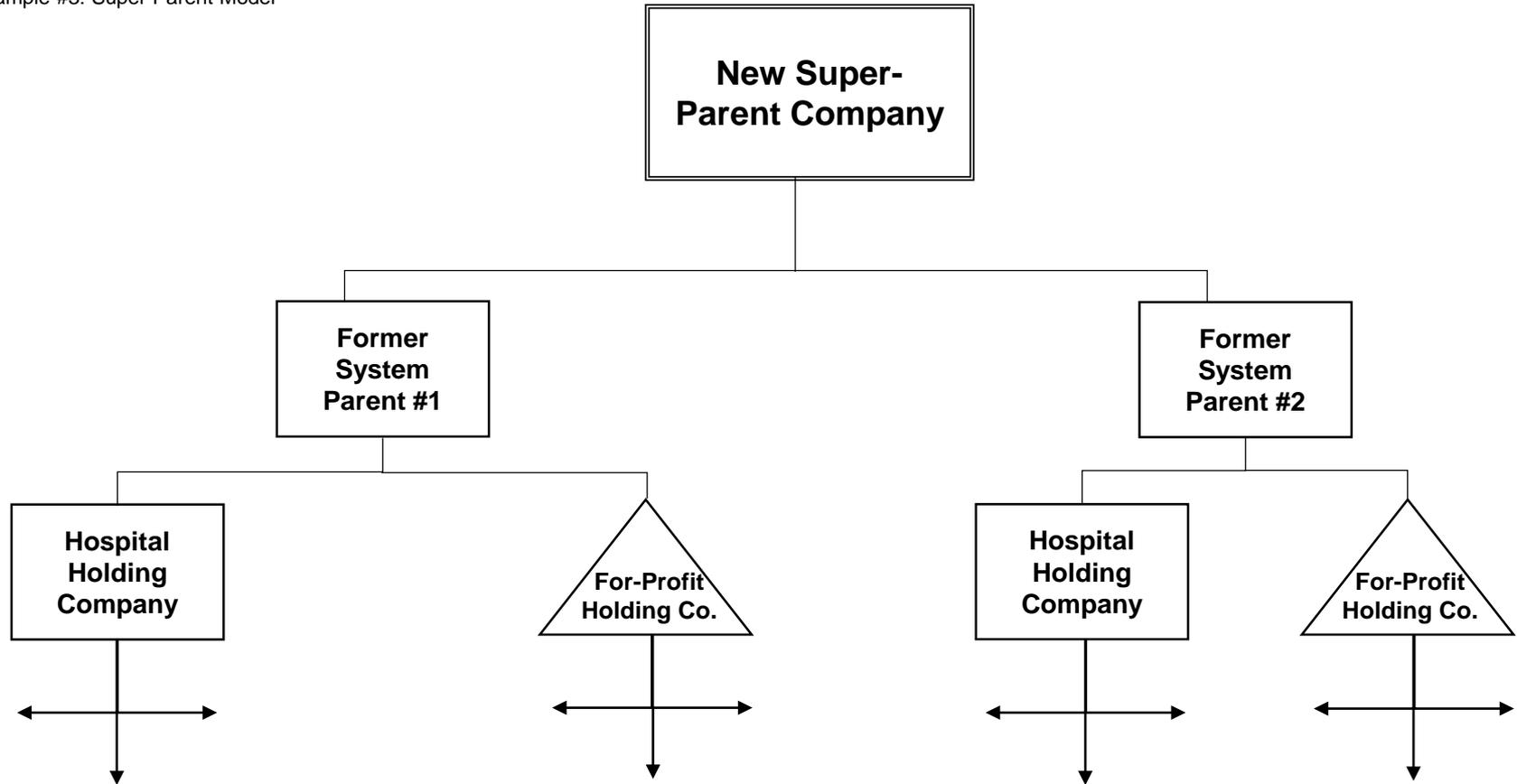
Example #2: Complex Parent/Subsidiary Model



Description of Controls:

This reflects the outline of the typical regional/multi-state health system, that applies a two-tiered system of governance (reflective of the need for more direct “holding company” control of operating affiliates). This model reflects a more limited “systemness-centric” approach to controls at the parent level, and a desire for different governance approaches between the provider and for-profit activities of the system.

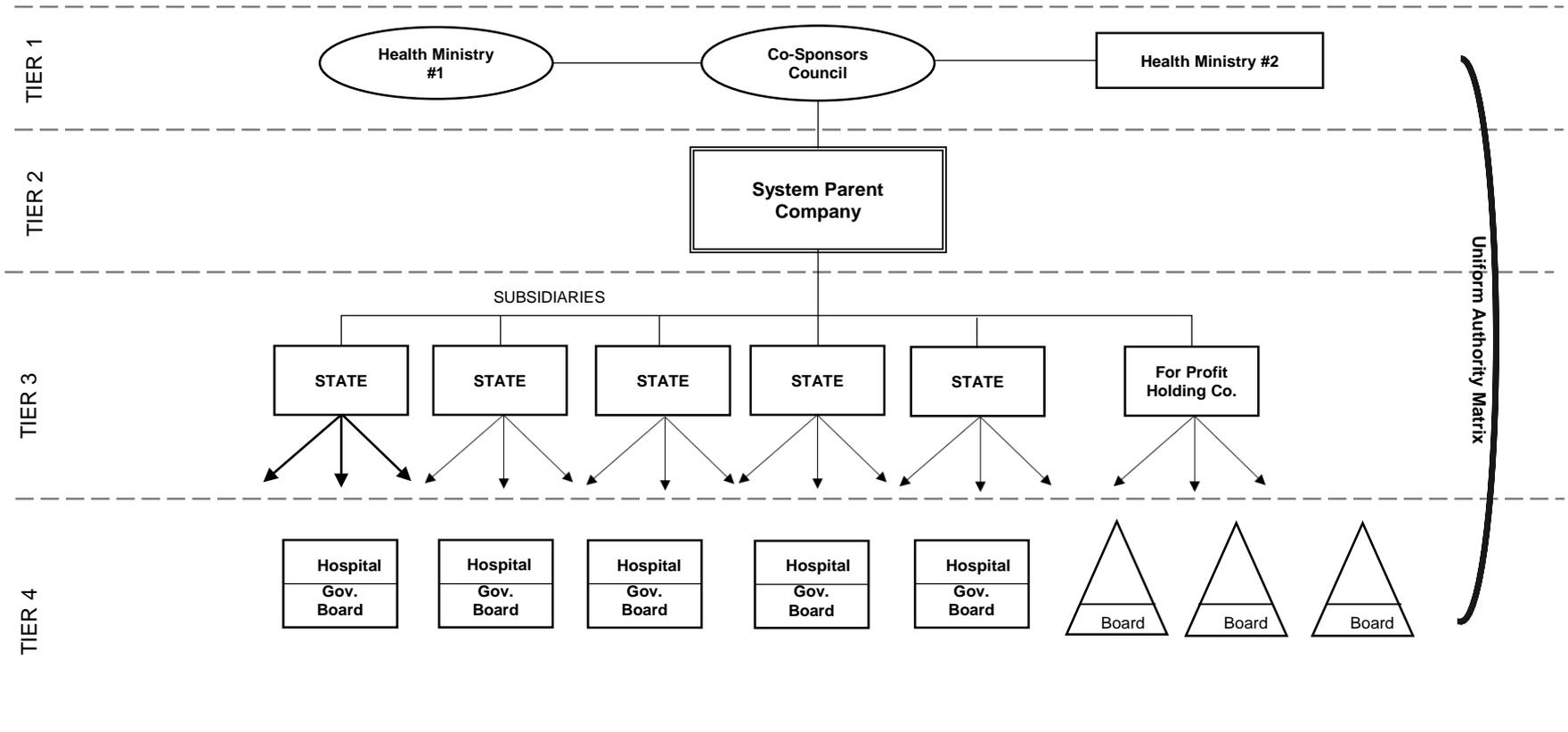
Example #3: Super Parent Model



Description of Controls:

This is the common approach to efficiently combining two systems. It reflects the goal of accomplishing the transaction in the most efficient manner possible (e.g., combine the systems by adding a new “super parent” to control the former system parent holding companies). It creates a new, highest tier of corporate governance and control.

Example #4: Complex National System Model



Description of Controls:

A composite of how several large national religiously sponsored health systems are operated, controlled and governed. The top tier – the religious or community sponsor – retains limited powers, over identity and purpose. The system parent retains controls sufficient to direct unity of system purpose and strategy. “State” or “regional” corporations retain operational authority. The for-profit portion features a different structure.